2018 REGISTRATION DOCUMENT

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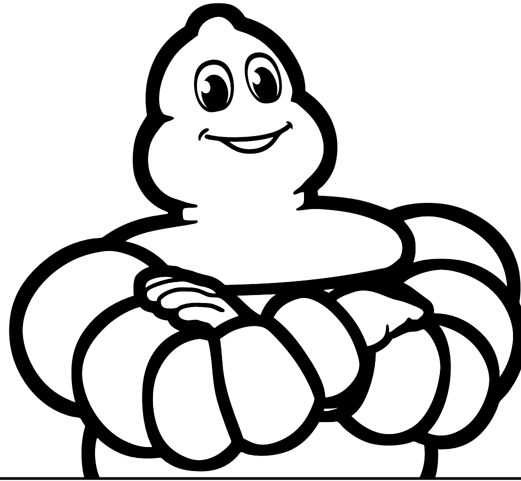
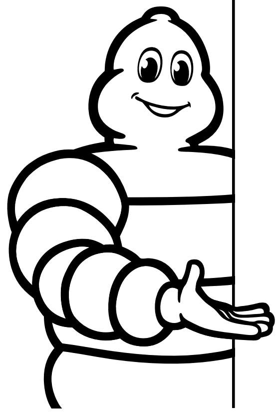
AFR This pictogram indicates chapters and sections that are also included in the Annual Financial Report



2018 REGISTRATION DOCUMENT

This document is a free translation of the original French version. In case of discrepancies, the French version shall prevail. The original French version of this Registration Document was filed with the Autorité des marchés financiers (AMF) on March 19, 2019, 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.



WHAT CAN YOU TELL US ABOUT MICHELIN IN 2018?

Jean-Dominique Senard. 2018 was a successful year in a challenging environment, shaped by the decline in Chinese markets, lower demand for original equipment passenger car and light truck tires in Europe and highly unfavorable exchange rate movements. The commitment of our teams enabled us to deliver a robust performance, in line with our 2020 objectives.

Sales exceeded €22 billion and segment operating income reached €2.77 billion, up 4% and 11% respectively at constant exchange rates. Structural free cash flow stood at €1.27 billion, lifted by our improved earnings and excellent management of our capital spending and working capital.

Based on these good results, we are recommending that shareholders at the Annual Meeting on May 17, 2019 approve the payment of a dividend of €3.70 per share, versus €3.55 last year, corresponding to the payout of 36.4% of our net income excluding non-recurring items.

During the year, we also completed the acquisitions of Camso, the technology leader in rubber tracks and solid tires, and Fenner, a world leader in reinforced polymer products and a specialist in heavy conveyor belt solutions. Together, they represent additional full-year sales of around €1.7 billion. With them, Michelin has stepped up its expansion in new markets, become the global market leader in off-the-road mobility and opened up promising new prospects in high-tech materials.

Florent Menegaux. Our global footprint was strengthened during the year. We commissioned a premium car tire plant in Mexico and a synthetic rubber plant in Indonesia, in partnership with Petrokimia Butadiene Indonesia. With the Indonesian plant and the rubber compound unit we already operate in Thailand, we can now meet the strong demand for low rolling resistance tires in Asia.

Yves Chapot. We also formed three partnerships to broaden and deepen our products' market access. In North America, Michelin and Sumitomo Corp. combined their tire wholesaling and retailing operations into a 50/50 joint venture, TBC, which is now the largest tire wholesaler in the United States and Mexico. In Europe, we acquired a 20% stake in the chain of 600 A.T.U auto service centers operated in Germany, Switzerland and Austria by the Mobivia Group. In Africa, the Group has teamed up with CFAO to market premium car, van and truck tires in Kenya and Uganda.

“With Michelin's governance, we've been preparing all year long for the changeover in Group leadership, for a smooth, efficient transition.”

Jean-Dominique Senard

Managing General Partner and Managing Chairman

“I fully embrace Michelin’s humanistic vision of enhancing mobility, using technology to improve people’s well-being and innovating to open new ways forward.”

Florent Menegaux

Managing General Partner

WHY DO YOU THINK THESE EARNINGS WERE BETTER THAN YOU EXPECTED AFTER YOUR WARNING LAST OCTOBER?

JD.S. The decline in car and truck tire markets late in the third quarter, particularly in China, and the weakness in emerging market currencies led us to revise our market scenario for 2018. But the vibrant demand for specialties, the highly disciplined pricing policy implemented in the second half and the final quarter rebound in the US market enabled us to end the year better than expected. Once again, this confirms the validity of our strategy of maintaining a balanced presence across every segment and every geography.

F.M. We successfully improved our unit margin in a highly competitive market environment. This was due to the combination of a number of factors, including disciplined price management in every segment; the continued move upmarket in car tires, with a 10% gain in 18-inch and larger tires that account for an increasing share of Michelin brand sales; the stronger growth in replacement tire sales, which deliver better margins than original equipment sales; the rebound in the truck tire market in the second half and the firm demand for services, with more than 850,000 trucks under contract; and lastly, the very fine performance from the specialty businesses, whose sales rose 19% including the successful integration of Fenner, with a margin of close to 20%.

Y.C. On top of that, the competitiveness plan delivered faster gains in the second half. With €317 million over the full year, we were able to offset cost inflation, which was especially strong in 2018. We’ve cut costs by €632 million over the past two years, so we’re on track to meet our objective of saving €1.2 billion over the 2017-2020 period.

ARE YOU GOING TO PURSUE YOUR STRATEGY OF PARTNERSHIPS AND ACQUISITIONS?

JD.S. Michelin’s strategy is informed by its purpose of “offering everyone a better way forward.” We want to be a global leader in sustainable mobility and a company demonstrating sustainability in every aspect of its business, including financial performance, the environment, employee relations and social responsibility. Our acquisitions are expected to support this vision, and 2018 was an important year for completing a series of transactions that are moving us in the right direction. In 2019, the priority will be successfully integrating the newly acquired businesses into the Group and closing the acquisition of Indonesian tire manufacturer Multistrada

In fact, we began 2019 by acquiring 88% of Indonesian tire manufacturer Multistrada, which has sales of around €270 million. The same transaction involved the purchase of a 20% stake in wholesaler PT Penta. Together, this has stepped up our expansion in the most populous country in Southeast Asia, which is a fast-growing market, and given us efficient, competitive production capacity in the region without having to build any new facilities.

F.M. These alliances are helping to strengthen the Michelin Group in its four core businesses: high-quality tires; tire-related services and solutions that make mobility more efficient; information and services that make mobility easier and more pleasant for our customers; and high-tech materials that underpin the performance of our tires over time and that we can market in other industries. Partnerships and acquisitions are helping to enhance our products and services, accelerate their digitalization, and expand our innovation capabilities. We have formed more than 300 research and development partnerships. We support startups by helping them to optimize and process engineer their innovations that will make the world more sustainable.

Y.C. We also want our end-users to enjoy a quality of service that reflects the quality of our tires. That’s why we’re investing in dealerships and forging partnerships with franchised or independent wholesalers, specialty chains and retailers. In particular, we provide them with turnkey services, training and solutions so that they can take advantage of the growth in online sales.

“ In areas like training, the social safety net, the environment and climate change, companies have to take the lead in offering solutions.We’re doing our part. ”

Yves Chapot

Manager

WHAT IS THE GROUP’S OUTLOOK FOR 2018?

Y.C. Overall, demand for car and light truck tires is expected to increase slightly in the replacement segment and contract in original equipment. The truck tire market is forecast to remain stable overall, given the decline in demand in China, while the mining, aircraft and two-wheel tire markets should remain dynamic. We estimate that higher raw materials costs will have around a €100 million negative impact and that, based on January 2019 exchange rates, the currency effect will be slightly favorable.

F.M. In a still highly volatile environment, we expect sales volumes to grow in line with global market trends and we will continue to protect our margins as we always have. This should enable us to deliver segment operating income[(1)] exceeding the 2018 figure at constant exchange rates and before the estimated €150 million additional contribution from Fenner and Camso. Structural free cash flow is expected to exceed €1.45 billion[(2)].

JD.S. As you can see, Michelin has confidently begun a new year of further gains in line with its 2020 targets, i.e., structural free cash flow of more than €1.7 billion and a return on capital employed of at least 15%. I will step down as leader of the Group after the Annual Meeting on May 17, 2019. The handover is transitioning smoothly and efficiently, and I’m sure that the team now in charge will enable Michelin to fulfill the promise of what looks to be a very bright future.

LOOKING FORWARD, WHAT ARE THE MAIN CHALLENGES FACING MICHELIN?

JD.S. Digitalization is transforming the way we work, the way we innovate and the way we collaborate. It’s enabling us to manage the enterprise in a flatter, more decentralized way, while nurturing deeper, richer relationships with our customers. In 2018, we introduced a simpler, more agile organization that moves decision making closer to our customers and our front-line operations. Our new management model empowers our teams, frees up our collective intelligence, fosters a more open, inquisitive mindset and encourages everyone to take charge of their own growth. We’re going to continue building on this.

Y.C. Society is changing, and companies are confronting new challenges. When it comes to social and environmental issues, companies are expected to get involved and come up with solutions. Our own engagement is reflected in our commitment to making tires that deliver the same high performance throughout their useful lives and in our initiatives to support sustainable urban mobility, the circular economy, carbon taxation and apprenticeship programs. This has been recognized in our non-financial ESG ratings.

F.M. Michelin is one of the global corporations with the best reputation worldwide[(4)]. 80% of our employees say they are proud and happy to work at Michelin and, in 2018, we were voted the best large employer in the United States[(5)], which is a first for a European company. We have to live up to this recognition. We have to continue to improve the way we fulfill all our responsibilities, demonstrating that the digital revolution currently underway across the manufacturing industry can be an opportunity for everyone, bringing together the sustainable mobility ecosystem around shared initiatives, and innovating to open up new avenues to the future.

(1) Before the amortization of brands and customer lists recognized on acquisitions.
(2) Of which €150 million from the application of IFRS 16, whereby all lease assets and liabilities are recognized without distinguishing between operating and finance leases.
(3) VigeoEiris – Michelin ranked number 1 in ESG performance in the automotive industry and number 10 worldwide out of more than 4,000 companies.
EcoVadis – Michelin awarded a “Gold CSR Rating” for its environmental, social, human rights and sustainable procurement policies.
CDP Climate Change A List 2018: Michelin was one of 127 companies cited as pioneers acting on climate change, out of more than 7,000 disclosing companies.
CDP Supply Chain – Michelin was named “Supplier Engagement Leader 2019” for its initiatives and strategy to support the energy transition in its value chain.
(4) Reputation Institute, GlobalRepTrack 2018. Michelin ranked eleventh worldwide and number one in France.
(5) Forbes, America’s Best Large Employers, 2018 ranking.

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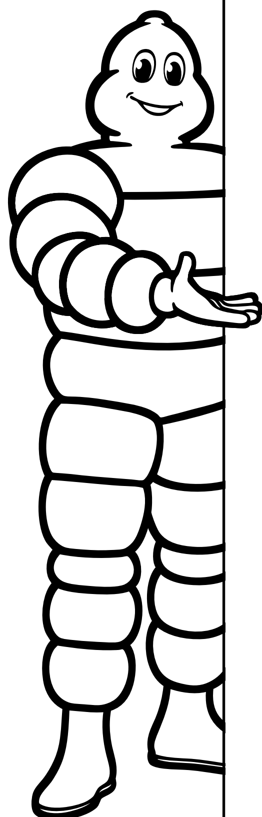
MICHELIN AT A GLANCE



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OFFERING EVERYONE A BETTER WAY FORWARD

Because we believe that mobility is essential for human development, we are passionately innovating to make it safer, more affordable, 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, track, conveyor belt and travel-related services market, while leading a global strategy to drive sustainable, profitable growth.

In 2018, it once again demonstrated its ability to structurally generate cash flow and create value:

- 117,400 employees (111,100 full-time equivalents).
- Net sales: €22 billion; operating income from recurring activities: €2.8 billion.
- 67 Michelin tire and semi-finished production facilities in 25 countries.
- And with the consolidation of Fenner PLC, a major manufacturer of conveyor belt solutions and reinforced polymer products, and Camso, the world leader in solid rubber tires and tracks for off-the-road mobility:
  - 17 Camso solid tire and track production plants in nine countries;
  - 15 Fenner conveyor belt production units in seven countries;
  - 22 Fenner plants manufacturing reinforced polymer-based technological products in seven 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 structural 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 2018, the cost of raw materials used in production represented 22% 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. Michelin was the first tire manufacturer to produce and market a low rolling resistance tire, in 1991.
(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 €1.6 billion in structural free cash flow per year as from 2020, including the contribution from acquisitions.
   - 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 CrossClimate Agilis, 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 2018, Michelin joined with Sumitomo Corporation of Americas to create TBC, one of the largest tire wholesalers in North America, thereby enabling us to showcase our products more effectively and improve the quality of our customer service.

In May 2018, the acquisition of Fenner Plc, a major manufacturer of conveyor belt solutions with its ECS (Engineered Conveyor Solutions) division enables the Group to expand its range of solutions for mining customers.

Completed in December 2018, the acquisition of Camso, the world leader in solid rubber tires and tracks for off-the-road mobility, has expanded Michelin's portfolio of products and services for customers in the farming, materials handling and construction industries.

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, 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 Le 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.

The 2018 acquisition of Fenner PLC, a world leader in the production of high-tech reinforced polymer products through its Advanced Engineered Products (AEP) division, is now enabling Michelin to make this strategic ambition a reality. We will remain proactive in this area to assert 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. According to the 2018 BCM report, MICHELIN enjoys a strong position in China, with close to 90% customer brand recognition and a reputation nearly four times better than its closest competitor.

In all, the MICHELIN brand accounted for some 70% of volumes sold in the Passenger car and Light truck tire segment in 2018, around 80% 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, the summer tire approved for winter use and the connected tire) 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 23 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 2018, Michelin was organized into three business divisions – Passenger car and Light truck tires, Truck tires and Specialty businesses – that together market the world's broadest portfolio of products and services.

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.

In 2018, the acquisition of Fenner PLC, a world leader in heavy conveyor belts and reinforced polymer products, enabled the Group not only to broaden its range of solutions for the mining industry (tires, services and conveyor belts), but also to drive faster expansion in its high-tech materials operations.

In the same way, the purchase of Camso, a global leader in off-the-road mobility, has expanded Michelin's portfolio of solutions for customers in the farming, materials handling and construction industries.

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 2018, 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 scope of consolidation, excluding goodwill, more than €1.7 billion* in structural free cash flow a year and more than €3.6 billion[(2)] in segment operating income at constant exchange rates. In particular, ambitious targets have been set for segment operating margin, of between 11% and 15% in the Automotive tire segment, 9% and 13% in the Road transportation tire segment and 17% and 24% in the Specialty segment.

(1) Source: Group estimate.
(2) Including the contribution from acquisitions.

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. Completed in 2018, the €270 million project has considerably expanded 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 promotes innovations that support sustainable mobility with Michelin Venture, which invests in startups, and its business incubators.

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), Marrakesh in 2016 (COP22), Bonn in 2017 (COP23) and Katowice in 2018 (COP24).

We are committed to steadily increasing our tires' impact on fuel efficiency while improving all 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.

In the same way, Michelin's vision for the next thirty years is that MICHELIN tires will be made using 80% sustainable materials and that 100% of its tires will be recycled in every market.

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

Following on from the stunning success of the MICHELIN CrossClimate, a summer tire certified for driving on snowy roads, 2018 saw the launch of the MICHELIN CrossClimate AGILIS, a technology-packed light truck tire that 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 Indian truck tire market, 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.

(1) Michelin estimates.
(2) Source: Autobild – November 24, 2017.
(3) Michelin Earthmover Management System.

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 KLEBER brand also returned triumphantly to Europe, led by new winter and all-season tires that quickly won praise from consumer tirebuyers. The KLEBER Krispal HP3 winter tire is widely considered to be the best Tier 2 model, while the KLEBER Quadraxter 2[1] tire topped the ranks in the all-season segment.

The excellence of these innovations has been recognized by the tire and automotive industries. In 2018, Michelin won the Innovation Award at the "Tire Cologne" trade fare for its MICHELIN Track Connect technology, the first fully networked car tires solution.

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 inthetire 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 supported by a multi-brand portfolio that is also designed to help the Group reach its profitability targets. As such, the portfolio is being developed with a focus on the fast-growing segment for competitively priced, high-performance tires, with the BFGoodrich®, KLEBER, UNIROYAL, TIGAR, KORMORAN, RIKEN, TAURUS, SIAMTYRE and CAMSO 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 dealership networks through both acquisitions and the deployment of franchising programs around the world, as well as through the acquisition of 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 manages the tires of 850,000 trucks and light trucks in around 30 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.

(1) *Source: Autobild.*

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.

In 2018, Michelin expanded its mobility experience offering by acquiring Tablet, the first online travel agency that curates a selection of boutique hotels for guests looking for an unforgettable, one-of-a kind hotel experience.

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 €1.7 billion invested in 2018, 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.

In late 2018, the first tire rolled off the line at a new Passenger car and Light truck tire plant in Léon, Mexico. Designed for an initial run of around five million tires a year, it is expected to ramp up to full capacity by 2023.

In the same way, a new synthetic rubber production facility came on stream in Indonesia during the year, which means that Michelin now has synthetic rubber production capacity in Asia as well as in North America and Europe.

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 2018, for example, it pursued the project undertaken in 2015 to reorganize operations in the United Kingdom, with the closure of the Truck tire plant in Ballymena and the announced shutdown of the Passenger car and Light truck tire facility in Dundee by 2020.

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 2020, 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. 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 2020, drive at least a €250 million reduction in inventories and at least a €200 million reduction in annual costs.

The business process management system is one of the primary drivers of the Group’s competitiveness program.

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 11 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.

In 2018, Michelin acquired Fenner PLC, a world leader in heavy conveyor belts and reinforced polymer products, and Camso, a major manufacturer of off-the-road tires for farm, materials handling and construction equipment. Consolidation of these companies broadened the Group's worldwide production base by adding the following facilities:

FENNER

Europe	North America	Asia (excluding India)
5 AEP* plants 2 ECS* plants	14 AEP plants 5 ECS plants	3 AEP plants 2 ECS plants
	Pacific	**Africa/India/Middle East**
	4 ECS plants	2 ECS plants

* *AEP: Advanced Engineered Products/ECS: Engineered Conveyor Solutions.*

CAMSO

Europe	North America	Asia (excluding India)
3 facilities	4 facilities	2 facilities
	South America	**Africa/India/Middle East**
	1 facility	7 facilities

1.1.8 MOVING FORWARD TOGETHER

The Michelin corporate community is made up of more than 117,000 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.

Since 2012, the annual "Moving Forward Together: Your Voice for Action" survey has measured the employee engagement rate and employee sentiment. Conducted across the Group, the survey was answered by 91 % of all employees, who demonstrated an 80% engagement rate. 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 (see section 6.2.5 c).

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.

Greater employee empowerment is also one of the cornerstones of the new organization introduced in January 2018.

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 2018
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	67.7% in 2018 (scope expansion and change in requirement level vs. 2017) 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	1.9 in 2018 (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 2018 (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 2018 (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)	26.9% in 2018 (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	75% in 2018 (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	€1,274 million in 2018 (€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	14.0% in 2018 (11.9% in 2017, 12.1% in 2016 and 12.2% in 2015)
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	9.7% improvement in 2018 (7.6% improvement in 2017)
	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 2018 should allow around 3.3 billion liters of fuel savings and a reduction of CO_2 emission of around 8.4 million tons during their lifetime
	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 2018, 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%

	2020 ambition	Key performance indicator (KPI)	Progress made in 2018
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) 50.7% improvement in the MEF compared with 2005* (-47.3% in 2017) 2) 30.7% reduction in energy consumption compared with 2005* due to improving energy efficiency (-30.4% in 2017)
	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	-7.6% end of 2017 (For technical reasons, the result at the end of 2018 will be available later on)
	Assess the sustainable development performance of the Group's top 400 suppliers	Number of suppliers assessed by EcoVadis	654 in 2018 (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	78% in 2018 (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 2018
	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	34,800 in 2018 (33,800 in 2017, 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	1,822 in 2018 (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	**4 global partnerships:** United Nations Road Safety Collaboration (UNRSC), Global Road Safety Partnership (GRSP), FIA High Level Panel for Road Safety, Youth for Road Safety (YOURS) **China:** students from more than 200 universities have been involved in the "Safety, We Act Together" campaign **United States:** 1.5 billion views on social media for the "Beyond the Driving Test 2" campaign which sensitizes teenagers to the role of tires regarding security **Worldwide:** 100,000 young people targeted by the "VIA21: Bring Road Safety Education to a New Generation" program

* *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			
CAMSO	SOLIDEAL	DUNLOP Fenner	

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.

  In 2018, Michelin successfully completed two acquisitions that will be strategically important for driving growth in its tire businesses:
  - Camso, a global leader in off-the-road mobility (farming, materials handling and construction industries);
  - Fenner PLC, a world leader in heavy conveyor belts with its Engineered Conveyor Solutions division, enabling Michelin to expand its range of solutions for mining customers.

  Around 190 million tires produced in 2018.
- **Dealerships and service centers:** the integrated Euromaster dealership network; 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 7,000 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:
  - around 8 million maps and guides published in 2018;
  - 163 billion kilometers calculated by ViaMichelin in 2018;
  - up to 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.
- **High-tech materials:** in line with its growth strategy and backed by its unrivaled expertise, Michelin is actively developing its high-tech materials business. Growth in this high-value segment has been considerably stepped up by the acquisition of Fenner PLC and its reinforced polymer operations (Advanced Engineered Products).

1.2.3 AN EFFICIENT ORGANIZATION

To drive the development and success of its customer-focused growth strategy, while gaining in agility and increasing employee empowerment, 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, the Business Lines define their strategy for designing market-leading products and services aligned with their competitive environment. Their results are managed in terms of market share and operating income.

  As a consequence, the Business Lines remain the strategic focus of the Group's management approach. Their financial results (in particular operating income, free cash flow and ROCE) directly feed into the Group's consolidated financial statements, which continue to be prepared based on the following three reporting segments:
  - Automotive (SR1), which comprises the following business lines: Automotive B2C Global Brands, Automotive B2C Regional Brands, Automotive Original Equipment and Mobility Experiences;
  - Road Transportation (SR2), which comprises the following business lines: Long Distance Transportation, Urban Transportation and Services & Solutions;
  - Specialty Businesses (SR3), which comprise the following business lines: Mining, Off-Highway Transportation, Two-Wheel, Aircraft and High-Tech Materials.

  The consolidated reporting process allocates the Distribution and Motorsport business lines among the above three segments.
- **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;
  - Corporate Business Services (CBS) 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 € million)	2018	2017	2016	2015	2014
Sales	22,028	21,960	20,907	21,199	19,553
% change	+0.3%	+5.0%	-1.4%	+8.4%	-3.4%
Total employee benefit costs	6,038	5,871	5,542	5,785	5,292
as a % of sales	27.4%	26.7%	26.5%	27.3%	27.1%
Number of employees *(full time equivalent)*	111,100	107,800	105,700	105,800	106,700
Research and development expenses	648	641	718	689	656
as a % of sales	2.9%	2.9%	3.4%	3.3%	3.4%
Segments EBITDA[1]	**4,119**	**4,087**	**4,084**	**3,934**	**3,286**
Segments operating income	2,775	2,742	2,692	2,577	2,170
Segments operating margin	12.6%	12.5%	12.9%	12.2%	11.1%
Operating income	2,550	2,631	2,791	2,207	1,991
Operating margin	11.6%	12.0%	13.3%	10.4%	10.2%
Cost of net debt	200	176	203	184	130
Other financial income and expenses	16	0	20	-30	-43
Income before taxes	2,230	2,354	2,464	1,869	1,651
Income tax	570	661	797	706	620
Effective tax rate	25.6%	28.1%	32.3%	37.8%	37.5%
Net income	1,660	1,693	1,667	1,163	1,031
as a % of sales	7.5%	7.7%	8.0%	5.5%	5.3%
Dividends[2]	637	585	522	463	464
Cash flows from operating activities	**2,831**	**2,741**	**2,764**	**2,695**	**2,522**
as a % of sales	12.9%	12.5%	13.2%	12.7%	12.9%
Gross purchases of intangible assets and PP&E	1,669	1,771	1,811	1,804	1,883
as a % of sales	7.6%	8.1%	8.7%	8.5%	9.6%
Net debt[3]	3,719	716	944	1,008	707
Equity	12,167	11,261	10,646	9,542	9,523
Gearing	31%	6%	9%	11%	7%
Net debt[3] / EBITDA[1]	0.9	0.18	0.23	0.26	0.22
Segments operating income / Net interest charge[4]	13.3	15.9	13.3	12.8	16
Free cash flow[5]	(2,011)	662	1,024	653	322
ROE[6]	13.6%	15.0%	15.7%	12.2%	10.8%
ROCE[7]	-	11.9%	12.1%	12.2%	11.1%
Operating ROCE[8]	14.0%	13.0%	-	-	-
Per share data *(in €)*					
Net assets per share[9]	67.8	62.7	59.1	52.5	51.3
Basic earnings per share	9.3	9.39	9.21	6.28	5.52
Diluted earnings per share	9.25	9.34	9.03	6.19	5.45
Price-earnings ratio[10]	9.3	12.7	11.5	14	13.6
Dividend for the year[11]	3.70	3.55	3.25	2.85	2.5
Pay-out ratio[12]	36.4%	36.0%	36.5%	37.0%	40.6%
Yield[13]	4.3%	3.0%	3.1%	3.2%	3.3%
Share turnover rate[14]	92%	71%	78%	99%	91%

(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: segment operating result profit after tax (NOPAT)/capital employed (intangible assets and PP&E + long-term financial assets + working capital requirement),as defined in section 2.6 – tax rate at 31%.
(8) Operating ROCE: net segment operating result after tax (NOPAT)/capital employed (intangible assets and PPE + long-term financial assets + working capital requirement – goodwill – acquired intangible assets – associates & joint ventures) – tax rate at 26% in 2018, 31% in 2017.
(9) Net assets per share: net assets/number of shares outstanding at the end of the period.
(10) P/E: Share price at the end of the period/basic earnings per share.
(11) Subject to approval at the Annual Shareholders Meeting on May 17, 2019.
(12) Distribution rate: Dividend/Net income.
(13) Dividend yield: dividend per share/share price at December 31.
(14) Share turnover rate: number of shares traded during the year/average number of shares outstanding during the year.

1.3.2 CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

1.3.2 a) Summary table of 2018 employee data for the Group

	2018	2017	2016	2015	GRI Indicators
Workforce at December 31 *(full-time equivalent employees of consolidated companies, excluding interns, apprentices, work-study trainees and temp agency workers)*	**111,117**	**107,807**	**105,654**	**105,798**	**GRI 102-7**
Employees on payroll at December 31 *(consolidated companies, under any form of work contract, excluding temp agency workers)*	**117,393**	**114,069**	**111,708**	**111,681**	
Europe	70,599	66,598	65,859	65,885	
North America	21,541	22,649	22,841	22,598	GRI 102-7
South America	8,166	7,999	6,475	6,544	
Asia (excluding India)	15,259	15,078	14,835	14,977	
Africa/India/Middle East	1,848	1,745	1,698	1,677	
Employees by gender* *(employees on payroll, under any form of work contract, excluding temp agency workers)*					GRI 102-08
Men	81.9%	82.5%	82.9%	83.2%	
Women	18.1%	17.5%	17.1%	16.8%	
Employees by category* *(full-time equivalent employees, excluding temp agency workers, as a %)*					
Production operators	61.8%	62.2%	61.9%	62.1%	GRI 102-08
Administrative and technical staff and supervisors	29.5%	29.4%	29.9%	30.0%	
Managers**	8.7%	8.4%	8.2%	7.9%	
Employees by age* *(full-time equivalent employees, as a %)*					
24 and under	5.9%	5.8%	5.3%	5.3%	
25-34	26.3%	26.3%	26.6%	27.2%	
35-44	29.9%	29.4%	29.1%	28.6%	
45-54	23.4%	23.0%	22.6%	22.3%	
55-64	14.0%	15.1%	15.9%	16.2%	
Over 65	0.5%	0.4%	0.5%	0.4%	
Employees by length of service* *(full-time equivalent employees, as a %)*					
Less than 2 years	15.5%	15.2%	21.5%	18.7%	
3-5 years	14.5%	13.8%	14.4%	15.4%	
6-10 years	17.5%	17.9%	15.1%	14.8%	
11-15 years	14.28%	13.8%	13.6%	13.5%	
16-20 years	11.6%	13.1%	10.8%	11.6%	
More than 20 years	26.8%	26.1%	24.5%	25.9%	
Employee movements* *(permanent work contracts)*					
New hires	7,957	7,553	6,456	6,057	
Resignations	3,378	2,682	2,185	2,390	
Dismissals and terminations by mutual agreement	2,624	2,524	2,364	2,843	
Retirement	2,484	2,077	1,871	2,115	
Death	97	120	99	116	
Contract employees* *(excluding temp agency workers, in %)*	**4.7%**	**5.2%**	**4.4%**	**4.4%**	
Part-time employees*	**3.6%**	**4.4%**	**3.6%**	**3.1%**	

	2018	2017	2016	2015	GRI Indicators
Training hours* *(employees on payroll, under any form of work contract, excluding temp agency workers)*					
Percentage of training hours per total hours worked	3.1%	3.2%	3.3%	3.5%	
Percentage of employees who received training	97%	85%	93%	93%	
Number of training hours per employee per year	53	54	56	59	GRI 404-1
Training hours *(excluding temp agency workers and the dealership networks)*	5,008,971	5,107,806	5,300,000	5,635,657	
Production operator absenteeism* *(excluding dealership networks and Russia)* **Europe**	4.5%	**5.5%**	**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	704	725	796	740	
Lost-time incident frequency rate	3.8	4.1	3.9	3.6	GRI 403-2
Lost-time incident severity rate	0.19	0.25	0.24	0.21	
TCIR Michelin Group, excluding Euromaster, Tigar and recently acquired companies	1.3	1.5	1.6	1.7	GRI 403-2
TCIR, entire Group	1.9	2.1	2.5	2.7	
Number of Progress Ideas*	62,802	59,082	59,601	58,980	
Diversity* *(employees on payroll, under any form of work contract, excluding temp agency workers)*					GRI 405-1
Percentage of women in extended management(1)	26.8%	25.7%	24.8%	24.2%	
Percentage of women among top managers(2)	18.7%	18.1%	17.3%	16.4%	
Percentage of women among executives(3)	12.7%	11.6%	11.1%	9.9%	
Percentage of local top managers in growth-region countries*	**75%**	**74%**	**72%**	**68%**	
Percentage of management positions held by employees promoted or transferred from within*	**76%**	**76%**	**76%**	**75%**	**GRI 202-2**
Employee engagement rate*	**80%**	**80%**	**80%**	**77%**	

* *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.*

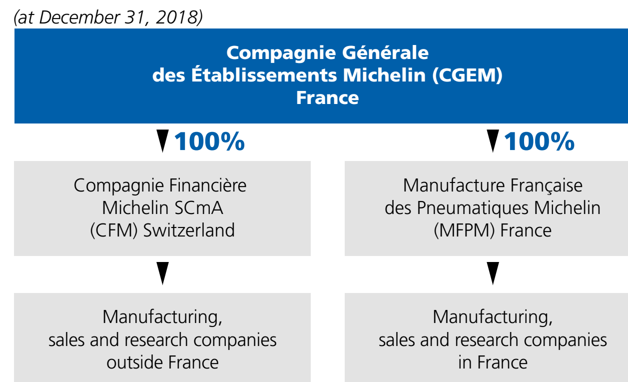
(3) *Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.*

1.3.2 b) Summary table of 2018 environmental data for the Group

Consolidated environmental data	2018	2017	% change vs. 2017	2010	GRI Indicators
Water consumption *(m^3/t FP)*	**8.09**	8.60	**-6.0%**	11.8	
Energy consumption *(GJ/t FP)*	**12.06**	12.11	**-0.4%**	14.4	
Michelin point sources	6.20	6.27	-1.2%	8.0	GRI 302-3 GRI 302-4
Steam purchased, net	0.97	0.97	0.3%	1.2	
Electricity purchased, net	4.89	4.87	0.4%	5.2	
CO_2 emissions *(t/t FP)*	**0.875**	0.89	**-1.3%**	1.28	
of which:					
direct emissions from Michelin point sources (Scope 1*)	0.43	0.44	-1.6%	0.58	
indirect emissions, steam generation (Scope 2*)	0.05	0.04	10.4%	0.12	GRI 305-4 GRI 305-5
indirect emissions, electricity generation (Scope 2)	0.40	0.41	-3.6%	0.58	
Total Michelin direct and indirect emissions avoided *(tonnes of CO_2)*	33,000	44,750	-26.3%	24,000	GRI 305-5
Sulfur dioxide emissions *(kg/t FP)*	0.41	0.38	7.8%	0.96	GRI 305-7
Nitrogen dioxide emissions *(kg/t FP)*	0.50	0.37	34.0%	0.83	GRI 305-7
VOC emissions *(kg/t FP)*	**1.77**	2.07	**-14.7%**	2.89	GRI 305-7
Waste generated *(kg/t FP)*	**98.7**	102.2	**-3.4%**	109.5	
Waste landfilled *(kg/t FP)*	**2.93**	4.20	**-30.1%**	10.2	
Hazardous waste generated *(kg/t FP)*	7.90	7.55	4.7%		GRI 306-2
Number and total surface area of facilities located less than one kilometer from a protected area	28 facilities totaling 6,600 ha	27 facilities totaling 6,400 ha	–		GRI 304-1
In 2018, the Michelin Group did not incur any significant fines or non-monetary sanctions for non-compliance with environmental legislation and/or regulations.					GRI 307-1

* *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



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	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.
2018	Michelin improves its access to the North American market by joining with Sumitomo Corporation of Americas to create a joint venture, TBC, the region's largest Passenger car and Light truck tire wholesaler. The Group expands its range of mining solutions and steps up growth in high-tech materials by acquiring Fenner PLC, a specialty manufacturer of conveyor belts and reinforced polymer products. Michelin strengthens its Specialty Businesses with the acquisition of Camso, a global leader in off-the-road mobility (farming, materials handling and construction industries).

1.6 FACILITIES

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

1.6.1 121 PRODUCTION FACILITIES IN 25 COUNTRIES

1.6.1 a) 54 tire production facilities in 17 countries

/ Europe

Country	Location	Products	Number of employees(1) (at December 31, 2018)	Maximum available capacity (in tonnes/year)
France	Avallon	Truck tires*	415	20,050
	Bourges	Aircraft tires	581	4,900
	Cataroux(2)	Passenger car – Light truck tires	1,860	9,300
	Cholet	Passenger car – Light truck tires	1,289	59,600
	Gravanches(2)	Passenger car – Light truck tires	703	21,700
	La Roche-sur-Yon	Truck tires	647	65,500
	Le Puy-en-Velay	Earthmover tires	632	45,000
	Montceau-les-Mines	Earthmover tires	1,074	28,000
	Roanne	Passenger car – Light truck tires	815	27,000
	Troyes	Agricultural tires	832	54,400
Germany	Bad-Kreuznach	Passenger car – Light truck tires	1,289	86,000
	Bamberg	Passenger car – Light truck tires	776	73,600
	Homburg	Truck tires	1,280	71,400
	Karlsruhe	Truck tires	593	53,200
Spain	Aranda	Truck tires	1,258	158,300
	Lasarte	Two-wheel tires	488	15,100
	Valladolid	Passenger car – Light truck tires– Truck tires* – Agricultural tires	1,624	102,000
	Vitoria	Passenger car – Light truck tires – Earthmover tires	3,221	210,400
Italy	Alessandria	Truck tires	856	91,000
	Cuneo	Passenger car – Light truck tires	2,131	134,900
United Kingdom	Dundee	Passenger car – Light truck tires	740	49,000
	Stoke on Trent	Truck tires*	338	5,000
Hungary	Nyiregyhaza	Passenger car – Light truck tires	1,046	31,000
Poland	Olsztyn	Passenger car – Light truck tires – Truck tires – Agricultural tires	4,608	203,000
Romania	Victoria	Passenger car – Light truck tires	1,403	46,000
	Zalau	Truck tires	1,395	50,000
Serbia	Pirot	Passenger car – Light truck tires – Two-wheel tires	3,408	129,000
Russia	Davydovo	Passenger car – Light truck tires – Truck tires*	727	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, 2018)	Maximum available capacity (in tonnes/year)
United States	Ardmore	Passenger car – Light truck tires	1,678	134,300
	Asheboro	Truck tires[2]	184	30,600
	Columbia-Lexington-Anderson	Passenger car – Light truck tires – Earthmover tires	3,164	288,200
	Covington	Truck tires*	144	30,700
	Dothan	Passenger car – Light truck tires	524	55,000
	Fort Wayne	Passenger car – Light truck tires	1,558	146,000
	Greenville 1	Passenger car – Light truck tires	1,035	121,500
	Greenville 2	Passenger car – Light truck tires	568	29,000
	Norwood	Aircraft tires	459	5,900
	Spartanburg	Truck tires	1,099	117,000
	Tuscaloosa	Passenger car – Light truck tires	1,326	92,100
Canada	Bridgewater	Passenger car – Light truck tires	1,148	60,000
	Pictou	Passenger car – Light truck tires	651	9,000
	Waterville	Truck tires	1,281	137,500
Mexico	Queretaro	Passenger car – Light truck tires	375	19,000
	Leon	Passenger car – Light truck tires	462	0

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

/ South America

Country	Location	Products	Number of employees[1] (at December 31, 2018)	Maximum available capacity (in tonnes/year)
Brazil	Campo Grande	Truck tires – Earthmover tires – Agricultural tires	2,828	155,000
	Resende – Itatiaia	Passenger car – Light truck tires – Truck tires[2]	1,237	50,000
	Sao Paulo – Guarulhos	Two-wheel tires	914	29,000
	Manaus	Two-wheel tires	681	25,000

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

/ Asia (excluding India)

Country	Location	Products	Number of employees[1] (at December 31, 2018)	Maximum available capacity (in tonnes/year)
China	Shenyang 1 and 2	Passenger car – Light truck tires – Truck tires	2,994	182,800
	Shanghai	Passenger car – Light truck tires	1,993	83,000
Thailand	Laem Chabang	Passenger car – Light truck tires	1,937	104,500
	Nongkae	Truck tires – Aircraft tires	1799	70,600
	Phrapadaeng	Passenger car – Light truck tires – Truck tires – Two-wheel tires	1370	53,600

(1) Full-time equivalent.

/ Africa/India/Middle East

Country	Location	Products	Number of employees[(1)] (at December 31, 2018)	Maximum available capacity *(in tonnes/year)*
India	Chennai	Truck tires	947	28,000

(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, 2018)
France	Bassens	Synthetic rubber	399
	Combaude[(2)]	Molds	519
	Golbey	Metal cables	511
	Tours	Membranes	225
	Vannes	Metal cables	395
Germany	Trier	Metal cables	94
Italy	Turin	Compounds	309
Romania	Zalau	Metal cables	626
United States	Anderson	Metal cables	283
	Louisville	Synthetic rubber	348
China	Shanghai	Metal cables	208
Indonesia	Cilegon	Synthetic rubber	202
Thailand	Rayong	Metal cables	527
	Hat Yai	Compounds	321

(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.

In May 2018, Michelin acquired Fenner PLC, a global manufacturer of heavy conveyor belt solutions with Engineered Conveyor Solutions (ECS) and of high-technology reinforced polymer products with Advanced Engineered Products (AEP). Each of these divisions has its own plants, totaling 15 for conveyor belts and 22 for high-technology reinforced polymer products, which are sold in niche markets.

In December 2018, Michelin acquired Camso, a global leader in off-the-road mobility that serves customers in the farming, materials handling and construction industries. It added 17 facilities to the consolidated production base, including seven in Sri Lanka.

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, liability, accidental pollution and cyber risk 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,
  - service liability for the marketing and services companies,
  - general business liability, offering direct coverage in European Union countries and countries where the Group operates manufacturing facilities, and umbrella coverage in excess of local cover in all other countries;
- a "pollution" program provides environmental liability coverage;
- a "cyber risk" insurance program covers damages (including additional operating costs) as well as damages to third parties, with a combined limit of €200 million per year.

These programs apply to all Group companies, including Fenner and Camso as from their acquisition date.

/ 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.

At constant scope of consolidation (excluding acquisitions) and including premiums paid to the captive insurance and reinsurance company, aggregate premiums amounted to €59.5 million in 2018, a decline of €5 million from 2017 despite notable coverage improvements and, in particular, a higher limit for cyber risks.

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 Managers 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 18, 2018, Michelin has had three General Partners: Jean-Dominique Senard, Managing Chairman, who was re-elected for a four-year term on October 31, 2014, Florent Menegaux, elected at the Annual Shareholders Meeting of May 18, 2018, and Société Auxiliaire de Gestion (SAGES), which is a non-managing General Partner.

In addition, at the May 18, 2018 Annual Meeting, shareholders also elected Yves Chapot as Manager.

For more information, please refer to section 4 below.

1.8.1 MANAGEMENT BODIES: THE MANAGING CHAIRMAN AND THE GROUP EXECUTIVE COMMITTEE

Assisted by a 12-member Executive Committee, the Managing Chairman 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.

The Group's governance was amended at the end of first-quarter 2019, with the goal of shortening and quickening decision-making processes, broadening the representation of the Business Lines and Regions, and improving the efficiency and agility of the entire organization.

The new governance structure will comprise three executive bodies with clarified, complementary responsibilities:

- the Group Executive Committee;
- a new body, the Group Management Committee;
- the Strategic Operations Group;

The Group Executive Committee focuses on strategic issues and decisions, such as corporate transformations (particularly the digital transition), the business model, acquisitions, performance management, brand strategy and sustainable growth. It will continue to be chaired by Jean-Dominique Senard from March 28 to May 17, 2019, when shareholders at the Annual Meeting will be asked to elect Florent Menegaux as Managing Chairman. In addition to his duties as Manager, Yves Chapot will serve as Chief Administrative and Financial Officer effective July 31, 2019.

The Group Management Committee is a new body that will cross-functionally manage transformations, competitiveness, diversity and the integration of acquisitions. It will also manage the development of the Corporate Business Services (CBS) Department and the internal control, quality and risk management processes, as well as supporting the development of senior high potential employees. With the functions represented on the Group Executive Committee, the Group Management Committee forms a panel of Business Lines and Regions to ensure that its decisions are widely embraced across the organization. It comprises the following units:

- Strategy (reporting to the Managing Chairman and Managing General Partner);
- Purchasing;
- CBS;
- Finance (reporting to the Chief Administrative and Financial Officer, Manager);
- Legal;
- Quality, Audit, Internal Control and Risk Management;
- Supply Chain;
- Information Systems,

as well as the North America and China Regions.

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 Managing Chairman;
- 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.

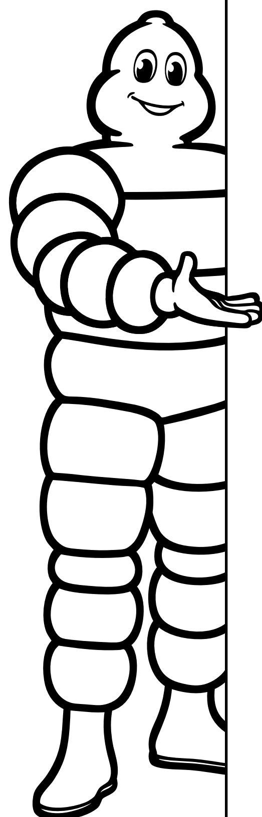
The Supervisory Board is regularly informed about the Group's strategy and outlook.

In addition, pursuant to the Board's internal rules, the Managing Chairman 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 Managers (election, re-election and removal from office of a Managing General Partner or the Managing Chairman) and the determination of the compensation packages for Managing General Partners and the Managing Chairman.

2

REPORT OF THE MANAGERS



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2.1 TIRE MARKETS

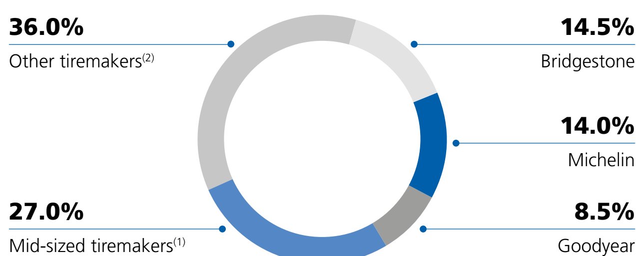
2.1.1 A GLOBAL MARKET WORTH SOME $170 BILLION[1] IN 2017

The global tire market totaled $170 billion in 2017[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 225 million truck and bus tires[2]. In all, three out of four tires were sold in the replacement market.

Over the 2017-2023 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 5% a year and the agricultural tire market by 1%.

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.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2017



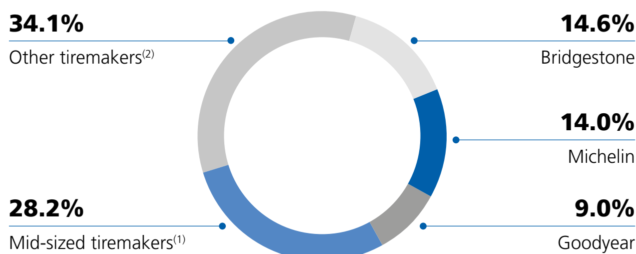
Source: 2017 sales in US dollars, published in Tire Business, August 2018.
(1) Tiremakers with a 2-7% market share according to the Tire Business ranking.
(2) Tiremakers with less than a 2% market share according to the Tire Business ranking.

New standards for tires

Tire performance ratings displayed on standardized labels have been mandatory across the European Union since November 2012, with stricter standards introduced in November 2016 and upgraded in November 2018. 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 2019, and a new labeling system to help consumers is scheduled for launch in 2019. 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.

2.1.2 TIRE MARKETS IN 2018

Tire markets had a mixed year in 2018.

In the Passenger car and Light truck segment, original equipment sales were impacted by the steep decline in the European and Chinese markets, even as demand in North America showed signs of an upturn in the second half. The replacement market rose in North America and Europe, but fell back sharply in China, especially in the second half.

In Truck tires, while the North American market remained very buoyant throughout the year, in both the original equipment and replacement segments, new tire demand in China dropped sharply in an uncertain economic environment. In Europe, market growth was led by OE demand, while replacement segments were relatively stable.

In the Specialty Businesses, the mining, construction, two-wheel and aircraft tire markets remained on a robust growth trend, while demand for agricultural tires slowed.

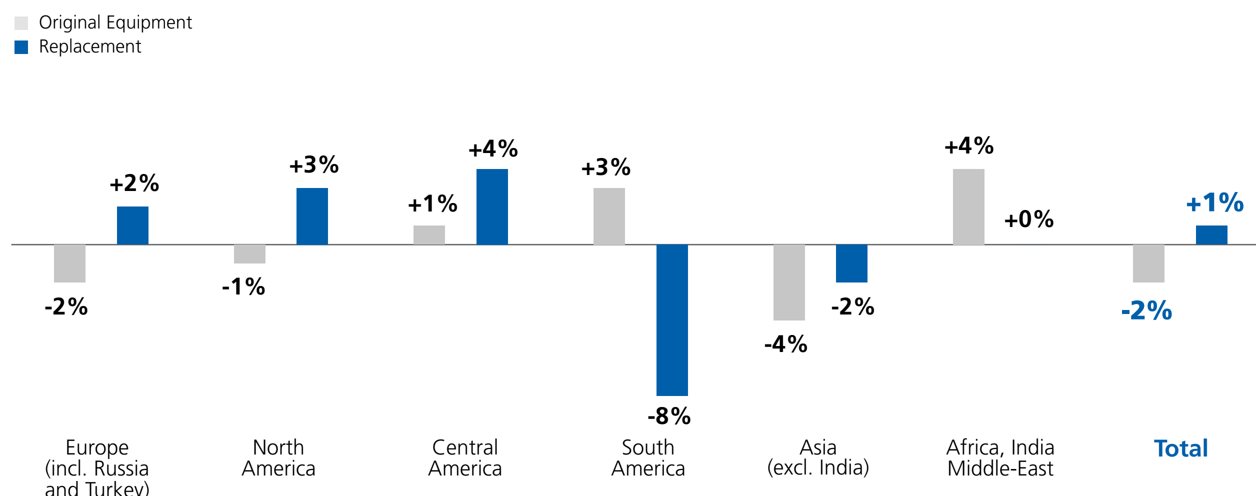
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number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

(1) Source: Tire Business, August 2018.
(2) Michelin estimates.

2.1.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2018

In 2018, the global original equipment and replacement **Passenger car and Light truck** tire market was stable (down 0%) in number of tires sold.

THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2018 VS. 2017



Michelin estimates.

2.1.3 a) Original equipment

Worldwide unit sales of original equipment tires declined by 2% in 2018, as a 1% gain in the first half was wiped out by a 5% decline in the second, caused by the slowdown in Chinese demand and the introduction of WLTP standards in Europe.

Passenger car and Light truck tire markets Original equipment *(in millions of tires)*	2018	2017	2018/2017	Second half 2018/2017	Fourth quarter 2018/2017	Third quarter 2018/2017	First half 2018/2017	Second quarter 2018/2017	First quarter 2018/2017
Europe(1)	102.5	104.4	-2%	-6%	-7%	-4%	+2%	+5%	-1%
North America(2)	63.3	64.2	-1%	+2%	+4%	+1%	-5%	-5%	-4%
Central America	19.3	19.0	+1%	-1%	-2%	-0%	+3%	+5%	+1%
South America	17.0	16.5	+3%	-3%	-8%	+3%	+10%	+10%	+11%
Asia (excluding India)	207.6	215.4	-4%	-8%	-10%	-6%	+1%	+5%	-3%
Africa/India/Middle East	37.1	35.8	+4%	-4%	-10%	+3%	+11%	+13%	+10%
TOTAL	**446.8**	**455.3**	**-2%**	**-5%**	**-7%**	**-3%**	**+2%**	**+4%**	**-1%**

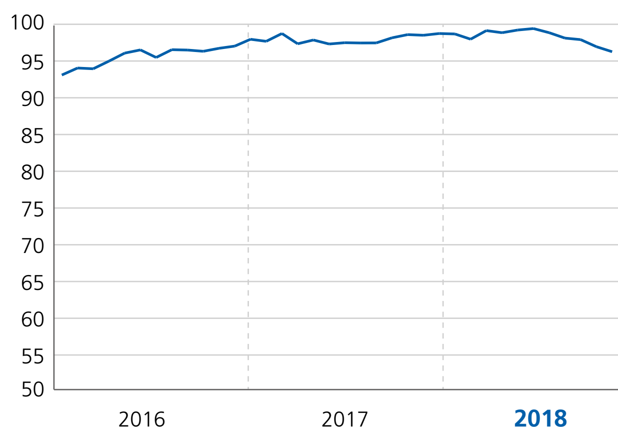
(1) Including Russia and Turkey.
(2) United States and Canada.
Michelin estimates.

In **Europe,** demand declined by 2% overall during the year, reflecting the combined impact of (i) a 2% contraction in Western Europe, pulled down by the drop in automobile markets following implementation of the WLTP standards on September 1, with OE demand down 6% in the second half; and (ii) a robust 7% increase in Eastern Europe.

The **North American** market ended the year down 1%. After a declining by 5% in the first half in the wake of the contraction that began in second-half 2017, demand turned upwards in the second six months for a 2% gain, lifted by strong growth in automobile output off of favorable comparatives.

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN EUROPE

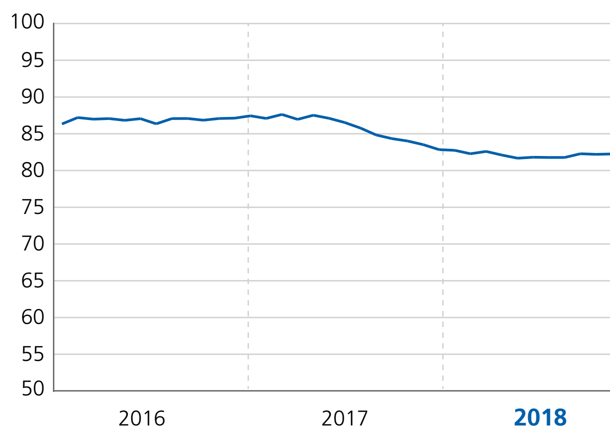
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

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)** tumbled 4% overall in 2018, as the slight 1% gain in the first half was erased by the sudden drop-off late in the year, which resulted in an 8% decrease for the second half. The decline was primarily caused by the downturn in the Chinese market, which swung from a 3% gain in the first six months to a 13% plunge starting in July, due to the highly uncertain economic environment created by the trade war with the United States. In the rest of the Asian market, demand was down 1% for the year.

In **Central America,** OE demand rose by 1% over the year, with brisk growth in the first half and a slowdown in the second.

The **South American** market rose 3% overall, with an 11% gain in the first half followed by a 5% decline in the second, dragged down by the crisis in Argentina and the uncertain political environment in Brazil.

In the **Africa/India/Middle East** region, the market rose by 4% overall, led by growth in India in the first half.

2.1.3 b) Replacement

The worldwide replacement tire market rose by 1% over the year, primarily due to gains in the mature markets on the back of an upturn in North America, even as demand cooled slightly in Europe over the second half. In the emerging markets, the end of the year was severely impacted by the 6% drop in Chinese demand in the second half, dragged down by the uncertain economic environment created by the US-China trade war. The size mix is continuing to improve in every geography.

Passenger car and Light truck tire markets Replacement *(in millions of tires)*	2018	2017	2018/2017	Second half 2018/2017	Fourth quarter 2018/2017	Third quarter 2018/2017	First half 2018/2017	Second quarter 2018/2017	First quarter 2018/2017
Europe(1)	371.0	362.9	+2%	+1%	+3%	-1%	+3%	+6%	+2%
North America(2)	273.1	265.1	+3%	+4%	+4%	+5%	+2%	+4%	-1%
Central America	39.3	37.8	+4%	+7%	+7%	+7%	+1%	+8%	-5%
South America	64.7	70.3	-8%	-13%	-13%	-12%	-3%	-6%	+0%
Asia (excluding India)	276.2	280.6	-2%	-2%	+1%	-5%	-1%	-1%	-2%
Africa/India/Middle East	108.7	108.2	+0%	+3%	+7%	-1%	-2%	+1%	-6%
TOTAL	**1,132.9**	**1,124.9**	**+1%**	**+1%**	**+2%**	**-1%**	**+1%**	**+3%**	**-1%**

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

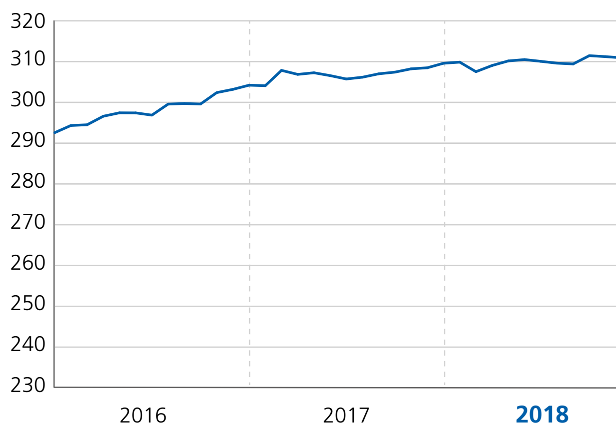
The **European** market grew by 2% overall in 2018, as demand rose by a vigorous 11% in Eastern Europe but only by 1% in Western Europe. The robust growth observed in France and Italy (up 5%), Poland and the Nordic countries (up 4%) and Spain (up 3%) was amply offset by the impact of Brexit on the UK market (down 5%) and by the crisis in Turkey (down 9%). Sales of all-season tires remained firm throughout the year, acting as the primary driver of market growth in Europe.

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	Change vs. 2017
WESTERN EUROPE	**+1%**
▶ France	+5%
▶ Spain	+3%
▶ Italy	+5%
▶ United Kingdom	-5%
▶ Germany	+1%
▶ Poland	+4%
▶ Turkey	-9%
EASTERN EUROPE	**+11%**
▶ Russia	+12%

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

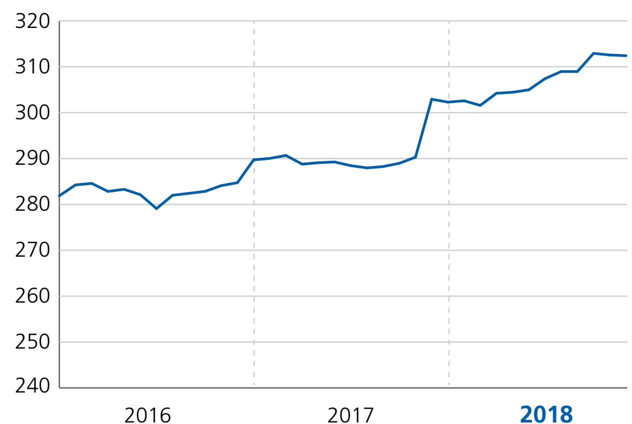
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

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

(in millions of tires – moving 12 months)



Michelin estimates.

In a favorable economic environment, demand in **North America** rose by 3% overall, with an acceleration in the second half (to 4% from 2% in the first) fueled by a surge in Chinese tire imports ahead of the introduction of additional import duties.

In **Asia (excluding India),** demand ended the year down 2% overall. After remaining relatively flat in the first half (down 1%), the market weakened, losing 2% in the second half as the 6% contraction in China was partially offset by a 2% increase in the rest of the region, led by Japan (up 2%) and South Korea (up 3%).

The **Central American** market rose by 4% over the year, with Mexico driving a much faster performance in the second half (up 7%).

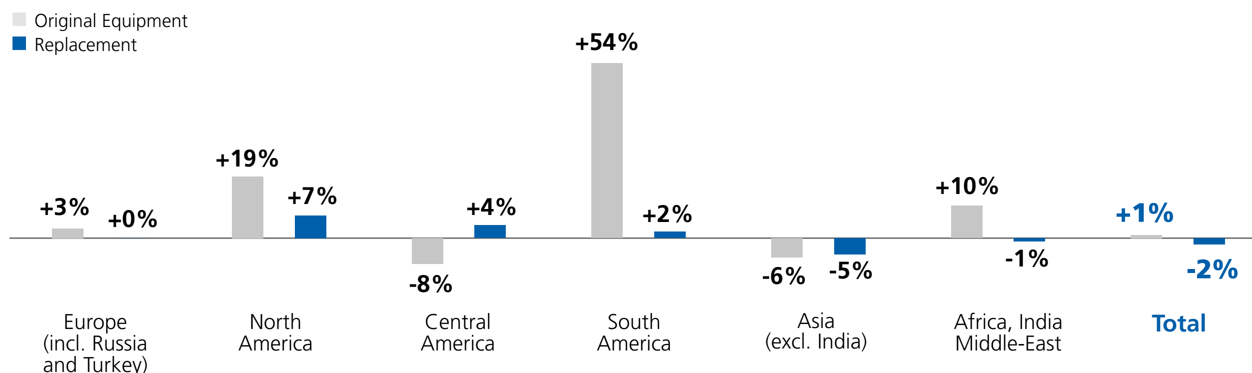
In **South America,** demand fell 8% over the year with a steep 13% plunge in the second half, reflecting the impact of the recession in Argentina (down 18%) and the political and economic instability in Brazil (down 15%).

In the **Africa/India/Middle East** region, demand was stable for the year, with a 3% upturn in the second half following on from a 2% decline in the first. The robust 6% growth in the Indian market was offset by a contraction in the Middle East and Africa, due to political instability in certain countries and weakness in the oil-price dependent economies.

2.1.4 TRUCK TIRE MARKETS IN 2018

The number of new **Truck** tires sold worldwide declined by 1% in 2018. After gaining 2% in the first half, led by demand in North America, the market fell back 3% in the second six months, reflecting strong headwinds from the 12% drop in Chinese demand off of very high comparatives in an uncertain economic environment.

THE GLOBAL TRUCK TIRE MARKET, 2018 VS. 2017



Michelin estimates - new tire market only.

2.1.4 a) Original equipment

The **global original equipment Truck tire market,** as measured by the number of new tires sold, grew by 1% in 2018. The 6% growth observed in the first half was partially offset by the 4% drop in the second following notably the collapse in Chinese demand.

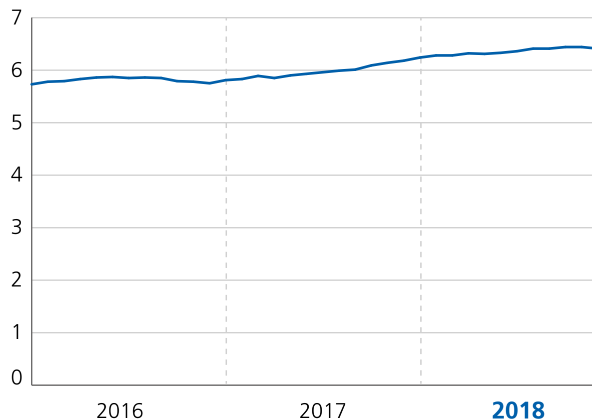
Truck tire markets Original equipment *(in millions of tires)*	**2018**	**2017**	**2018/2017**	**Second half 2018/2017**	**Fourth quarter 2018/2017**	**Third quarter 2018/2017**	**First half 2018/2017**	**Second quarter 2018/2017**	**First quarter 2018/2017**
Europe[1]	7.3	7.0	+3%	+1%	-1%	+3%	+6%	+4%	+8%
North America[2]	6.7	5.7	+19%	+22%	+28%	+17%	+16%	+13%	+20%
Central America	0.1	0.2	-8%	+7%	+16%	+0%	-21%	-23%	-19%
South America	1.5	1.0	+54%	+42%	+31%	+53%	+70%	+59%	+85%
Asia (excluding India)	27.0	28.8	-6%	-14%	-4%	-23%	+1%	+3%	-1%
Africa/India/Middle East	5.7	5.2	+10%	+9%	+10%	+8%	+12%	+4%	+17%
TOTAL	**48.4**	**47.9**	**+1%**	**-4%**	**+3%**	**-10%**	**+6%**	**+5%**	**+6%**

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

In **Europe,** the original equipment market rose by 3% over the year. After a strong 6% showing in the first half, led by demand in Germany (up 3%), Poland (up 24%) and Turkey (up 41%), growth slowed significantly to just 1% in the second half due to the downturn in Turkey and Poland. Demand was stable in Eastern Europe.

THE OE TRUCK TIRE MARKET IN EUROPE

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

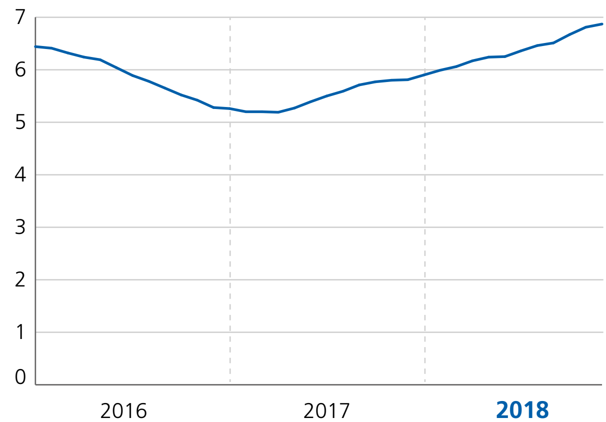


Michelin estimates.

In a highly favorable economic environment, the **North American** market delivered very strong growth throughout the year, for a 19% gain overall.

THE OE TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Demand in **Asia (excluding India)** contracted by 6% in 2018, with the Chinese market plunging 18% in the second half alone due to an unfavorable basis of comparison and the highly uncertain economic environment created by the trade war with the United States. Demand in the rest of the region was shaped by the 3% decline in Japan, which was partially offset by vibrant growth in the Indonesian market.

In **South America,** the market maintained the rebound that began in 2017, soaring 54% on the back of strong demand in Brazil.

The **Africa/India/Middle East** market rose by 10% over the year, reflecting the 15% gain in Indian demand off of favorable comparatives and a buoyant economic environment.

2.1.4 b) Replacement

The **global replacement market** eased back 2% in 2018, with fast growth in the Americas and a sharp decline in Asia caused primarily by the collapse in Chinese demand in the second half.

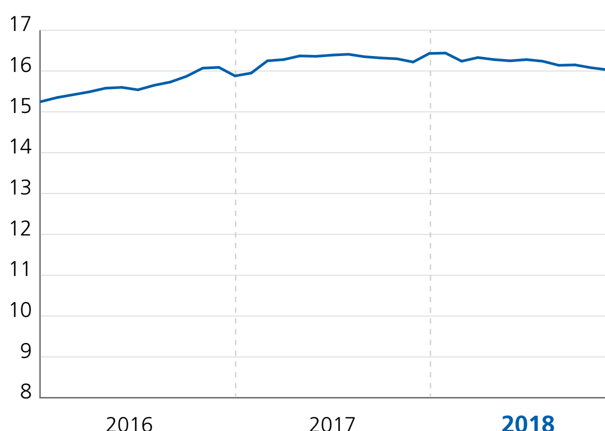
Truck tire markets Replacement *(in millions of tires)*	2018	2017	2018/2017	Second half 2018/2017	Fourth quarter 2018/2017	Third quarter 2018/2017	First half 2018/2017	Second quarter 2018/2017	First quarter 2018/2017
Europe[(1)]	24.2	24.2	+0%	-2%	-1%	-3%	+2%	+3%	+1%
North America[(2)]	23.2	21.6	+7%	+9%	+5%	+12%	+6%	+8%	+4%
Central America	6.0	5.8	+4%	+5%	+6%	+4%	+2%	+4%	+1%
South America	12.6	12.3	+2%	-1%	-4%	+2%	+5%	+4%	+6%
Asia (excluding India)	80.5	84.9	-5%	-8%	-8%	-7%	-2%	+1%	-4%
Africa/India/Middle East	30.6	31.0	-1%	-1%	-0%	-2%	-1%	-2%	-1%
TOTAL	**177.1**	**179.8**	**-2%**	**-3%**	**-4%**	**-2%**	**+0%**	**+2%**	**-1%**

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

The **European** market was stable over the year. After a 2% gain in the first half led by a 9% increase in Eastern Europe, demand retreated by 2% in the second half due to the steep fall-off in Turkey and Poland. Demand remained robust in Eastern Europe, rising 4% over the year.

THE REPLACEMENT TRUCK TIRE MARKET IN EUROPE

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

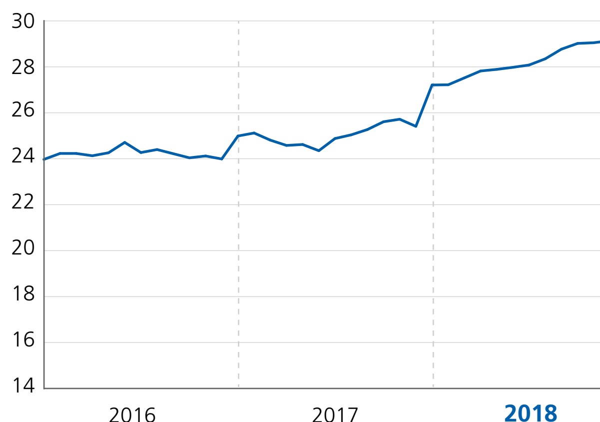


Michelin estimates.

Demand in **North America** rose by 7% overall, lifted by the robust US economy and an increase in Chinese tire imports late in the year ahead of the possible introduction of new import duties. The Canadian market cooled by a slight 1% over the year.

THE REPLACEMENT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Replacement tire markets in **Asia (excluding India)** retreated by 5% in 2018. After declining by 2% in the first half, demand dropped another 8% in the second, primarily due to the collapse in the Chinese market caused by unfavorable comparatives and the uncertain economic environment created by the trade war with the United States.

Demand in **Central America** ended the year up a very strong 12% overall, despite modest 1% growth in the Mexican market.

The **South American** market rose 2% overall, with a 5% gain in the first half led by Brazil (up 8%) and Argentina, followed by a 1% decline in the second half, reflecting the slowdown to 3% growth in Brazil and the collapse of the Argentine market.

In the **Africa/India/Middle East** region, new tire demand edged back 1%, with (i) flat growth overall in India, where radial tire sales advanced 12%; and (ii) a 1% decline in the Middle East and African markets, where the political and economic environment remains unstable.

2.1.5 SPECIALTY TIRE MARKETS IN 2018

Mining tires: the Mining tire market is still enjoying robust growth in demand from international mining companies, oil companies and regional mines.

Agricultural and Construction tires: in the Agricultural segment, growth in the OE markets was mixed, while replacement demand was stable, impacted in Europe by a sharp upturn in Asian imports.

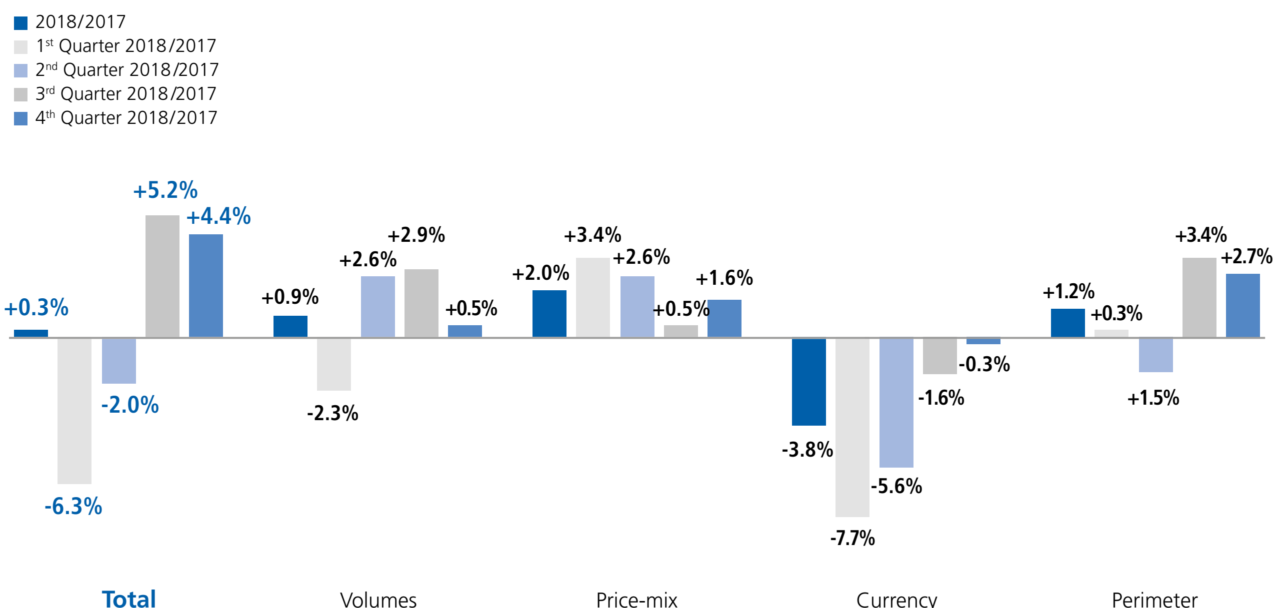
In Construction, demand continued to trend upwards in both the OE and replacement segments.

Two-wheel tires: motorcycle markets experienced fast growth in both Europe and North America. Demand in the commuting segment remains very strong in the new markets.

Aircraft tires: led by the increase in passenger traffic, the commercial aircraft tire market is continuing to expand, with more pronounced gains in the radial segment.

2.2 SALES

2.2.1 ANALYSIS OF SALES



Sales stood at €22,028 million for the year, up a slight 0.3% from €21,960 million in 2017 due to the combined impact of the following factors:

- a €195 million increase from 0.9% growth in volumes in an extremely mixed market environment, reflecting the robust strength derived from the Group's diversified business portfolio. The Specialty businesses in particular delivered vibrant growth for the year;
- a €444 million or 2.0% increase from the price-mix effect, primarily stemming from the €255 million or 1.1% improvement in prices, which in turn reflected (i) in the replacement segment, disciplined price management at a time of rising supply chain and raw materials costs and highly volatile exchange rates; and (ii) in the indexed businesses, contractual adjustments following the application of raw materials indexation clauses. The mix effect added €189 million to sales, or 0.9% to growth, thanks to (i) the highly positive Passenger car and Light truck product mix, primarily led by 10% growth in volumes in the premium MICHELIN brand 18-inch and larger segment; (ii) the favorable impact of growth in the mining tire business; and (iii) to a lesser extent, the contraction in OE Passenger car and Light truck tire sales in a steeply declining market environment;
- a €838 million or 3.8% decrease from the currency effect, which primarily reflected the euro's sharp appreciation against the US dollar in the first half of the year, followed by the significant depreciation against the euro of emerging market currencies (mainly the Turkish lira and Argentine peso);
- a €267 million or 1.2% increase from changes in the scope of consolidation, mainly corresponding to the first-time consolidation of Fenner PLC, a world leader in heavy conveyor belts and high-technology reinforced polymer products; and, to a lesser extent, of NexTraq and Lehigh Technologies. These positive impacts were partially offset by the deconsolidation of the North American tire wholesaling chain TCi following its transfer to the TBC joint venture created in January 2018 with Sumitomo Corporation of Americas.

Note that sales of tire-related services and solutions totaled €1,258 million in 2018, versus €1,112 million in 2017.

(in € millions and %)	2018	Second half 2018	Fourth quarter 2018	Third quarter 2018	First half 2018	Second quarter 2018	First quarter 2018
SALES	**22,028**	**11,425**	**5,811**	**5,615**	**10,603**	**5,385**	**5,218**
Change, year-on-year	**+68**	**+525**	**+246**	**+280**	**-456**	**-107**	**-349**
Volumes	+195	+181	+28	+153	+14	+141	-127
Price-mix	+444	+114	+85	+29	+331	+141	+190
Currency effect	-838	-103	-19	-84	-735	-305	-430
Scope of consolidation	+267	+334	+152	+182	-66	-84	+18
Change, year-on-year	**+0.3%**	**+4.8%**	**+4.4%**	**+5.2%**	**-4.1%**	**-2.0%**	**-6.3%**
Volumes	+0.9%	+1.7%	+0.5%	+2.9%	-0.1%	+2.6%	-2.3%
Price-mix	+2.0%	+1.1%	+1.6%	+0.5%	+3.0%	+2.6%	+3.4%
Currency effect	-3.8%	-0.9%	-0.3%	-1.6%	-6.6%	-5.6%	-7.7%
Scope of consolidation	+1.2%	+3.1%	+2.7%	+3.4%	-0.6%	-1.5%	+0.3%

2.2.2 SALES BY REPORTING SEGMENT

(in € millions)	2018	Second half 2018	Fourth quarter 2018	Third quarter 2018	First half 2018	Second quarter 2018	First quarter 2018
GROUP	**22,028**	**11,425**	**5,811**	**5,614**	**10,603**	**5,385**	**5,218**
Automotive and related distribution	11,340	5,734	3,009	2,725	5,607	2,835	2,772
Road transportation and related distribution.	5,852	3,070	1,528	1,542	2,782	1,414	1,368
Specialty businesses and related distribution(1)	4,836	2,622	1,275	1,347	2,214	1,136	1,078
Change, year-on-year	**+0.3%**	**+4.8%**	**+4.4%**	**+5.2%**	**-4.1%**	**-2.0%**	**-6.3%**
Automotive and related distribution	-5.1%	-3.5%	-3.0%	-4.1%	-6.7%	-4.0%	-9.3%
Road transportation and related distribution.	-1.6%	+1.7%	+2.4%	+1.0%	-5.0%	-1.7%	-8.1%
Specialty businesses and related distribution(1)	+19.1%	+35.2%	+31.3%	+39.2%	+4.3%	+3.3%	+5.5%

(1) Specialty businesses: Earthmover, Agricultural, Two-wheel and Aircraft tires and related distribution; Fenner and High-Tech Materials; Michelin Lifestyle Ltd.

2.2.2 a) Automotive and related distribution – Analysis of sales

Volumes in the Automotive and related distribution reporting segment declined by 1% over the year. After retreating 2% in the first half from high prior-year comparatives (lifted by the first-half 2017 buying surge ahead of significant price increases), volumes returned to growth in the second half, despite the highly adverse market impact of softening demand in the OE segment in Europe and across the market in China. In addition, in line with its strategy of preserving unit margin integrity, the Group focused on significant price increases rather than higher volumes in certain countries in Central and South America and in Turkey.

In **Europe,** OE sales were hurt by the decline in demand in the second half. In the replacement segment, after a first half severely impacted by a high basis of comparison (stemming from the surge in buying in first-half 2017), sales rose sharply in the second six months, enabling the Group to maintain its market share over the full year. The product mix moved up in value, thanks to the success of the MICHELIN CrossClimate +, MICHELIN Primacy 4 and MICHELIN X-ICE North 4 lines and strong growth in the 18-inch and larger segment. In Eastern Europe, where markets are experiencing fast growth, Michelin improved its positions in every segment.

In **North America,** where market growth is being driven by sustained import buying ahead of additional import duties, the MICHELIN and BFGoodrich brands built on the success of their product ranges to deliver higher sales and market share gains on their respective segments. On the other hand, sales of the UNIROYAL brand fell sharply due to its still incomplete product coverage, which is in the process of being extended.

The decline in sales in **South America** reflected the Group's priority focus on maintaining margins and firm pricing in an extremely volatile currency environment, particularly in the 18-inch and larger segment.

In **Asia (excluding India),** sales in China rose in a declining original equipment market, illustrating the recognition of Michelin's technological leadership, in particular among local OEMs. In a contracting replacement segment, the Group maintained its market share with a significant improvement in the product mix. In Southeast Asia, where markets were down slightly for the year, the Group drove higher sales in both the OE and replacement segments by enhancing the product offering and continuing to optimize the dealership network.

In the **Africa/India/Middle East** region, the Group maintained its market share in the expanding OE and replacement segments.

Michelin Experiences' sales performance was shaped by strong growth in B2B revenue, led by the monetization of Michelin Guide launches, and by an increase in digital revenue thanks more effective content monetization. The Print B2C business overcame an unfavorable geographic mix to maintain its share of its persistently difficult markets. The restaurant booking businesses, BookaTable and Michelin Restaurant, reported relatively stable sales in the face of increasing competition and an environment roiled by Brexit. Lastly, in its commitment to offering every customer an outstanding mobility experience, Michelin Experience is strategically focusing on dining and travel services.

In all, sales in the Automotive and related distribution reporting segment declined by 5.1% to €11,340 million, from €11,943 million in 2017, primarily as a result of the adverse currency effect and the deconsolidation of the TCi distribution network in North America. The steady enhancement in the product mix, reflecting (i) the sustained success of the MICHELIN lines, particularly the MICHELIN Primacy 4, MICHELIN CrossClimate + and MICHELIN X Ice North tires, and (ii) strong growth in the 18-inch and larger segment (up 10% in a market up 9%), as well as the disciplined pricing policy pursued throughout the year, all helped to more than offset the decline in volumes.

2.2.2 b) Road transportation and related distribution – Analysis of sales

Volumes in the Road transportation and related distribution reporting segment rose by 1% in 2018. After a first half that suffered from comparison with a strong prior-year period (due to the first-half 2017 surge in buying ahead of price increases), sales rebounded as expected in the second half, with a 2.7% gain.

In **Europe,** the Group focused on preserving margins in the expanding OE segment. Sales in the replacement segment rose in the second half after suffering from a high basis of comparison in the first, allowing Michelin to strengthen its positions, especially in Western Europe. The recently launched BFGoodrich brand and MICHELIN Agilis CrossClimate light truck tire maintained their strong sales performance over the second half. In the final months of the year, the low intermediate range benefited from the anti-dumping measures introduced to counter Chinese imports.

In **North America,** where the market was shaped by a favorable economic environment, strong growth in OE sales and an increase in imports ahead of additional import duties on Chinese tires, Group volumes suffered from a certain number of supply chain issues and the UNIROYAL brand's insufficient market coverage. The development of fleet services continued apace.

In the fast growing **South American** market, the Group successfully strengthened its positions in both the OE and replacement segments, while leading a disciplined pricing policy in a highly volatile currency environment. The intermediate brands are enjoying sustained profitable growth and Sascar's telematics services remain highly popular.

In **Asia (excluding India),** sales in China declined, tracking the steep fall in local OE and replacement demand. In Southeast Asia, the Group maintained its positions in a flat replacement market thanks to the MICHELIN brand's excellent performance, but OE sales were dampened by aggressive price competition.

In the **Africa/India/Middle East** region, positions were strengthened in the original equipment segment, particularly in India following a number of contract wins with local OEMs. In the replacement segment, Michelin maintained its share of a softening market.

In all, sales in the Road transportation and related distribution reporting segment amounted to €5,852 million, a 1.6% decline from the €5,946 million reported in 2017. Excluding the currency effect, sales rose for the year, lifted by growth in volumes and a very favorable price-mix effect.

2.2.2 c) Specialty businesses – Analysis of sales

Mining tires: Sales maintained their solid momentum, as the unfavorable currency effect only partially offset the effects of strong growth in volumes and the improvement in the price mix.

Agriculture and Construction tires: The currency effect absorbed most of the impact of the increase in tonnages sold and the pricing policy, holding sales to slight growth for the year.

Two-wheel tires: Excluding Levorin, sales eased back somewhat, under the combined impact of the increase in tonnages sold, strong growth in the Commuting segment and the unfavorable currency effect.

The Group is continuing to integrate Levorin, which, as expected, reported positive free cash flow for the year.

Aircraft tires: Sales ended the year up a slight 3%, as the currency effect attenuated the robust growth in tonnages sold, which remained strong for new tires and in the commercial segment.

In all, sales by the Specialty businesses reporting segment increased by 19.1% year-on-year, to €4,836 million from €4,061 million in 2017. The increase corresponded to robust 8% growth in volumes, which offset the highly unfavorable currency effect, thanks primarily to sustained growth in Mining tire sales and fast-rising demand for Aircraft and Construction tires. Segment sales were also lifted by the price increases introduced during the year, which more than offset the negative impact of price reductions following application of raw materials indexation clauses.

2.2.3 CHANGES IN EXCHANGE RATES FOR THE MAIN OPERATING CURRENCIES

At current exchange rates, consolidated sales rose by 0.3% in 2018, i.e., after an €838 million negative currency effect, primarily stemming from the euro's unfavorable movements against the US dollar, Brazilian real, Argentine peso, Turkish lira, Russian ruble and Mexican dollar.

Average exchange rate	2018	2017	Change
Euro/USD	1.182	1.129	+4.6%
Euro/CAD	1.530	1.465	+4.4%
Euro/MXN	22.703	21.307	+6.6%
Euro/BRL	4.283	3.601	+18.9%
Euro/GBP	0.884	0.877	+0.9%
Euro/JPY	130.477	126.630	+3.0%
Euro/CNY	7.803	7.631	+2.3%
Euro/THB	38.172	38.311	-0.4%
Euro/AUD	1.579	1.473	+7.2%
Euro/ZAR	15.521	15.021	+3.3%
Euro/ARS	30.732	18.624	+65.0%
Euro/TRY	5.525	4.114	+34.3%
Euro/RUB	73.749	65.879	+11.9%

Sales break down as follows by currency:

Currency	%	Currency	%
AUD	2%	MXN	1%
BRL	3%	PLN	1%
CAD	3%	RUB	1%
CLP	1%	SEK	1%
CNY	6%	THB	1%
EUR	34%	TRY	1%
GBP	3%	USD	35%
INR	1%	ZAR	1%
JPY	1%	Other	4%
TOTAL			**100 %**

2.2.4 SALES BY REGION

(in € millions)	2018	2018/2017	Second half 2018	First half 2018
GROUP	**22,028**	**+0.3%**	**11,426**	**10,603**
Europe	8,570	+3.1%	4,393	4,177
of which France	*2,056*	+3.6%	*1,043*	*1,012*
North America (incl. Mexico)	7,824	-2.9%	4,132	3,692
Other regions	5,634	+0.8%	2,901	2,734

(in € millions)	2018	% of total	2017	% of total
GROUP	**22,028**		**21,960**	
Europe	8,570	38.9%	8,315	37.9%
of which France	*2,056*	*9.3%*	*1,984*	*9.0%*
North America (incl. Mexico)	7,824	35.5%	8,055	36.7%
Other regions	5,634	25.6%	5,589	25.5%

Consolidated sales rose in every region except North America, due to highly unfavorable currency movements.

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

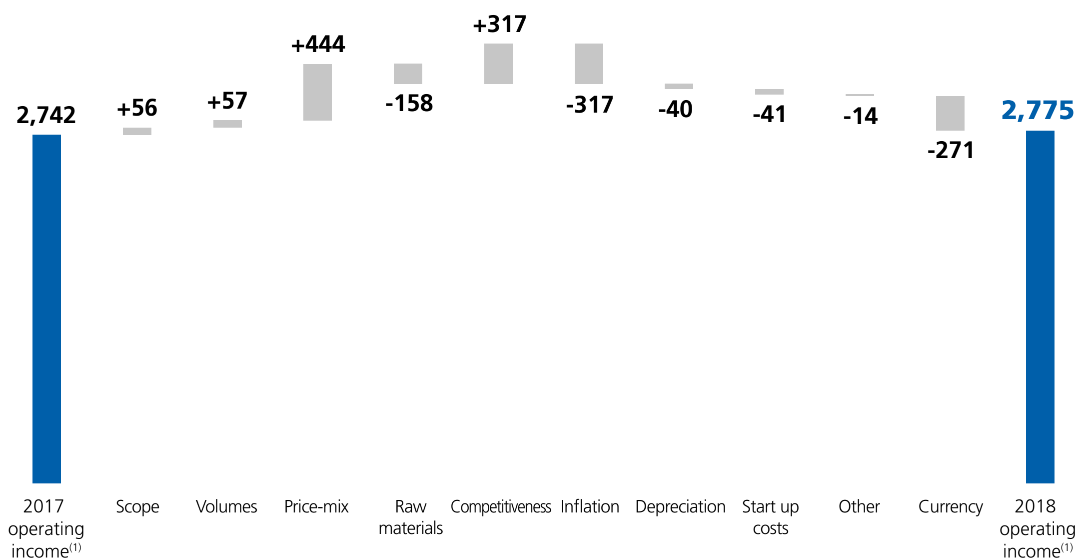
2.3 CONSOLIDATED INCOME STATEMENT REVIEW

Formerly known as operating income from recurring activities, segment operating income is the performance metric for the reporting segments. It is stated before the amortization of brands and customer lists recognized on the acquisition of the corresponding companies, which is included in other operating income and expenses.

(in € millions, except per-share data)	2018	2017	2018/2017	2018 *(as a % of sales)*	2017 *(as a % of sales)*
Sales	**22,028**	**21,960**	**+0.3%**		
Cost of sales	(14,912)	(14,815)	+0.7%	67.7%	67.5%
Gross income	**7,116**	**7,145**	**-0.4%**	**32.3%**	**32.5%**
Sales and marketing expenses	(1,862)	(1,861)	+0.0%	8.5%	8.5%
Research and development expenses	(648)	(642)	+1.0%	2.9%	2.9%
General and administrative expenses	(1,826)	(1,866)	-2.1%	8.3%	8.5%
Other segment income and expenses	(5)	(35)	-85.6%	0.0%	0.2%
Segment operating income	**2,775**	**2,742**	**+1.2%**	**12.6%**	**12.5%**
Other operating income/(loss)	(225)	(111)	+102.9%	1.0%	0.5%
Operating income	**2,550**	**2,631**	**-3.1%**	**11.6%**	**12.0%**
Cost of net debt	(200)	(176)	+14.2%	0.9%	0.8%
Other financial income and expenses	16	0	NM	0.1%	0.0%
Net interest on employee benefit obligations	(90)	(115)	-21.9%	0.4%	0.5%
Share of profits and losses from associates and joint ventures	(46)	14	NM	0.2%	0.1%
Income before taxes	**2,230**	**2,354**	**-5.3%**	**10.1%**	**10.7%**
Income tax	(570)	(661)	-13.8%	2.6%	3.0%
Net income	**1,660**	**1,693**	**-1.9%**	**7.5%**	**7.7%**
▶ Attributable to shareholders of the Company	1,677	1,700	-1.4%	7.6%	7.7%
▶ Attributable to non-controlling interests	(17)	(7)			
Per-share data *(in €)*					
▶ Basic	9.30	9.39	-1.0%		
▶ Diluted	9.25	9.34	-1.0%		

2.3.1 ANALYSIS OF SEGMENT OPERATING INCOME

(in € millions)



(1) Segment operating income.

Segment operating income amounted to €2,775 million or 12.6% of sales in the year ended December 31, 2018, versus a reported €2,742 million and 12.5% in 2017. Other operating income/(loss) represented a loss of €225 million in 2018, versus a loss of €111 million in 2017. It primarily corresponded to the costs of reorganizing Group operations, particularly the closure of the production plant in Dundee, Scotland and the reorganization of the UK dealership operations. Also recognized in this item were the Fenner and Camso acquisition costs, the disposal gains on North American tire wholesaling chain TCi following its transfer to the TBC joint venture, and the amortization charge of brands and customer list acquired with Fenner PLC.

The growth in segment operating income may be analyzed as follows:

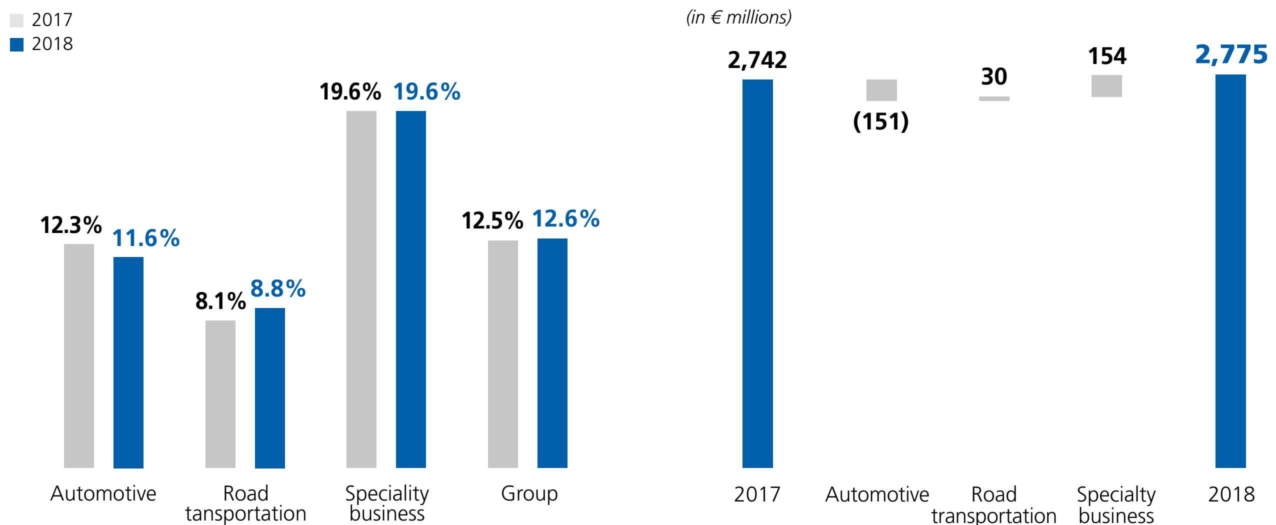
- a €56 million increase from changes in the scope of consolidation, with the positive contribution from Fenner PLC over seven months only partially offset by the removal of TCi;
- a €57 million increase from the 0.9% growth in sales volumes;
- a €286 million net increase from changes in the price-mix and raw materials costs. Changes in the price-mix added €444 million to operating income for the year, of which €255 million from the Group's ability to sustain most of the price increases introduced in 2017 to offset higher raw materials costs, which continued to rise in 2018 with a €158 million adverse impact;
- €317 million in gains from the competitiveness plan, in line with the implementation schedule. These included €83 million in general cost savings, €47 million in materials cost savings and €188 million in manufacturing and logistics productivity gains, which offset the €317 million adverse impact of inflation on production costs and overheads. The latter impact was around €40 million higher than in 2017 due to one-time factors affecting supply chain costs in North America and energy costs in Europe;
- a €40 million decrease from the corresponding increase in depreciation and amortization charges;
- a €41 million decrease from the corresponding increase in start-up costs, due primarily to the commissioning of the new Passenger car and Light truck tire plant in Mexico and the synthetic rubber plant in Indonesia, as well as the re-start of production at the mining tire plant in Anderson, SC in the United States;
- a €14 million negative impact from other items;
- a €271 million decrease from the currency effect.

At constant exchange rates, segment operating income totaled €3,046 million in 2018, a €304 million improvement on the €2,742 million reported in 2017. In this way, Michelin has met its target of generating segment operating income in an amount exceeding the 2017 figure at constant exchange rates.

2.3.2 SEGMENT OPERATING INCOME

(in € millions)	2018	2017	Second half 2018	First half 2018
Automotive and related distribution				
Sales	11,340	11,953	5,734	5,607
Segment operating income	1,314	1,465	669	646
Segment operating margin	**11.6%**	**12.3%**	**11.7%**	**11.5%**
Road transportation and related distribution				
Sales	5,852	5,946	3,070	2,782
Segment operating income	513	483	318	195
Segment operating margin	**8.8%**	**8.1%**	**10.3%**	**7.0%**
Specialty businesses and related distribution				
Sales	4,836	4,061	2,622	2,214
Segment operating income	948	794	462	486
Segment operating margin	**19.6%**	**19.6%**	**17.6%**	**22.0%**
Group				
Sales	22,028	21,960	11,425	10,603
Segment operating income	2,775	2,742	1,448	1,327
Segment operating margin	**12.6%**	**12.5%**	**12.7%**	**12.5%**

2.3.2 a) Segment operating margin



- Automotive and related distribution (including Michelin Travel Partner, BookaTable).
- Road transportation and related distribution.
- Specialty businesses: Earthmover, Agricultural, Two-wheel and Aircraft tires; High-Tech Materials; Michelin Lifestyle Ltd.

2.3.2 b) Automotive and related distribution – Analysis of segment operating income

Automotive and related distribution *(in € millions)*	2018	2017	2018/2017	2018 *(% of consolidated total)*	2017 *(% of consolidated total)*
Sales	11,340	11,953	-5.1%	51%	54%
Change in volumes	*-1%*				
Segment operating income	1,314	1,465	-10.3%	47%	53%
Segment operating margin	11.6%	12.3%	-0.7pts		

Automotive segment operating income came to €1,314 million or 11.6% of sales versus €1,465 million and 12.3% in 2017. The decline in operating margin included the 0.7-point reduction from adverse currency movements.

In an environment shaped by highly unfavorable exchange rates and the steady rise in raw materials prices over the first nine months of the year, the Group successfully preserved its unit margins thanks to (i) a disciplined pricing policy, particularly in countries whose currencies collapsed against the euro; and (ii) a strengthened product mix, led by fast growth in the 18-inch and larger segment and strong sales of the MICHELIN CrossClimate+, MICHELIN Primacy 4 and MICHELIN X-ICE North 4 line. The decline in volumes over the year, which was primarily caused by weakness in the original equipment markets and contracting Chinese demand, meant that fixed costs were not fully absorbed as the Group focused on optimizing inventory management.

2.3.2 c) Road transportation and related distribution – Analysis of segment operating income

Road transportation and related distribution *(in € millions)*	2018	2017	2018/2017	2018 *(% of consolidated total)*	2017 *(% of consolidated total)*
Sales	5,852	5,946	-1.6%	27%	27%
Change in volumes	*+1%*				
Segment operating income	513	483	+6.0%	18%	18%
Segment operating margin	8.8%	8.1%	+0.6pts		

Road transportation segment operating income amounted to €513 million or 8.8% of sales, compared with €483 million and 8.1% the year before. The decline in operating margin included the 0.9-point reduction from adverse movements in exchange rates.

Despite this negative currency effect, operating income improved by €30 million thanks to the powerful price-mix effect, which primarily reflected disciplined price management in a more aggressive competitive environment roiled by highly volatile exchange rates.

Volumes were more or less flat for the year, but in fact reflected a positive growth dynamic, with a strong sales performance in the second half entirely offsetting the steep drop in the first half due to very unfavorable comparatives.

New products and services continued to be introduced over the period, which was shaped by the success of the BFGoodrich lines in Europe and South America, and of the MICHELIN Agilis CrossClimate light truck and van tires.

2.3.2 d) Specialty businesses and related distribution – Analysis of segment operating income

Specialty businesses and related distribution *(in € millions)*	2018	2017	2018/2017	2018 *(% of consolidated total)*	2017 *(% of consolidated total)*
Sales	4,836	4,061	+19.1%	22%	18%
Change in volumes	*+8%*				
Segment operating income	948	794	+19.4%	34%	29%
Segment operating margin	19.6%	19.6%	+0.0pt		

Segment operating income for the **Specialty businesses** amounted to €948 million, versus a reported €794 million in 2017, for a margin unchanged at 19.6% of sales, taking into account the 0.6-point reduction from adverse movements in currency rates.

Excluding this exchange rate impact, the increase in segment operating income reflected the highly favorable price effect and sustained growth in volumes (up 8%), led by rising demand across all of the Specialty businesses, particularly for mining, construction and aircraft tires.

2.3.3 OTHER INCOME STATEMENT ITEMS

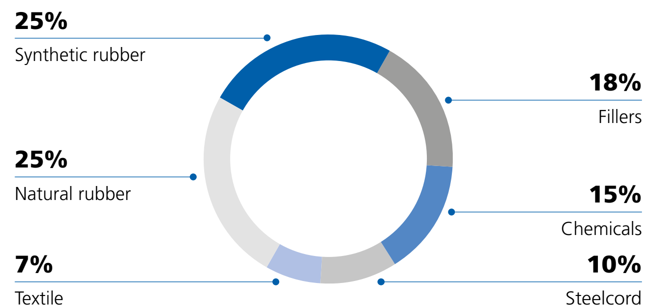
2.3.3 a) Raw materials

The cost of **raw materials** reported in the income statement under "Cost of sales" has been estimated at €4.9 billion in 2018 versus €5.2 billion in 2017. 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.

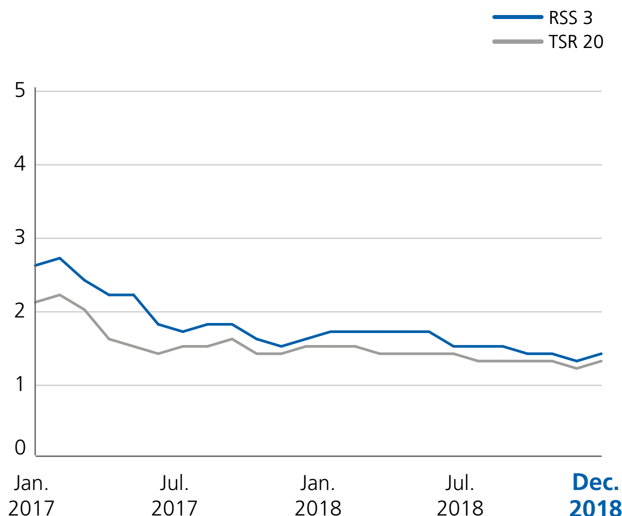
In 2018, the raw materials costs recognized in cost of sales included the €158 million gain from price adjustments, including the residual currency effect. Changes in prices feed through to the income statement five to six months later for natural rubber and around three months later for butadiene.

RAW MATERIALS RECOGNIZED IN 2018 COST OF SALES (€4.9 BILLION)

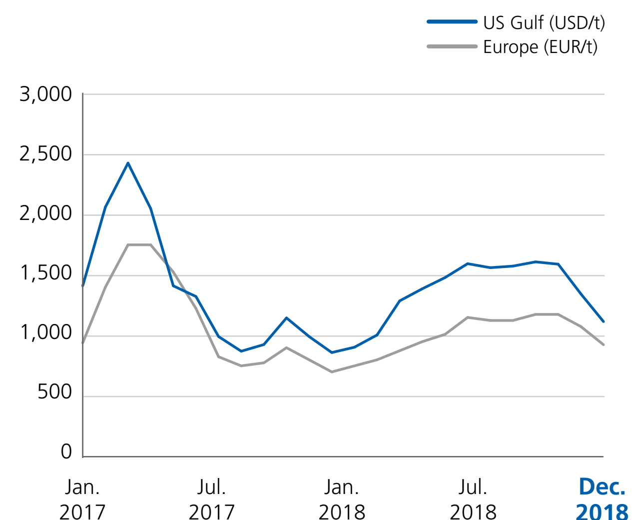


NATURAL RUBBER PRICES (SICOM)

(USD/kg)



BUTADIENE PRICES



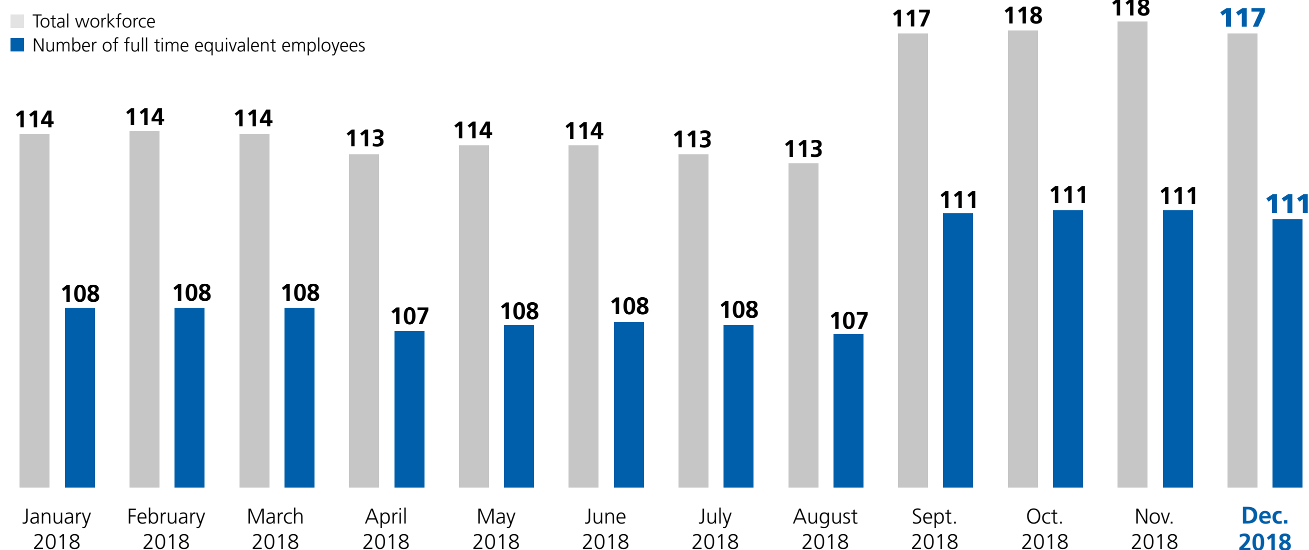
2.3.3 b) Employee benefit costs and number of employees

At €6,038 million, **employee benefit costs** represented 27.4% of sales in 2018, up 0.7 point from the year before (up 2.8% in Euros). The increase mainly stemmed from changes in the scope of consolidation, with the removal of TCi over nine months only partially offsetting the inclusion of Fenner over seven months.

(in € millions and number of people)	2018	2017	Change
Total employee benefit costs	6,038	5,871	+2.8%
As a % of sales	*27.4%*	*26.7%*	*+0.7pt*
Employees on payroll at December 31	117,400	114,100	+2.9%
Number of full-time equivalent employees at December 31	111,100	107,800	+3.1%
Average number of full time equivalent employees	108,900	106,800	+2.0%

NUMBER OF EMPLOYEES

(in thousands)



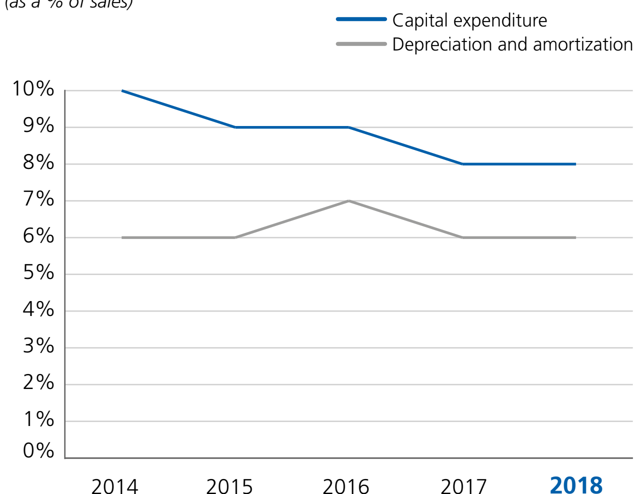
Fenner employees are integrated in the Group from September 2018.

2.3.3 c) Depreciation and amortization

(in € millions)	2018	2017	Change
Depreciation and amortization	1,344	1,345	-0.1%
As a % of additions to intangible assets and property, plant and equipment	*76%*	*76%*	

Depreciation and amortization charges were unchanged from 2017, mostly as a result of the favorable currency effect.

(as a % of sales)



2.3.3 d) Transportation costs

(in € millions)	2018	2017	Change
Transportation costs	1,186	1,183	+0.2%
As a % of sales	*5.4%*	*5.4%*	

Transportation costs stood at €1,186 million, stable year-on-year as the impact of higher sales volumes and cost inflation in North America were amply offset by productivity gains and favorable exchange rate movements.

2.3.3 e) Sales and marketing expenses

At €1,862 million, **sales and marketing expenses** represented 8.5% of sales, unchanged from 2017.

2.3.3 f) Research and development expenses

Research and development expenses edged up just 1% to €648 million in 2018, reflecting the Group's ability to keep research and development costs under control while maintaining its technological leadership.

As a percentage of sales, R&D expenses were stable, at 2.9%.

2.3.3 g) General and administrative expenses

At €1,826 million, **general and administrative expenses** represented 8.3% of sales, versus €1,866 million and 8.5% in 2017. In addition to the currency effect, the decline was attributable to the Group's commitment to reducing overhead costs as part of its 2017-2020 competitiveness plan.

2.3.3 h) Segment other income and expenses

Segment other income and expenses represented a net expense of €5 million in 2018 versus a net expense of €35 million as reported in 2017. Most of the 2018 expense was comprised of costs arising from the employee stock ownership plan, performance share grants and various taxes, partially offset by gains on the Group's insurance programs.

2.3.3 i) Other operating income/(loss)

Other operating income/(loss) represented a loss of €225 million in 2018, versus a loss of €111 million in 2017. It primarily corresponded to the costs of reorganizing Group operations, particularly the closure of the production plant in Dundee, Scotland and the reorganization of the UK dealership operations. Also recognized in this item were the Fenner and Camso acquisition costs, the disposal gains on North American tire wholesaling chain TCi following its transfer to the TBC joint venture, and the amortization charge of brands and customer list acquired with Fenner PLC.

2.3.3 j) Cost of net debt

(in € millions)	2018	2017	Change
Cost of net debt	200	176	+24

At €200 million, the **cost of net debt** was up €24 million compared with 2017, primarily as a result of the following factors:

- a €36 million increase in net interest expense to €208 million, reflecting the net impact of:
  - a €120 million increase due to the rise in average net debt to €2,364 million in 2018 from €1,199 million in 2017,
  - an €86 million decrease from the decline in the average gross interest rate on borrowings to 4.4% in 2018 from 6.2% in 2017,
  - a €2 million net increase from other 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 €12 million improvement in the negative impact from exchange rate derivatives, to a loss of €4 million for the year, due mainly to movements in Chinese, Brazilian and US interest rates;
- a €2 million increase in capitalized borrowing costs;
- an aggregate €33 million net decrease from other items, primarily the recognition of the reimbursed interest on past taxes unduly paid in Brazil.

2.3.3 k) Other financial income and expenses

(in € millions)	2018	2017	Change
Other financial income and expenses	16	0	+16

Other financial income and expenses represented net income of €16 million in 2018, corresponding primarily to the recovery of the ICMS tax in Brazil.

2.3.3 l) Income tax

(in € millions)	2018	2017	Change
Income before taxes	2,230	2,354	-124
Income tax	**(570)**	**(661)**	**-91**
Current tax	(535)	(478)	+57
Withholding tax	(35)	(81)	-46
Deferred tax	0	(102)	-102

Income tax amounted to €570 million in 2018, a €91 million year-on-year decrease that partly reflected the €124 million decline in income before taxes. However, the main factors were the full-year impact of the US tax reform bill passed in late 2017, and to a lesser extent, a favorable geographic mix. These factors were only partially offset by one-time events, most of which had a positive impact in 2017 and did not recur in 2018.

The effective tax rate was 25.6%, versus 28.1% the year before.

2.3.3 m) Consolidated net income and earnings per share

(in € millions)	2018	2017	Change
Net income	1,660	1,693	-33
As a % of sales	*7.5%*	*7.7%*	*-0.2pt*
▶ Attributable to shareholders of the Company	1,677	1,700	(23)
▶ Attributable to non-controlling interests	(17)	(7)	(10)
Per-share data *(in €)*			
▶ Basic	9.30	9.39	(0.09)
▶ Diluted	9.25	9.34	(0.09)

Net income came to €1,660 million, or 7.5% of sales, compared with €1,693 million in 2017. The €33 million decline reflected the following factors:

- favorable factors:
  - the €33 million increase in segment operating income,
  - a €17 million increase in other operating income,
  - the €25 million decrease in interest on employee benefit obligations,
  - the €91 million reduction in income tax;
- unfavorable factors:
  - the €114 million increase in other operating losses, to €225 million from €111 million in 2017,
  - the €24 million increase in cost of net debt,
  - the €60 million decrease in the Group's share of profit and losses from associates and joint ventures, which swung to a €46 million loss from a €14 million profit in 2017.

2.4 CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

(in € millions)	December 31, 2018	December 31, 2017	Total change	Currency effect	Movement
Goodwill	2,667	1,092	+1,575	-47	+1,622
Intangible assets	1,828	785	+1,043	-36	+1,079
Property, plant and equipment	11,379	10,883	+496	+39	+457
Non-current financial assets and other assets	691	479	+212	+0	+212
Investments in associates and joint ventures	938	356	+582	+21	+562
Deferred tax assets	740	890	-151	-4	-147
Non-current assets	**18,243**	**14,485**	**+3,758**	**-27**	**+3,785**
Inventories	4,447	4,508	-61	-9	-52
Trade receivables	3,307	3,084	+223	-35	+258
Current financial assets	314	285	+29	-1	+30
Other current assets	1,037	1,132	-95	+36	-131
Cash and cash equivalents	2,100	1,773	+328	+3	+325
Current assets	**11,205**	**10,782**	**+424**	**-8**	**+431**
TOTAL ASSETS	**29,448**	**25,267**	**+4,181**	**-35**	**+4,216**

EQUITY AND LIABILITIES

(in € millions)	December 31, 2018	December 31, 2017	Total change	Currency effect	Movement
Share capital	360	359	+1		+1
Share premiums	2,923	2,942	-19		-19
Reserves	8,862	7,925	+937	-58	+995
Non-controlling interests	22	35	-13	+1	-14
Equity	**12,167**	**11,261**	**+906**	**-57**	**+963**
Non-current financial liabilities	5,020	2,366	+2,654	+7	+2,647
Employee benefit obligations	3,850	3,969	-119	+23	-142
Provisions and other non-current liabilities	1,315	1,676	-361	+8	-369
Deferred tax liabilities	326	113	+212	-9	+221
Non-current liabilities	**10,511**	**8,124**	**+2,387**	**+28**	**+2,358**
Current financial liabilities	1,134	493	+641	-10	+651
Trade payables	2,506	2,501	+5	+10	-5
Reverse factoring contracts	440	503	-62	+13	-75
Other current liabilities	2,690	2,385	+306	-11	+316
Current liabilities	**6,770**	**5,882**	**+888**	**+2**	**+886**
TOTAL EQUITY AND LIABILITIES	**29,448**	**25,267**	**+4,181**	**-27**	**+4,209**

2.4.1 GOODWILL

Excluding the €47 million negative impact of translation adjustments, **goodwill** rose by €1,622 million to €2,667 million at December 31, 2018, primarily due to the recognition of goodwill on Camso for the entire acquisition price (not consolidated at December 31, 2018) and on Fenner.

2.4.2 INTANGIBLE ASSETS

Intangible assets amounted to €1,828 million, a €1,079 million increase from December 31, 2017 before the €36 million negative translation adjustment. The increase was mainly due to the consolidation of Fenner's intangible assets.

2.4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stood at €11,379 million, a €457 million increase from December 31, 2017 before the €39 million positive translation adjustment. The main factors behind the increase were (i) the consolidation of assets from Fenner and other acquisitions; and (ii) the ongoing investment in new capacity in fast-growing markets (the premium Automotive tire segment, North America and Asia, and the supply chain).

2.4.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

Non-current financial assets and other assets stood at €691 million, an increase of €212 million that was mainly due to:

- a €175 million increase corresponding to a loan granted to TBC, the North American wholesaler jointly owned with Sumitomo Corporation of Americas;
- a €107 million increase from the recognition in non-current assets of a credit from the French social services administration;
- a €26 million decrease from fair value adjustments to other derivative instruments;
- a €53 million decrease following the consolidation of Lehigh Technologies, PTG, Teleflow and Trucktyre, whose shares had been recognized in available-for-sale financial assets at December 31, 2017;
- a €9 million increase from other movements.

2.4.5 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Excluding the €21 million positive translation adjustment, **investments in associates and joint ventures** increased by €562 million in 2018, primarily as a result of the following factors:

- the acquisition, for €528 million, of a 50% stake in TBC, the joint venture created with Sumitomo Corporation of Americas that is one of the leading tire wholesalers in North America;
- the acquisition, for €61 million, of a 20% interest in A.T.U., the leading auto service center chain in Germany.

The increase also includes the €46 million in the Group's share of losses from associates.

2.4.6 DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2018, the Group held a **net deferred tax asset of €414 million,** representing a decrease of €368 million compared with the amount reported at end-2017 (before the positive €5 million in translation adjustments). The decline was mainly attributable to the changes in the scope of consolidation, following the consolidation of Fenner and the deconsolidation of TCi, and, to a lesser extent, the impact of actuarial gains recognized during the year on employee benefit obligations, particularly in France, the United Kingdom and North America.

2.4.7 TRADE WORKING CAPITAL

(in € millions)	December 31, 2018	December 31, 2017	Change	2018 *(as a % of sales)*	2017 *(as a % of sales)*
Inventories	4,447	4,508	-61	20.2%	20.5%
Trade receivables	3,307	3,084	+223	15.0%	14.0%
Trade payables	(2,506)	(2,501)	-5	11.4%	11.4%
Reverse factoring contracts	(440)	(503)	+62	2.0%	2.3%
TRADE WORKING CAPITAL	**4,807**	**4,588**	**+220**	**21.8%**	**20.9%**

Compared with December 31, 2017, **trade working capital** increased by €220 million, including the negative €66 million currency effect, and by €286 million at constant exchange rates. Half of the increase stemmed from changes in the scope of consolidation, following the consolidation of Fenner and the deconsolidation of TCi, and the other half from the more than 4% growth in sales over the final quarter of the year. As a percentage of sales, trade working capital stood at 21.8% at December 31, 2018, versus 20.9% the year before.

Inventories amounted to €4,447 million, representing 20.2% of 2018 sales. Excluding exchange rate movements, they were down €52 million from December 31, 2017, primarily due to (i) the nearly 6% decrease in finished product inventory, mainly because the deconsolidation of TCi was not offset by the impact of consolidating Fenner; (ii) disciplined inventory management; and (iii) the year-on-year decline in raw materials prices recognized in inventory at year-end.

Excluding translation adjustments, **trade receivables** rose by €258 million year-on-year to €3,307 million at December 31, 2018, essentially due to changes in the scope of consolidation, following the consolidation of Fenner and the deconsolidation of TCi, but also to the increase in sales in the final quarter. As a percentage of sales, they rose by 1 point, to 15.0% from 14.0% a year earlier.

Trade payables ended the year down €80 million at €2,946 million, including €440 million in reverse factoring contracts but before a positive €22 million in translation adjustments. The impact of consolidating Fenner was more than offset by the decline in raw materials costs.

2.4.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents stood at €2,100 million at December 31, 2018, a €325 million year-on-year increase before translation adjustments that reflected the net impact of the following factors:

- increases from:
  - the €3,028 million in new debt raised through the issue of new bonds,
  - the €11 million in proceeds from the exercise of stock options,
  - the €20 million arising from other factors, including the issue of €13 million in new shares as part of the employee share ownership plan;
- decreases from:
  - the negative €2,011 million in free cash flow, after the investment of €3,255 million in acquisitions,
  - the payment of €648 million in dividends,
  - the outlay of €75 million for share buybacks during the year.

2.4.9 EQUITY

Including translation adjustments for a negative €57 million, **consolidated equity** increased by €963 million to €12,167 million at December 31, 2018 from €11,261 million a year earlier, primarily as a result of the following factors:

- increases:
  - €1,562 million in comprehensive income for the year, including:
    - net income of €1,660 million,
    - the €30 million unfavorable impact of actuarial gains and losses, after deferred taxes,
    - the €57 million negative impact from the translation of foreign currencies,
    - an aggregate €11 million net decrease from other factors,
  - €58 million in proceeds from the issue of 974,876 new shares on the exercise of stock options and as part of the employee share ownership plan,
  - €7 million in service costs on performance share-based payment plans,
  - €2 million in other favorable items;
- decreases:
  - €648 million in dividends and other distributions,
  - €75 million committed to the buyback and cancellation of 648,231 Michelin shares under the shareholder-approved plan.

At December 31, 2018, the **share capital** of Compagnie Générale des Établissements Michelin stood at €359,695,264, comprising 179,847,632 shares corresponding to 246,076,593 voting rights.

2.4.10 NET DEBT

Net debt stood at €3,719 million at December 31, 2018, up €3,003 million from December 31, 2017, mainly as a result of the following factors:

- the net use of €2,703 million in cash, including:
  - €2,011 million in negative free cash flow for the period,
  - €692 million in dividends, net share buybacks and other outlays;
- €1 million in positive translation adjustments;
- the €203 million impact of changes in the scope of consolidation, of which Fenner accounted for €196 million;
- €98 million in other factors increasing net debt, of which:
  - €65 million corresponding to new finance leases,
  - €33 million in other factors increasing net debt.

CHANGES IN NET DEBT

(in € millions)	2018	2017
At January 1	**716**	**944**
Free cash flow[(1)]	+2,011	-662
Distributions and other	+648	+651
Interest expense on the zero-coupon convertible bonds	+0	-193
Translation adjustments	-1	-227
Other	+345	+203
AT DECEMBER 31	**3,719**	**716**
CHANGE	**+3,003**	**-229**

(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 rose to 31% at December 31, 2018 from 6% at year-end 2017, due to the heavy cash outflows over the year to finance the acquisitions of Fenner, Camso and the stake in the TBC joint venture.

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 €1,315 million, versus €1,676 million at December 31, 2017. Excluding the currency effect, they declined €369 million year-on-year, mainly reflecting the impact of commitments undertaken as part of the reorganization and alignment of the Group's operations in Europe, as well as the recognition in current liabilities of a portion of the 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	2018	2017
At January 1	**2,149**	**1,820**	**3,969**	**4,763**
Translation adjustments	9	14	23	(180)
Contribution paid to the funds	(189)	-	(189)	(190)
Benefits paid directly to the beneficiaries	(33)	(107)	(140)	(154)
Changes in scope of consolidation	27	(6)	21	-
Net cost recognized in operating expenses				
Current service cost	47	60	107	107
Actuarial (gains) or losses recognized on other long term benefit obligations	-	(5)	(5)	-
Past service cost resulting from the introduction of new plans or plan amendments	40	14	54	(56)
Past service cost arising from plan curtailments and settlements	(13)	(8)	(21)	(183)
Effect of any plan settlements	-	-	-	-
Other items	13	-	13	13
Net cost recognized in operating expenses				
Net interest on net defined benefit obligation (asset)	43	46	89	115
Costs recognized in other comprehensive income				
Actuarial (gains) or losses	(11)	(76)	(87)	(296)
Portion of unrecognized asset due to the application of the asset ceiling	16	-	16	30
NET OBLIGATION AT DECEMBER 31	**2,098**	**1,752**	**3,850**	**3,969**

The net defined benefit obligation recognized in the consolidated balance sheet at December 31, 2018 stood at €3,850 million, a decrease of €119 million that reflected the following main factors:

- actuarial gains of €(87) million, mainly due to:
  - an actual rate of return on plan assets that was lower than the discount rate, for €284 million,
  - the change in actuarial assumptions, for €(335) million, and experience gains for €(36) million;
- a €33 million increase from plan amendments, curtailments or settlements, primarily consisting of the €33 million decrease on GMP equalization-related amendments to the pension scheme in the United Kingdom, an €11 million decrease from the change in value of a disability insurance plan in the United States, and a €(16) million gain on an adjustment to the early retirement plan in France;
- a net €21 million in pension plan obligations acquired with Fenner in 2018;
- €(113) million in a supplemental contribution in addition to the normal contributions to the UK pension plan;
- €23 million in translation adjustments, primarily due to the increase in the US dollar against the euro.

The amount recognized in the income statement in respect of defined benefit plans represented an expense of €237 million in 2018, versus a gain of €4 million in 2017.

The amount recognized in operating income represented an expense of €148 million, compared to €120 million in 2017. Net interest on the net defined benefit obligation, reported below the line, represented an expense of €89 million in 2018, versus €115 million in 2017.

The cost recognized in respect of defined contribution plans amounted to €223 million in 2018, up €3 million year-on-year.

Total payments under defined benefit plans amounted to €329 million in 2018, versus €344 million the year before, including:

- contributions paid to fund management institutions for €189 million (2017: €190 million);
- benefits paid directly to employees for €140 million (2017: €154 million).

Contributions paid by the Group for defined contribution plans totaled €223 million in 2018, versus €220 million in 2017.

Actuarial gains recorded in 2018 in the amount of €(87) million corresponded to:

- €(266) million in actuarial gains on defined benefit obligations, resulting mainly from the increase in discount rates;
- €(69) million in actuarial gains on defined benefit obligations, mainly resulting from revised mortality tables and inflation rates;
- €(36) million in experience gains on defined benefit obligations;
- actuarial losses on plan assets in the amount of €284 million, due to an actual rate of return on plan assets that was lower than the discount rate.

2.5 CONSOLIDATED CASH FLOW STATEMENT REVIEW

2.5.1 CASH FLOWS FROM OPERATING ACTIVITIES

(in € millions)	2018	2017	Change
Segment EBITDA	**4,119**	**4,087**	**+32**
Change in inventories	4	(311)	+315
Change in trade receivables and advances	(52)	(317)	+265
Change in trade payables and advances	(124)	404	-528
Restructuring cash costs	(172)	(100)	-72
Other changes in provisions	(241)	(246)	+5
Tax and interest paid	(679)	(936)	+257
Other trade working capital	(24)	160	-184
CASH FLOWS FROM OPERATING ACTIVITIES	**2,831**	**2,741**	**+90**

At €4,119 million, segment EBITDA was up €32 million year-on-year, led by the increase in segment operating income (to €2,775 million from €2,742 million in 2017), with depreciation and amortization charges holding steady for the year.

Cash flows from operating activities rose by €90 million, to €2,831 million from €2,741 million in 2017, primarily as a result of:

- the €32 million increase in EBITDA;
- the negative impact of the change in trade working capital, which made an increase of €196 million during the year, compared with an increase of €64 million in 2017. This reflected:
  - the €4 million decrease in inventories, versus a €311 million increase in 2017, primarily due to the deconsolidation of TCi (which was not offset by the consolidation of Fenner) and, to a lesser extent, the decline in semi-finished product inventory during the year,
  - the €52 million increase in trade receivables and advances, compared to a €317 million increase in 2017, led by the combined impact of the deconsolidation of TCi and the consolidation of Fenner,
  - the €124 million increase in trade payables, versus a €404 million decrease in 2017, essentially because of the decline in raw materials costs recognized in trade payables;
- the increase in costs related to the reorganization and realignment of business operations, to €172 million from €100 million in 2017;
- a decrease in tax and interest paid during the year, to €679 million from €936 million in 2017;
- the change in the other trade working capital items had a negative impact of €24 million. The €160 million positive impact in 2017 mainly reflected the one-time effects arising from deferred payments or reimbursements of various taxes and employee-related liabilities.

2.5.2 CAPITAL EXPENDITURE

(in € millions)	2018	2017	2018/2017	2018 *(as a % of sales)*	2017 *(as a % of sales)*
Gross purchases of intangible assets and PP&E	**1,669**	**1,771**	**-102**	**7.6%**	**8.1%**
Investment grants received and change in capital expenditure payables	48	(103)	+151	0.2%	0.5%
Proceeds from sales of intangible assets and PP&E	(100)	(65)	-35	0.5%	0.3%
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**1,617**	**1,603**	**+14**	**7.3%**	**7.3%**

Additions to **intangible assets and property, plant and equipment** amounted to €1,669 million during the year, compared with €1,771 million in 2017. As a result, total capital expenditure represented 7.6% of sales versus 8.1% in 2017. Growth investments accounted for €617 million of the total for the year.

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

Automotive tires:

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

Road transportation tires:

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

Specialty products:

- Agricultural tires,
- Aircraft tires.

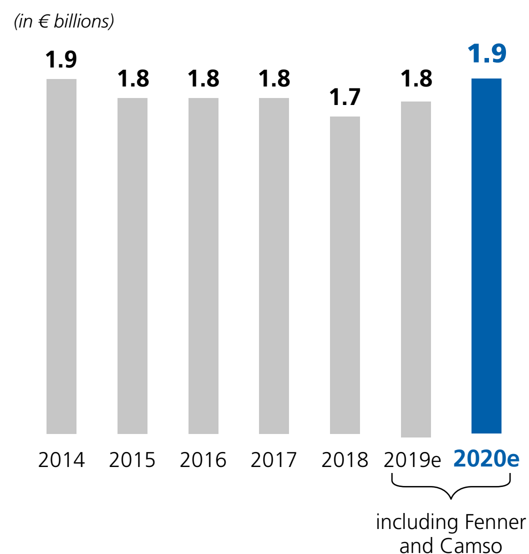
In addition, Michelin is actively investing in the following areas:

- fast-growing markets, such as premium Automotive 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.

CAPITAL EXPENDITURE

(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)	2018	2017
Cash flows from operating activities	**2,831**	**2,741**
Routine capital expenditure (maintenance, IT, dealerships, etc.)	(1,052)	(1,032)
AVAILABLE CASH FLOW	**1,779**	**1,709**
Growth investments	(617)	(739)
Acquisitions	(3,225)	(476)
Other	52	168
FREE CASH FLOW	**(2,011)**	**662**

After deducting €1,052 million in routine capital expenditure, available cash flow was strongly positive in 2018, at €1,779 million.

Free cash flow ended the year at a negative €2,011 million, after €617 million in growth investments and €3,225 million in acquisitions, primarily in such areas as tires (Camso, Fenner – Engineered Conveyor Systems), distribution (50% of TBC) and high-tech materials (Fenner – Advanced Engineered Products).

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)	2018	2017
FREE CASH FLOW	**(2,011)**	**662**
Acquisitions	3,225	476
FREE CASH FLOW EXCLUDING ACQUISITIONS & DISPOSALS	**1,214**	**1,138**
Impact of raw materials costs on working capital	60	178
Interest paid on the zero-coupon OCEANE 2017 convertible bonds	0	193
STRUCTURAL FREE CASH FLOW	**1,274**	**1,509**

2.6 RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving an annual return on capital employed (ROCE) after tax and excluding goodwill, acquired intangible assets and associates & joint ventures, 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 26%, corresponding to the Group's average effective tax rate;
- divided by the average economic assets employed during the year (excluding associates and joint ventures), *i.e.*, all of the Group's intangible assets (excluding acquired 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)	2018	2017
Segment operating income	2,775	2,742
Average standard income tax rate used for ROCE calculation	26%	31%
Net operating profit after tax (NOPAT)	**2,053**	**1,892**
Intangible assets and property, plant and equipment	11,379	11,668
Loans and deposits	76	74
Total non-current financial assets	13,684	11,742
Working capital requirement	2,640	2,708
Economic assets at December 31	14,867	14,450
Average economic assets	**14,661**	**15,172**
Consolidated ROCE	**14.0%**	**13.0%**
Passenger car/Light truck tires & related distribution ROCE	14.4%	13.4%
Truck tires & related distribution ROCE	11.4%	7.6%
Specialty businesses & related distribution ROCE	18.4%	23.8%

Given the evolution in the US tax law, the standard tax rate is reduced to 26%. In 2017, the ROCE based on a 26% tax rate is 14.0%.

2.7 TREND INFORMATION

2.7.1 OUTLOOK

In 2019, the Passenger car and Light truck tire markets are expected to be mixed, with modest growth in the Replacement segment and a contraction in the Original Equipment segment. Truck tire markets are expected to remain stable overall, given the decline in demand in China, while the Mining, Aircraft and Two-wheel tire markets should remain dynamic. Based on January 2019 exchange rates, the currency effect is expected to have a slightly favorable impact on segment operating income. The impact of raw materials costs is currently estimated at around a negative €100 million.

In this environment, Michelin's objectives for 2019 are: volume growth in line with global market trends; segment operating income exceeding the 2018 figure at constant exchange rates and before the estimated €150 million contribution from Fenner and Camso; and structural free cash flow of more than €1.45 billion [(1)].

(1) Of which €150 million from the application of IFRS 16.

2.7.2 PROFIT FORECASTS OR ESTIMATES

No precise earnings or operating margin forecasts or estimates have been issued for 2019.

In light of the trend information provided in section 2.7.1, any previously issued targets for 2019 do not take into account the current economic environment and are not achievable this year.

2.7.3 RECENT EVENTS

Michelin acquires leading Indonesian tire manufacturer PT Multistrada Arah Sarana TBK

On January 22, 2019, Michelin announced that, in line with its strategy, it had signed an agreement to acquire 80% of PT Multistrada Arah Sarana TBK ("Multistrada"), a tire manufacturer based in Indonesia. With a production capacity of more than 180,000 tonnes (*i.e.,* 11 million Passenger car tires, 9 million Two-wheel tires and 250,000 Truck tires), Multistrada reported net sales of USD 281 million in 2017. With this transaction, Michelin will strengthen its presence in the highly promising but local-production dominated Indonesian market by acquiring a very competitive local plant with good quality facilities and immediately available production capacity. Leveraging its technical expertise, with limited new investment, Michelin will gradually convert production from Tier 3 passenger car tires to Tier 2 Michelin Group brands, thereby allowing more Tier 1 production at other Asian plants and supporting growing demand for Tier 2 volumes in Europe, North America and Asia.

As part of the transaction, Michelin will acquire a 20% stake in the retailer PT Penta Artha Impressi ("Penta") in partnership with Indomobil and private investors. This will boost the marketing and sales of Michelin Group brands in Indonesia, allowing Michelin to secure significant access to a major market and be well placed to benefit from the market's future growth and expansion.

Potential synergies in manufacturing, sales and purchasing are expected to represent up to USD 70 million per year within three years of the acquisition. Multistrada, including the 20% stake in retailer PT Penta and 50 hectares of available land, has been valued at an enterprise value of USD 700 million, representing 6.3 times EBITDA for the 12 months ended September 30, 2018, after expected synergies.

On the 8th of March, Michelin announced that he had acquired 88% of Multistrada for a total amount of USD 480 million. As Multistrada is a publicly listed company, and pursuant to Indonesian regulations, Michelin launched the same day a public offer for the remaining outstanding shares, at the same price per share as that offered for the 88% acquired.

Jean-Dominique Senard becomes Chairman of Renault and will continue to serve as CEO of Michelin until his term expires in May 2019

January 24, 2019 – With the full backing of all participants in Michelin's governance system, Jean-Dominique Senard, Managing Chairman of the Michelin Group, has agreed to become Chairman of the Board of Directors of Renault, effective January 24, 2019. Jean-Dominique Senard will continue to serve as Managing Chairman of the Michelin Group until his term expires in May 2019.

The Group's leadership transition announced in February 2018 has been underway since May 2018. With the handover just a few weeks away, Florent Menegaux, Manager and future Managing Chairman of Michelin, has already taken on an increasingly significant role in steering the Group, in seamless coordination with Jean-Dominique Senard.

To ensure that the transition proceeds in line with the most rigorous ethical standards, special procedures will be implemented at Michelin.

In addition, Jean-Dominique Senard has asked that the compensation policy applicable to him at Michelin during this time should take into account the fact that he will be holding two positions simultaneously, thus calling for a reduction in his compensation.

Florent Menegaux will succeed Jean-Dominique Senard as head of Michelin as planned following the Group's Annual Shareholders Meeting to be held on May 17, 2019 in Clermont-Ferrand, France.

Michelin and Faurecia to create a global leader in Hydrogen mobility

March 11, 2019 - Michelin, world leader in tyres and sustainable mobility, and Faurecia, technology leader in the automotive industry, announced the signature of a Memorandum of Understanding to create a joint venture bringing together all of Michelin's fuel cell related activities - including its subsidiary Symbio – with those of Faurecia.

Symbio, a Faurecia Michelin Hydrogen company will be owned equally by Faurecia and Michelin. This French joint venture, built around a unique ecosystem, will develop, produce and market hydrogen fuel cell systems for light vehicles, utility vehicles, trucks and other applications.

Faurecia and Michelin are convinced of the importance of hydrogen technology in tomorrow's world of zero emissions mobility and of the need to create a strong French and European hydrogen industrial sector. The two companies aim to create a world leader in hydrogen fuel cell systems through combining existing and complementary assets from both partners in the joint-venture. This will enable the joint venture to immediately offer a unique range of hydrogen fuel cell systems for all use cases.

For electric vehicles, fuel cell technology complements battery technology, especially in those use cases requiring very intense use and greater autonomy. Furthermore, fuel cell technology has recently been selected by the European Union as one of Europe's six Important Projects of Common Interest.

Michelin's contribution to this joint venture will be the activities of Symbio - a Group subsidiary since 1 February 2019 and a supplier of hydrogen fuel cell systems associated with a range of digital services - as well as research & development and production activities.

Faurecia will contribute the technological fuel cell expertise it has developed through a strategic partnership with the CEA, its industrial know-how and its strategic relationships with car manufacturers. Faurecia will continue its development of high-pressure hydrogen tanks in partnership with Stelia Aerospace Composites, which will also benefit the joint venture.

The cooperation between Michelin and ENGIE, a global energy and services group, for the development of a hydrogen ecosystem, in particular in the field of hydrogen mobility, will also benefit the joint venture.

The agreement between Michelin and Faurecia was signed today **in the presence of Agnès Pannier-Runacher, Secretary of State at the French Ministry for Economy and Finance**. This operation is subject to the approval of the competent merger authorities.

Florent Menegaux, Managing General Partner and future President of the Michelin Group explains: "This innovative partnership will facilitate the emergence and development of hydrogen mobility: it opens the way to a new form of sustainable mobility. I welcome the alliance between Michelin and Faurecia, incorporating our strategic asset Symbio. The ultimate aim is to develop a complete mobility offer for hydrogen vehicles, from fuel cells to maintenance services."

Patrick Koller, Managing Chairman of Faurecia says: "I am very pleased to have signed this strategic agreement with Michelin with a view to creating the world leader in hydrogen mobility. Our shared vision, as well as the complementarity of our technological know-how, will accelerate the market launch of efficient fuel cell systems adapted to different use cases. Our joint ambition is to create a centre of excellence for hydrogen mobility in France through the gradual combination of our activities."

2.8 HIGHLIGHTS

2.8.1 STRATEGY

Michelin and Sumitomo Corporation create the second-largest wholesale player in the U.S. and Mexico

(January 3, 2018) – Michelin North America Inc. (MNAI) and Sumitomo Corporation of Americas (SCOA) announced the decision to merger their respective North American replacement tire distribution and related services into a 50-50 joint venture, forming the second-largest player in the wholesale tire market in the United States.

Successful non-dilutive convertible bond issuance for a nominal amount of $600 millions

(January 5, 2018) – Michelin announced the issue of new non-dilutive convertible bonds available to be settled on January 10, 2023 for a nominal amount of $600 million. The bond is redeemable for payment in monetary terms only. It is not intended that new shares be issued nor that existing shares are distributed against these bonds.

Mobivia joins forces with Michelin to drive further growth in A.T.U. (Auto-Teile-Unger)

(February 12, 2018) – Mobivia, the European leader in multi-brand vehicle servicing and parts, has joined forces with world leading tire manufacturer Michelin, which has acquired a 20% minority stake in A.T.U. for a total amount of €60 million. Mobivia and Michelin combine their expertise in their respective historical markets in order to improve the customer experience and support the development of A.T.U. in Germany, Austria and Switzerland.

Enforcement of the partial share buyback agreement

(February 14, 2018) – The Compagnie Générale des Établissements Michelin called in an Investment Service Provider to handle its €75 million maximum) share buyback program. The operation was approved by the Annual Shareholders Meeting on May 19, 2017. The shareholders also approved a share purchase price cap. The average price is determined objectively and independently by the market. The operation took place between February 15 and November 22, 2018. The redeemed shares have all been canceled.

CFAO teamed up with Michelin to market premium quality tires in Kenya and Uganda

(March 21, 2018) – CFAO and Michelin announced a joint venture arrangement owned 51% by CFAO and 49% by Michelin to support the importation and distribution of top of the range tires into two countries that total population reaching nearly 90 million. The objective of this joint venture is to provide our partners with immediate solutions to develop markets and to offer consumers high quality products and services. The governance is equally divided between CFAO and Michelin.

Succession plan for Jean-Dominique Senard

(May 18, 2018) – The mandate of the current Managing Chairman, Jean-Dominique Senard, terminates after the 2019 AGM. The Annual Shareholders Meeting of May 18, 2018, acted the election of Florent Menegaux as Managing General Partner. He will succeed Jean Dominique Senard as Managing Chairman at the end of the current mandate. Yves Chapot was nominated as General Manager. He will become Chief Financial Officer on July 31, 2019.

Acquisition of Fenner Plc, the global leader in industrial belting and reinforced polymer-based products

On May 31, 2018, the announcement was made that Michelin's buyout of all the Fenner Plc shares as part of a scheme of arrangement under English law was complete. This means that Fenner is now a wholly-owned subsidiary of the Michelin Group. This acquisition is aligned with Michelin's strategy to tap into the fast-growing high-tech materials market, which will be a springboard for value creation in the coming years.

Michelin has acquired Truckfly, an app which makes life easier for truck drivers

(July 26, 2018) – Truckfly is a free app which is very popular with the European trucker community. It offers an extremely comprehensive listing of Points of Interest (POI) including roadside cafes, parking lots and filling stations. Michelin is determined to offer truck drivers a better and safer mobility experience thanks to suggested itineraries which include rest areas and places to fill up on fuel and food.

Michelin has announced that its €2.5 billion bond issue was a success

(August 29, 2018) – Michelin has placed a three-tranche bond offering valued at €2.5 billion comprising tranches with 7-, 12- and 20-year maturities. This operation is part of Group strategy to actively manage its debt and strengthen its liquidity. The net proceeds will be used to meet general corporate financing requirements.

Michelin has announced the launch of a new employee share ownership scheme

(September 17, 2018) – The company intends raise capital up to a maximum ceiling of 600,000 shares. These new shares will be treated as existing shares. The new employee share ownership scheme enables employees of the Michelin Group to subscribe on preferential terms reserved for employees to a capital increase. The subscription, payment and corporate top-up terms are laid down in the related documentation.

Michelin announces a new acquisition of Klinge IT Business

(September 26, 2018) – Through the acquisition of Klinge IT, specialist in software solutions for mining tire management, the Mining Business Line is enhancing its service offer and bringing ever more integrated solutions to their customers. Michelin already offers a connected tire management system: MEMS®4. This acquisition confirms Michelin's overall strategy to put the customer at the heart of its ground breaking innovation to become a leader in the development of future integrated solutions.

The Michelin Man "Icon of the Millennium"

(October 2, 2018) – The American magazine *Adweek,* the leading US weekly newspaper for marketing and global advertising awarded the Millennium Icon Award to the world famous Michelin Man in New York. For more than 120 years, the Michelin Man has been cultivating a real capital of sympathy and proximity between the brand and its customers. This award is a perfect birthday present as the Michelin Man celebrates its 120th birthday this year.

Michelin announces its intention to close its Dundee site in the United Kingdom in 2020

(November 5, 2018) – The Dundee site, which exclusively manufactures 16-inch and smaller MICHELIN brand tires for cars, has faced a structural decline in the demand in this segment and an increase in the offer of low-cost, entry-level products produced in Asia. The accelerated market transformation has made the plant unsuitable and its conversion is not financially viable. The Group has had to announce its intention to close the Dundee factory by mid-2020. The priority now is to provide the 845 employees of the factory with the most effective support possible to enable them to face the consequences of this difficult decision. To finance this operation, the Michelin Group has recorded a provision of €155 million in non-recurring expenses in its consolidated financial statements as of December 31, 2018.

A new synthetic rubber plant for the Group

(November 29, 2018) – Located in Indonesia, this new plant, PT Synthetic Rubber Indonesia (SRI), is a joint venture between the Michelin group (55%) and an Indonesian partner PT Chandra Asri Petrochemical Tbk (CAP) (45%). With this new plant, the growing demands both of the Group and also of the Indonesian and international markets for synthetic rubbers with high added value will be met, and the growth of its "green tires" guaranteed.

Michelin acquires Tablet

(December 3, 2018) – Headquartered in New York, Tablet is an online travel agency specializing in luxury hotels which offer guests original high quality experiences. Today the Tablet selection counts 3,500 hotels all around the world. 52% of Tablet's customers are North American. The ambition of this alliance with Michelin is to conquer wider and more diverse audiences geographically by extending existing offers and building new ones.

Michelin completes the acquisition of Camso, thus strengthening its global leadership position in the specialty businesses

(December 18, 2018) – Michelin today completed the acquisition of Camso, leader in tracks and track systems. A total consideration of US$1.36 billion was paid for the acquisition. By joining forces with Camso, Michelin will create the world's number one OTR market player and is perfectly aligned with the Michelin Group's strategy to branch out into growth areas in tires and services. Headquartered in Quebec, the new entity will be supported by 26 plants and will have approximately 12,000 employees.

2.8.2 PRODUCTS – INNOVATION – SERVICES

2.8.2 a) Automotive and related distribution

Launch of the MICHELIN Primacy 4 in Europe

(January 2018) – The new MICHELIN Primacy 4 high-performance summer tire is the latest addition to the PRIMACY range. Thanks to latest generation high-performance elastomers, the MICHELIN Primacy 4 is able to provide outstanding wet braking performance from the first to the last mile, without compromising tire longevity. Michelin puts its principles into practice with the new MICHELIN Primacy 4, a tire which is safe when new and safe when worn, right down to the tread wear indicator.

Michelin has launched the MICHELIN X Ice North[4] studded tire for the Nordic and Russian markets

(May 18, 2018) – The MICHELIN X Ice North[4] range offers studded tires which are ideal for use in Eastern Europe and the Nordic countries. They are designed to withstand extreme conditions (snow, ice, dry or wet roads), winters lasting as long as six months and temperature variations between +10°C and -50°C while continuing to offer excellent acceleration and braking on the snow. This tire also ensures a smoother and quieter ride on snow-free roads.

MICHELIN and Maxion Wheels have won a CLEPA 2018 Innovation Award for the ACORUS Flexible Wheel

(June 18, 2018) – The ACORUS Flexible Wheel came third in the "Cooperation" category of the award. This innovation is the result of cooperation between tire leader Michelin and Maxion Wheels, the world's largest wheel manufacturer. This new patented technology consists of two flexible rubber expanders mounted on a special rim creating a flexible wheel which offers a smoother ride by absorbing shocks from potholes and curbs.

The first fully networked car tires solution, MICHELIN Track Connect, has won the 2018 Innovation Award at the "Tire Cologne" trade fair

(June 18, 2018) – When partnered with the high-performance MICHELIN Pilot Sport Cup2 tire, MICHELIN Track Connect provides the driver with valuable real-time information on tire pressure and temperature via sensors embedded in the tires. The app makes recommendations for pressure adjustment boosting the driver's track performance. Thanks to MICHELIN Track Connect, tires are smart-phone connected giving our customers a whole new driving experience.

Michelin has received in Singapore the "Best of the Best" award from Red Dot for its VISION concept

(September 28, 2018) – Red Dot, the most prestigious design awards in the world, awarded the "Best of the Best" prize to the VISION concept: a customizable, rechargeable, adaptable and ecological tire that breaks the mould. The VISION concept proposes a tire combined with revolutionary services for a new mobility solution. VISION is the demonstration of our 4R strategy (Reduce, Reuse, Recycle and Renew), the Michelin Group's operational adaptation of the circular economy concept.

Michelin has launched the MICHELIN Alpin 6: a winter tire with longlasting performance

(October 2, 2018) – The new MICHELIN Alpin 6 winter tire for the European market offers car drivers excellent traction, acceleration and braking performances on the snow, thus allowing drivers to travel whatever the weather. It boasts 20% longer life than other premium brand tires. This excellent performance – both when new and worn – is guaranteed by the tread pattern with grooves that emerge and widen as the tire wears.

2.8.2 b) Road transportation and related distribution

MICHELIN has extended its CrossClimate range into the light truck and utility vehicles market

(February 22, 2018) – Michelin has extended its award-winning CrossClimate range with the launch of the MICHELIN Agilis CrossClimate. Light truck and utility vehicles is a fast-growing sector, enjoying a boom in new vehicle sales. The new Agilis CrossClimate is the forerunner of a new generation of high-performance tires. It is an all seasons tire offering high mileage, damage resistance and reliable performance on all types of road surface.

Michelin solutions' App, MyBestRoute, wins the SITL, Technology and Information Systems Innovation Award

(March 22, 2018) – On the occasion of the 18th edition of the Logistics Innovation Awards, SITL (*Salon International du Transport et de la Logistique*) declared Michelin solutions' application MyBestRoute as the winner in the Technologies and Information Systems category. Dedicated to transport professionals for Fleet Operations Managers this web app aims to calculate routes and all associated costs. The services we co-develop with our customers reveal real needs expressed by professionals for improving their global performance and cutting operating costs.

MICHELIN X Multi Energy: a tire dedicated to fuel-saving

(April 10, 2018) – Michelin has launched the X Multi Energy tire as a companion tire to the X Multi to address the regional haulage sector. Companies can choose the right tire for their needs: either preferring low fuel consumption (X Multi Energy) or long lifespan (X Multi). The X Multi Energy tire benefits from three innovative patented technologies: Infinicoil, Regenion and Powercoil.

2.8.2 c) Specialty businesses and related distribution

/ Two-wheel tires

The MICHELIN Road 5 motorcycle tire: long-lasting performance thanks to 3D metal printing

(February 22, 2018) – The new MICHELIN Road 5 packs in the latest innovations for outstanding performance on the road: MICHELIN ACT+ active casing technology with optimized rubber compounds and MICHELIN XST Evo progressive sipes. Metal additive manufacturing is a totally digital process used to shape the sipes of the MICHELIN Road 5 tire curing molds. This new technology offers bikers tiptop performance throughout the tire's lifetime even after traveling thousands of miles.

The new MICHELIN Anakee Adventure tire has been approved for fitment to the BMW R 1250 GS

(October 31, 2018) – BMW Motorrad and Michelin reinforce their collaboration in a spirit of mutual trust. The new MICHELIN Anakee Adventure which is designed for 80% road use and 20% track/trail use means it now covers an even wider spectrum of trail biker needs. The MICHELIN Anakee Adventure stands out notably through its exceptional grip on wet roads due to its new generation silica-enhanced compound. It also combines outstanding performance in dry weather with stability and resistance to wear thanks to two Michelin-patented technologies: MICHELIN Dual Compound 2CT and MICHELIN Dual Compound 2CT+.

/ Aircraft tires

MICHELIN PILOT, a high-performance bias tire specially designed for piston and turbo-prop aircraft engines

(July 24, 2018) – The new MICHELIN Pilot was unveiled at the Oshkosh AirVenture air show in the US. The MICHELIN Pilot offers state-of-the-art features: a reinforced tread for more landings and a lightweight design for increased fuel efficiency. High Tech components providing ozone and UV light protection are incorporated into the tire to ensure safe takeoffs and landings in all weathers.

/ Experience

First MICHELIN guide for the city of Guangzhou

(June 26, 2018) – Michelin published its first guide of Guangzhou listing 63 restaurants which reflect the diversity and quality of Cantonese cuisine which combines time-old expertise and authentic local ingredients. Michelin is continuing to increase its global coverage. The Guangzhou guide is the ninth Asian and fourth Chinese guide to be published.

2.8.3 SUSTAINABLE DEVELOPMENT

Total and Michelin join forces to launch an ambitious worldwide road safety education program targeting 10-18 year-olds

(May 30, 2018) – Total and Michelin, leading players in global mobility, are launching a major road safety education program for 10-18 year-olds via their corporate foundations. This project, developed with the support of the Global Road Safety Partnership, aims to reach 100,000 young people over a three-year period. The Total Foundation and the Michelin Corporate Foundation have decided to contribute €1.5 million jointly to this initiative.

In 2048, MICHELIN's tires will be made using 80% sustainable materials 100% of tires will be recycled

(May 31, 2018) – Michelin tires are currently made using 28% sustainable materials (26% bio-sourced materials like natural rubber, sunflower oil, limonene etc., and 2% recycled materials such as steel or recycled shredded tires). Michelin is investing in advanced technologies and materials to be able to increase this content to 80% sustainable materials. Michelin is also developing partnerships to identify new ways to recycle tires, or new outlets for recycled tires.

MOVIN'ON 2018 - Eco-conscious business leaders and innovative decision-makers convened in Montreal for the second Global Sustainable Mobility Summit

(June 1, 2018) – Tomorrow's major mobility challenges can only be solved by joint action by a global community of stakeholders. The purpose of Movin'On, the Sustainable Mobility Summit, is to foster partnerships and capitalize on experience. It is gaining in importance every year.

Michelin presents sustainable mobility at the 2018 Paris Motor Show

(October 2, 2018) – Sustainable mobility is a matter of pressing concern for everyone on the planet today, at the start of the 21st Century. Michelin's R&D team is constantly innovating to find sustainable solutions and subjects our tires to stringent testing so that consumers can safely use them right up to the last mile. The entire Michelin community, including its 6,000-strong research staff, is striving to make safe, environmentally-friendly, efficient and affordable mobility a reality for everybody.

2.8.4 COMPETITION

MotoGP™: Marc Márquez earns Michelin's 400th premier class win at Jerez

(May 6, 2018) – Michelin's 400th premier class victory is further evidence of its motorcycle racing pedigree which has spawned numerous technical breakthroughs since its top-flight debut in 1973. Examples of its pioneering innovations include the introduction of slicks in 1974, radial tires in 1984, silica-based compounds in 1992, dual-compound technology in 2004 and AST (Asymmetric Technology) which, over the decades, have helped 48 different riders to celebrate victory at GP500/MotoGP level.

Volkswagen and Michelin smash the record for Pikes Peak!

(June 24, 2018) – Volkswagen called on the services of its partner Michelin to provide the rubber for its new all-electric prototype. Michelin rose to the challenge with specific tires featuring advanced technology and Frenchman Romain Dumas steered the I.D.R. to a new record for the Colorado 'Race to the Clouds': 7m57.148s!

New-generation MICHELIN Pilot Sport for Season 5 of the ABB FIA Formula E Championship

(December 15, 2018) – Formula E's futuristic Gen2 all-electric single-seaters, which boast superior power and longer range compared with their predecessors, race on Michelin's latest Formula E tire. Not only is the new MICHELIN Pilot Sport lighter but it is also more energy efficient and makes a real contribution to the cars' extended range with no detriment to either performance or driver safety – a perfect example of how Michelin races today for tomorrow's mobility.

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, liability, accidental pollution and cyber risk 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,
  - service liability for the marketing and services companies,
  - general business liability, offering direct coverage in European Union countries and countries where the Group operates manufacturing facilities, and umbrella coverage in excess of local cover in all other countries;
- a "pollution" program provides environmental liability coverage;
- a "cyber risk" insurance program covers damages (including additional operating costs) as well as damages to third parties, with a combined limit of €200 million per year.

These programs apply to all Group companies, including Fenner and Camso as from their acquisition date.

/ 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 USD 20 million per claim and USD 40 million per year;
- product recall expenses, with limits of USD 25 million per claim and USD 50 million per year;
- cyber security risks, with a €5 million limit per claim and per year.

At constant scope of consolidation (excluding acquisitions) and including premiums paid to the captive insurance and reinsurance company, aggregate premiums amounted to €59.5 million in 2018, a decline of €5 million from 2017 despite notable coverage improvements and, in particular, a higher limit for cyber risks.

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 core business consists in selling, to vehicle manufacturers, dealer networks and end-users, tires for passenger cars, vans and trucks, as well as specialty products, including tires for earthmovers, mining equipment, farm machinery, two-wheel vehicles and aircraft, conveyor belts and high-technology reinforced polymer products.

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 Managing Chairman 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 Managing Chairman 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 Managing Chairman 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.

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 like Euromaster in Europe making only a limited contribution to sales. 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 about 40% of consolidated purchases in 2018, 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 2018 production volumes, the sensitivity of cash purchasing outlays to fluctuations in natural rubber and oil prices is as follows:

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

Raw materials costs for 2015, 2016 and 2017	2016	2017	2018
In € millions	4,316	5,172	4,913
As a % of sales	20.6%	23.6%	22.3%
Of which:			
Natural rubber	25%	28%	25%
Synthetic rubber	25%	26%	25%
Reinforcing agents	17%	16%	18%
Chemicals	15%	14%	15%
Metal cables	10%	9%	10%
Textiles	8%	7%	7%

/ 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 2018, the rise in the cost of raw materials used in production had a €158 million adverse effect, resulting in a net positive impact of €304 million, versus the €444 million positive price-mix impact.

Margins on certain fixed-price sales contracts have been protected using short-term futures. At December 31, 2018, these futures had a negative fair value of €1 million, recorded in assets. This compares with the €4.9 billion cost of raw materials used in production in 2018 (see note 16.3 to the consolidated financial statements).

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

Operational risks have been classified as level 1 or level 2, depending on their criticality. Criticality is determined on the basis of residual risk (after taking into account the impact of all risk management procedures in place), consolidating all of the individual risks that make up each of the overall operational risks described below.

2.9.3 a) Ethical risk

Risk level 2

/ 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 several times a year under the responsibility of the Head of Human Ressources. Its members include the Heads of the Finance, Purchase, Legal Affairs, Safety and Security, Development and Sustainable Mobility, Supply Chain, Quality, Audit, Risk and Internal Control 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 level 1: Michelin employs more than 110,000 people, the majority of whom work in its manufacturing operations

/ Risk factors

Michelin directly employs 117,400 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, Group employees and temp agency workers face a very diverse array of risks and obligations, depending on whether they work in a production plant or an office, on the road or behind a desk. For example, shopfloor 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.

Office-based, nomad and sales personnel are exposed to:

- risks related to business travel (accidents and health risks);
- psychosocial risks.

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 6.4.2.

2.9.3 c) Environmental risk

Risk level 1: As an industry leader in sustainable development and a company sensitive to the aspirations of its stakeholders, Michelin is highly committed to managing its environmental risks

/ 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 2018, the review showed that the Michelin site Environmental Footprint indicator was 50.7% 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 identifies the risks and opportunities associated with climate change in its annual disclosures to the CDP (formerly the Carbon Disclosure Project). The information submitted in response to the recommendations issued on June 29, 2017 by the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures may be found at www.cdp.net/en/responses and in section 6.6.2 j) below. Financial risks have been estimated for various physical and transition risk scenarios, with varying margins of uncertainty. The risks arise from technological and regulatory factors, as well as from changes in markets and social behavior, or the impact of media coverage on the company's image and reputation. To date, the financial risks in these scenarios are not considered to be substantial for the Group's operations.

Any disruptions likely to have an impact on Michelin facilities, suppliers or the natural environment are managed through business continuity plans. The Group considers that changes in mobility and legislation represent an opportunity rather than a risk, as its products and services offer low-carbon mobility solutions. The Group's strategy for combating climate change (see 6.6.2) enables it to anticipate physical, regulatory and multifaceted changes, in particular by giving strategic direction to long-term capital spending plans. In 2018, Michelin was included in the CDP's highest score category – the Climate A List – in recognition of its governance, strategy, risk and opportunity management, reduction in CO_2 emissions and long-term commitment to further reducing its carbon footprint.

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

Risk level 1: Michelin's core business is the manufacture of tires, which are a factor in vehicle safety

/ 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 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

Risk level 2

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 Corporate Finance 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. Regional finance managers oversee the implementation of the Group's financial risk management policies by the finance managers of the companies in their region. 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 Corporate Finance 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 Corporate Finance 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, 2018, 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 33.1.2 to the 2018 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 Corporate Finance 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 ten 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 33.1.3 to the 2018 consolidated financial statements.

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 33.1.4 to the 2018 consolidated financial statements.

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 Strategy 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, please refer to note 33.1.5 to the 2018 consolidated financial statements.

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 33.1.6 to the 2018 consolidated financial statements.

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 Corporate Finance Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for 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 33.1.7 to the 2018 consolidated financial statements.

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 Managing Chairman 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 Regions, while budget controllers report to the heads of the Business 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 Business Lines.

At every interim and annual closing, the Regional 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 Managing Chairman, 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 Corporate 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 Regions and main areas of operation 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;
- mapping the issues for which controls are applied in the different Group organizations;
- overseeing the regional managers and managers of operational areas 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.

In 2017, the worldwide application for monitoring the entire financial internal control process in place since 2009 was upgraded based on a standard commercial software solution. The new application continues to leverage the guidelines and principles defined in previous phases undertaken since 2004. The model will continue to be extended to cover additional processes and 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;
- personnel 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, as defined by the Committee of Sponsoring Organization of the Tradeway Commission: control environment, risks assessment, control activity, information and communication, and internal control management.

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 Regional 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 areas of operation, and to the Regions concerned.

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

2.9.3 f) Business interruption risk

This is a level 1 risk for semi-finished products, whose continuity of supply is critical for a number of finished product plants

/ 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

This is a level 1 risk, because a tire includes more than a hundred different chemicals, some of which are highly specific, and their continuous availability is critical to production

/ 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. The procedures are also designed to anticipate and manage risks more effectively. 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 level 2

/ 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 level 1: Given Michelin's heavy investment in innovation, protecting its expertise is essential to maintaining its technological leadership

/ 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 level 2

/ 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 2018, the percentage of training hours per total hours worked was 3.1%.

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 €10.1 billion as of December 31, 2018, including €7.3 billion in partially or fully funded commitments. At the same date, the related plan assets totaled €6.3 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 level 2

/ Risk factors

By virtue of its size, industry, global footprint and diverse businesses 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 Corporate 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.

For further information on legal and tax risks, please refer to note 29 to the consolidated financial statements, Provisions and other non-current liabilities.

2.9.3 l) Risks relating to data, digital technology, information technology and information systems

This is a level 1 risk, because Michelin, like any organization using information technology, is exposed to the risk of cyber-attacks

/ Risk factors

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

Over the past ten 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) Risks relating to deployment of the Group's strategy

Risk level 2

Major projects

/ 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, the Group recently commissioned a new synthetic elastomer plant 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 metal 3D printing and the MICHELIN EvoBib agricultural tire.

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 manage the risks that may arise on major projects, the Group has deployed both an annual process to allocate the resources required for their successful completion and a governance system for the entire project portfolio. In addition, to ensure consistent implementation, standard project management methods defined at Group-level 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.

Mergers and Acquisitions

/ Risk factors

Several risks are inherent in the mergers and acquisitions process:

- before the signing:
  - risk of overestimating the value of the target,
  - pre-existing ethical, tax, environmental, intellectual property, legal and other risks in the target,
  - risk of market leaks concerning the planned transaction,
  - exchange rate risk between signing and closing;
- After the closing:
  - risk that expected synergies may not be achieved,
  - risk of losing key employees.

/ Risk management response

The risk of overvaluing the target is attenuated by using a variety of valuation methods (EBITDA multiples, discounted cash flow, ratios on similar deals) and comparing their results, sometimes with the support of an advisory bank.

Each acquisition is subject to very thorough due diligence with the support of internal and/or external specialists. In this way, all of the risks in the acquired company are identified so that the Group can protect itself either by (i) deducting the financial cost of the risks from the purchase price; (ii) covering the risks by escrowing a portion of the proceeds corresponding to their costs; or (iii) making an informed decision to proceed.

To prevent leaks, strict confidentiality and embargo procedures are applied throughout the acquisition process.

Exchange rate risks are addressed in the acquisition procedures and hedged.

An integration plan led by an integration project manager is designed and implemented, with results reported using an appropriate procedure.

The risk of losing key employees following the acquisition is covered by a highly detailed plan, supported as necessary by appropriate retention programs.

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)

	Article D.441 I.-2°: invoices issued and past due at December 31, 2018					
TRADE RECEIVABLES	0 days	1 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	**TOTAL**
(A) Breakdown of past due payments:						
Number of invoices		1				**1**
Total amount of invoices (including tax)		442				**442**
Percentage of total sales for the period (including tax)		0.15%				**0.15%**
(B) Invoices excluded from (A) relating to disputed or unrecognized payables and receivables						**0**
Number of invoices excluded						**0**
Total amount of invoices excluded						**0**
(C) Reference payment terms used (contractual or statutory pursuant to Article L. 441-6 or L. 443-1 of the French Commercial Code)						**30**
Reference payment terms used to calculate past due payments	Contractual terms agreed at initial recognition of the trade receivable					**30**

	Article D. 4411-1°: invoices received and past due at December 31, 2018					
TRADE PAYABLES	0 days	1 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	**TOTAL**
(A) Breakdown of past due payments:						
Number of invoices		23	3		8	**34**
Total amount of invoices (including tax)		53,625	(4,924)		7,488	**56,189**
Percentage of total purchases for the period (including tax)		0.01%	0.00%		0.00%	**0.01%**
(B) Invoices excluded from (A) relating to disputed or unrecognized payables and receivables						
Number of invoices excluded						**0**
Total amount of invoices excluded (including tax)						**0**

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 11, 2019 (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 2018 social, societal and environmental information disclosed in compliance with Article 225-102-1 of the French Commercial Code, as well as the Auditors' review report, may be found in section 6, "2018 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 2018 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 "2018 Employee, Societal and Environmental Information" (6.8).

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 Managers 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 18, 2018, Michelin has had three General Partners: Jean-Dominique Senard, Managing Chairman and Managing General Partner, Florent Menegaux, Managing General Partner 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 led by three Managers: [1]

- Jean-Dominique Senard, Managing General Partner and Managing Chairman;
- Florent Menegaux, Managing General Partner elected May 18, 2018;
- Yves Chapot, General Manager elected May 18, 2018.

Managing General Partners must each own at least 5,000 qualifying 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 Managers elected for the first time by the Annual Shareholders Meeting on the recommendation of the Supervisory Board;
- to provide 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 Manager's term was an age limit of 72.

The term of office as Managing General Partner of Jean-Dominique Senard was renewed in 2014 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 [3].

When the two new Managers were elected by shareholders on May 18, 2018, Mr. Senard, who previously served as Managing Chairman in his capacity as sole Manager, was re-appointed Managing Chairman until his term of office as Manager expires on the date mentioned above.

2.15.1 b) Role and responsibilities

The Managers, under the authority of the Managing Chairman, are responsible for administering and managing the Company.

Their core responsibilities are to:

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

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

The Group's operations are organized into three operating segments (Automotive, Road Transportation and Specialties) dedicated to serving their global markets with products and services offered through 14 Business Lines.

Based on the needs identified by the Regions, the Business Lines define their strategy for designing market-leading products and services aligned with their competitive environment.

The ten Regions are the direct points of contact with customers. Leveraging their close proximity to local markets and consumers, they identify key needs and market the products and services developed by the Business Lines. They represent the Group in the region and are responsible for customers' satisfaction.

(1) For biographical details, please refer to section 2.14.4
(2) For details about SAGES, please refer to section 4.1.4.
(3) See the press release published on February 3, 2014.

Operational support is provided by eight Operating Departments, which oversee the 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;
- Customer Experience;
- Purchasing Department;
- Operations Quality Guarantee Department;
- Corporate Business Services (CBS) 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.

The Managing Chairman is assisted by the Group Executive Committee comprising the following members as of March 28, 2019:

- **Yves Chapot,** Manager and Chief Administrative and Financial Officer effective July 31, 2019;
- **Sonia Artinian-Fredou,** Executive Vice-President, Services & Solutions, High-Tech Materials;
- **Laurent Bourrut,** Executive Vice President, Road Transportation Segment, overseeing the Europe Regions;
- **Adeline Challon-Kemoun,** Executive Vice President, Brands, Sustainable Development, Communication and Public Affairs;
- **Scott Clark,** Executive Vice President, Automotive Segment, overseeing the North, Central and South America Regions;
- **Jean-Christophe Guérin,** Executive Vice President, Manufacturing;
- **Serge Lafon,** Executive Vice President, Specialties Segment, overseeing the Africa/India/Middle East, China, East Asia & Australia Regions;
- **Jean-Claude Pats,** Executive Vice President, Personnel;
- **Eric Vinesse,** Executive Vice President, Research and Development.

A Group Direction Committee (CDG) with cross-functional responsibility monitors transformation, competitiveness, diversity and the integration of acquisitions. It manages the development of the Corporate & Business Services (CBS), internal control, quality and risk management, and supports the development of high-potential employees. Alongside the functions represented on the CEG, the CDG will represent a panel of métiers and regions, ensuring that decisions have broad roots in the Company. The CDG will bring together the following entities:

- Strategy (reporting to the Managing Chairman, Manager);
- Purchasing;
- CBS;
- Finance (reporting to the Chief Financial Officer, Manager);
- Legal;
- Quality, Audit, Internal Control and Risk Management;
- Supply Chain;
- Information Systems;
- as well as the China and North America Regions.

2.15.1 c) Liability

The Managing General Partners have unlimited personal liability for the debts incurred by Compagnie Générale des Établissements Michelin. 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 Managers are especially vigilant in their management of corporate risks.

Consistent with this long-term commitment, the Managing General Partners may not relinquish their status as General Partners without the prior approval of shareholders given at an Extraordinary Meeting. They are therefore bound to assume 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 Managing Chairman;
- 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 Managing Chairman 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 Managers (election, re-election and removal from office of a Managing General Partner or the Managing Chairman) and the determination of the compensation packages for Managing General Partners and the Managing Chairman.

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

As well as assuming liability for CGEM's debts, in its capacity as General Partner, SAGES is responsible for recommending candidates for election as Manager at the Shareholders Meetings, the re-election of Managers 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 Manager. At least 50% of the reserve is invested in CGEM shares.

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 General Manager in 2007.

Business address:

Compagnie Générale des Établissements Michelin

23, place des Carmes-Déchaux

63000 Clermont-Ferrand

France

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

FLORENT MENEGAUX

Born in 1962

Experience:

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 transportation company, offered him the position of Finance Director. Six months later, he was promoted Managing Chairman. From 1995 to 1996, Florent Menegaux was Managing Chairman 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, Mr. Menegaux became responsible for the Group's Passenger car and Light truck tire Replacement Business Unit for Europe, before being appointed to the Group Executive Committee as Executive Vice President, Passenger car and Light truck Product Line 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 has also overseen the Group's Business Departments, and the Manufacturing, Supply Chain and Customer Experience Operational Departments.

Mr. Menegaux was elected Managing General Partner of the Group on May 18, 2018.

Business address:

Compagnie Générale des Établissements Michelin

23, place des Carmes-Déchaux

63000 Clermont-Ferrand

France

YVES CHAPOT

Born in 1962

Experience:

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 Managing Chairman 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.

In 2012, he was named head of Euromaster, before being appointed to the Group Executive Committee as 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.

In January 2018, Mr. Chapot became 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.

Mr. Chapot was elected General Manager of the Group on May 18, 2018.

Business address:

Compagnie Générale des Établissements Michelin

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 Managing Chairman 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

* *Listed company.*

BARBARA DALIBARD

Born in 1958 – French national

Experience:

Barbara Dalibard is currently Managing Chairman of SITA. Her previous positions included Managing Chairman 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.

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 also an independent Director of Korian*, Chairman of the Compensation and Appointments Committee and member of the Audit Committee.

Business address:

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

THIERRY LE HÉNAFF

Born in 1963 – French national

Experience:

Thierry Le Hénaff is currently Chairman and Managing Chairman of Arkema.

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 Managing Chairman 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. He was a Director of Eramet and has sat on the Board of Directors of *École Polytechnique*'s Foundation since 2016.

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.*

Business address:

Arkema
420, rue d'Estienne-d'Orves
92700 Colombes
France

* *Listed company.*

ARUNA JAYANTHI

Born in 1962 – Indian national

Experience:

Since July 2018, Aruna Jayanthi has been Managing Director of the Asia Pacific and Latin America Business Unit at Capgemini. She previously headed a Business Services unit providing BPO and Platform (integrated technology and operations) services (Capgemini & IGATE). From 2011 until the end of 2015, Aruna Jayanthi was Managing Chairman 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.

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:

Companion of the Canadian Business Hall of Fame, Monique Leroux is currently Chair of the Board of Invest Quebec and has chaired the Quebec government's Advisory Council on the Economy and Innovation. From 2008 to 2016, she was Chair of the Board, President and Managing Chairman of Mouvement des Caisses 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. She is a member of the Canada-United States Council for Advancement of Women Entrepreneurs and Business Leaders and was co-chair of the B7 Summit in Canada in 2018. She serves as a Board member of Bell/BCE, Couche-Tard (ATD), Michelin (ML-France), S&P Global (SPGI) and Lallemand Inc. (privately owned). She is also Strategic Advisor of Fiera Capital and Vice Chairman of Fiera Holdings Inc. Ms. Leroux is a member of the Order of Canada, an Officer of the *Ordre national du Québec*, a *Chevalier de la Légion d'honneur* (France) and holds honorary doctorates from 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 France-Benelux Retail Market sales office manager, after previously serving as the Group's Quality of Worklife Manager and later Safety Program Leader at corporate headquarters. 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:

Compagnie Générale des Établissements Michelin

23, place des Carmes-Déchaux

63000 Clermont-Ferrand

France

MICHEL ROLLIER

Born in 1944 – French national

Experience:

Michel Rollier is Chairman of the Supervisory Board of Somfy SA*.

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 Managing Chairman 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 Managing General 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 Managing General Partner in May 2012.

Business address:

Compagnie Générale des Établissements Michelin

27, cours de l'Île-Seguin

92100 Boulogne-Billancourt

France

* *Listed company.*

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, 2018 327,306 shares owned by SAGES as of December 31, 2018 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	**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) Chairman of Evergas A/S (Denmark) 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) Chairman of Evergas A/S (Denmark) 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) Chairman of Evergas A/S (Denmark) Director of Sinopacific Shipbuilding Group (China) **2017** Chairman and Managing Chairman 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) Chairman of Evergas A/S (Denmark) Director of Sinopacific Shipbuilding Group (China) **2018** Chairman and Managing Chairman 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 Alternext Paris) Chairman and Director of Sapmer Holding (Singapore) Chairman of Sapmer Investissements SAS (France) Chairman and Director of Greenship Holdings Manager Pte. Ltd (Singapore) Chairman of Evergas A/S (Denmark) Director of Sinopacific Shipbuilding Group (China)

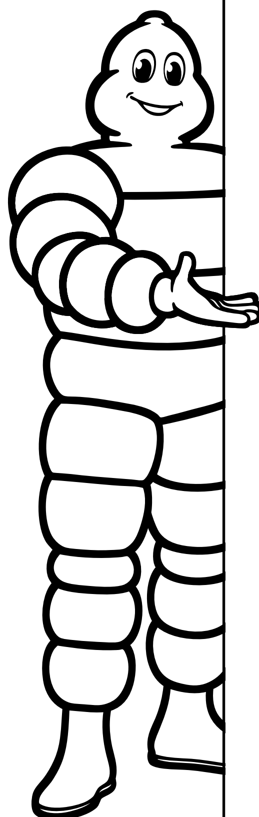
* *Listed company.*

2.15.4 d) Statutory Auditors

Please refer to section 9.2 – Statutory Auditors.

3

FINANCIAL HIGHLIGHTS



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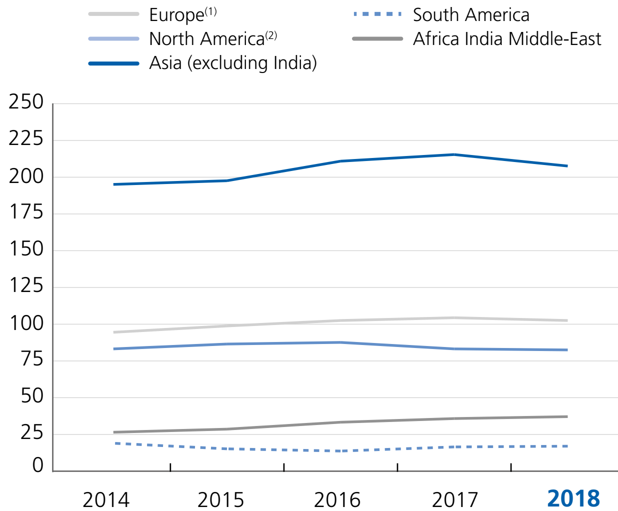
3.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

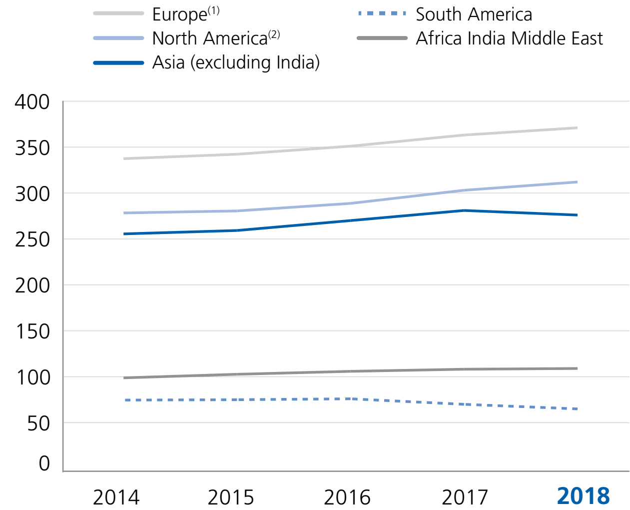
(in millions of tires)



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

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

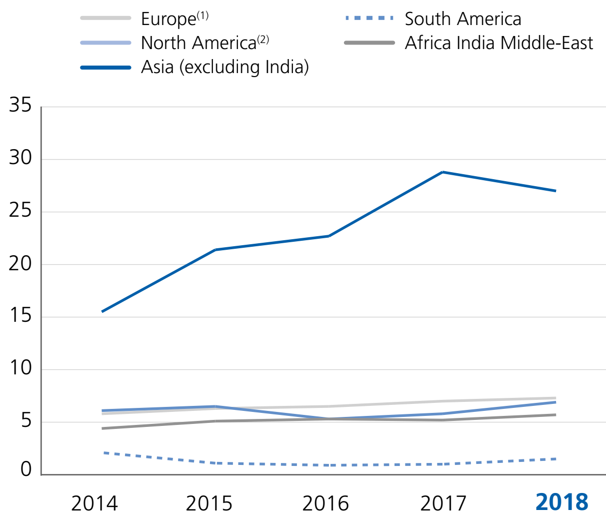
(in millions of tires)



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

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

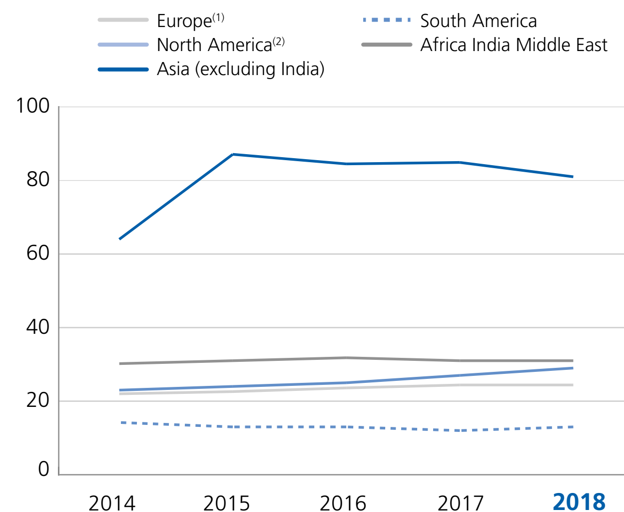
(in millions of new tires)



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

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

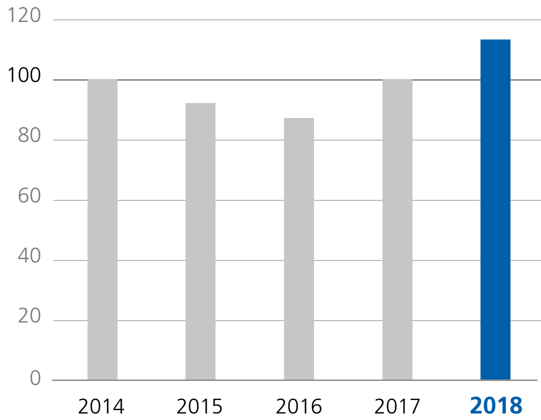
(in millions of new tires)



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

THE EARTHMOVER MINING TIRE MARKET

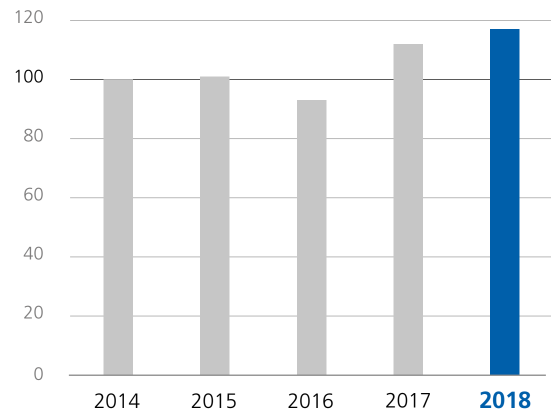
(base 100 in 2014 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

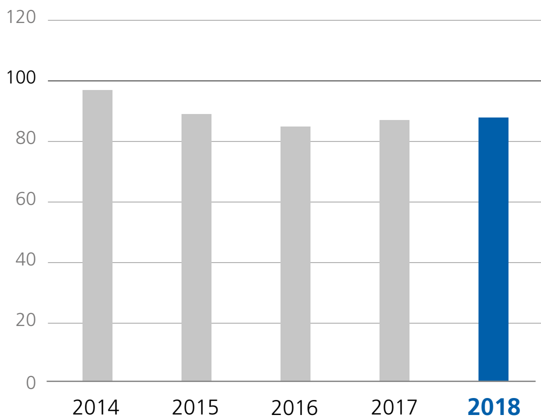
(base 100 in 2013 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

(base 100 in 2014 in number of tires in Europe and North America)

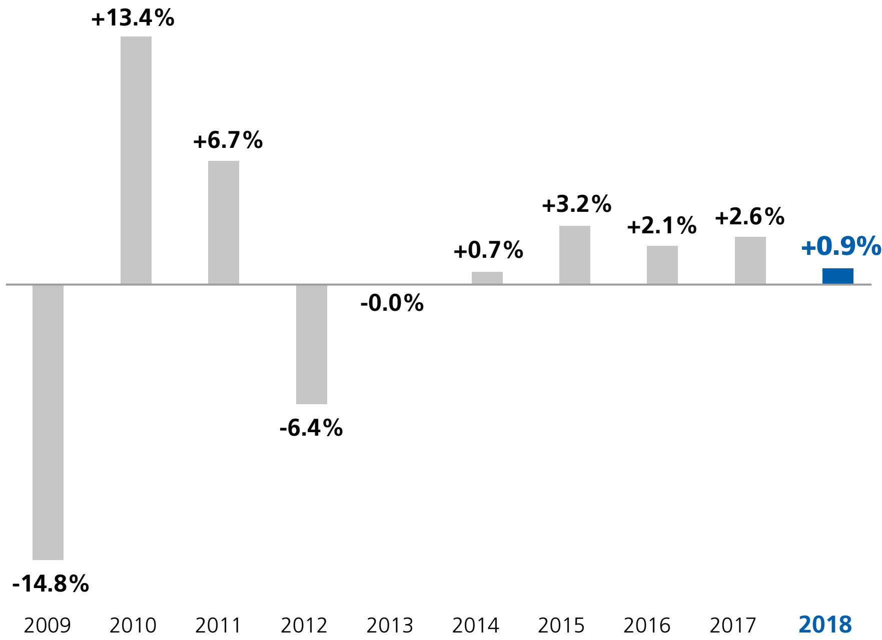


Michelin estimates.

3.2 SALES

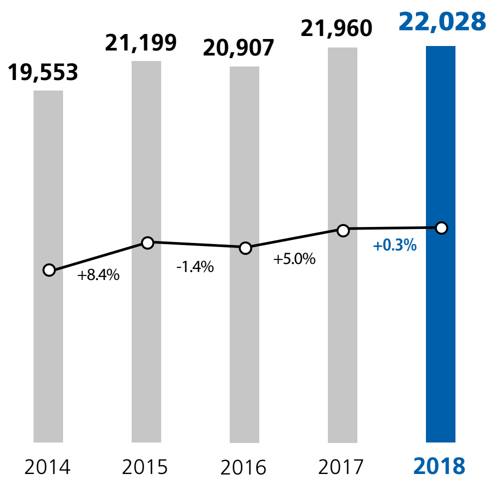
SALES VOLUME

(in tons)



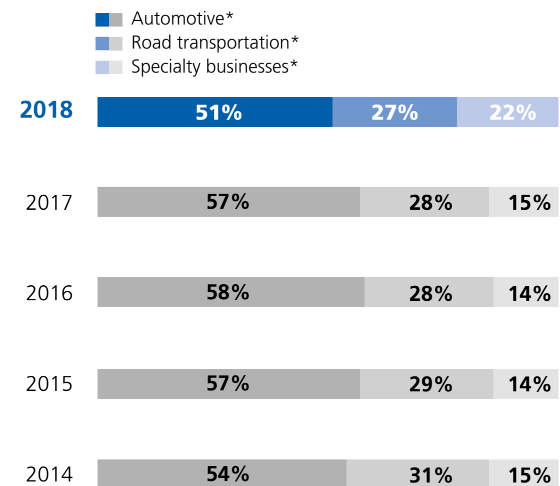
NET SALES

(in € million)



NET SALES BY REPORTING SEGMENT – BREAKDOWN

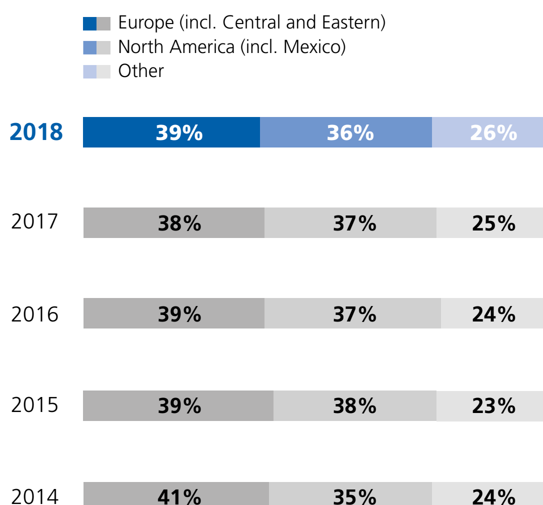
(in value)



* *And related distribution.*

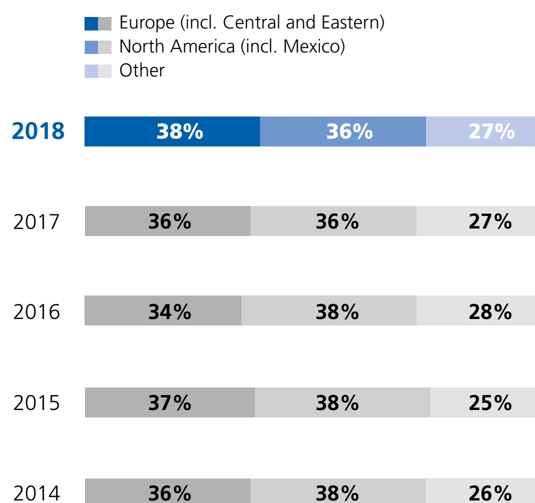
NET SALES BY REGION – BREAKDOWN

(in value)



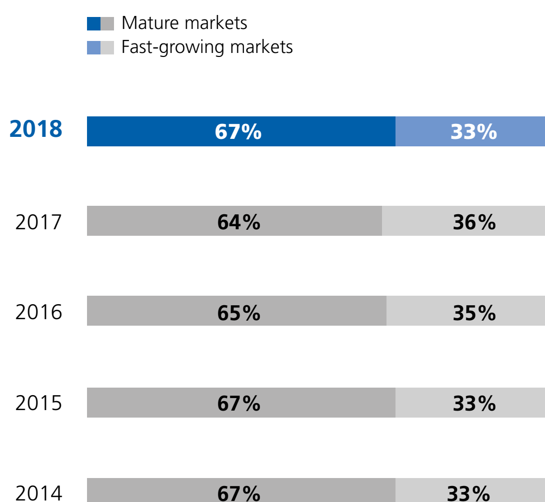
SALES BY REGION – BREAKDOWN

(in tons)



BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

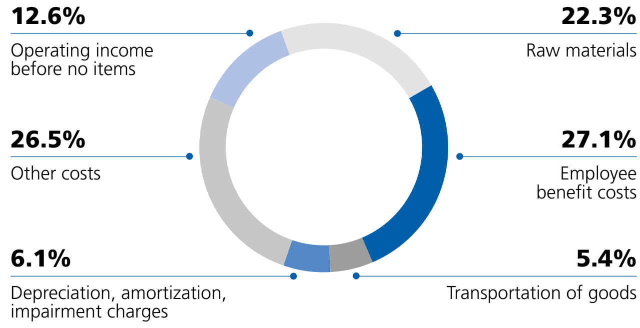


* *Mature markets: United States, Canada, Western Europe and Japan.*

3.3 EARNINGS

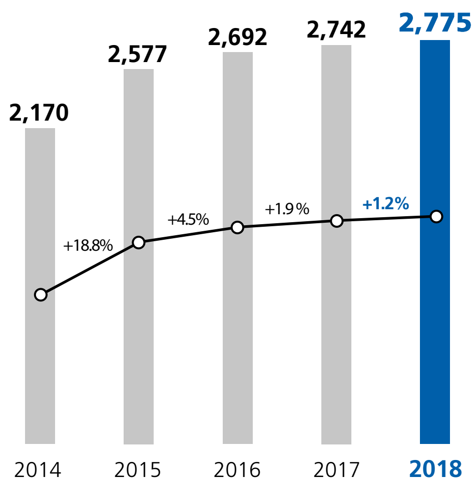
ANALYSIS OF OPERATING EXPENSES

(as a % of 2018 net sales)



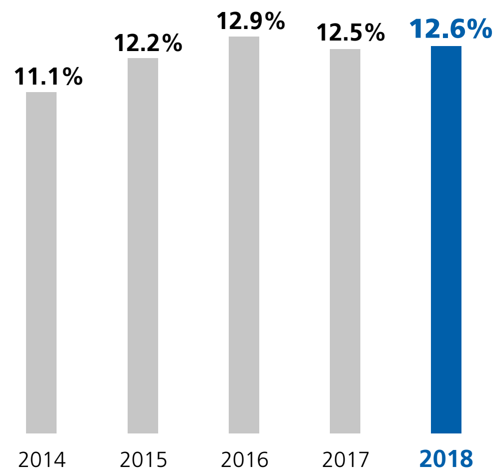
SEGMENT OPERATING INCOME

(in € million)



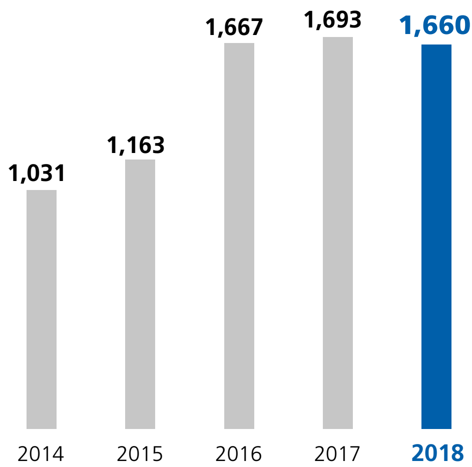
SEGMENT OPERATING MARGIN

(as a % of net sales)



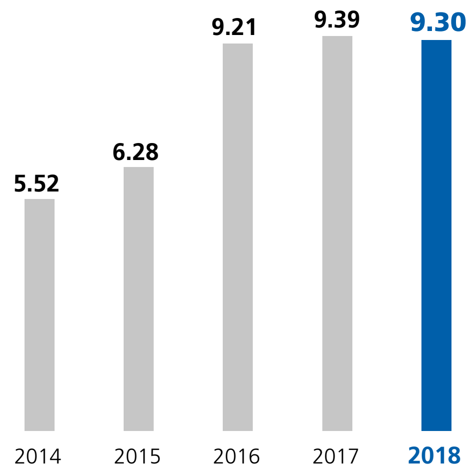
NET INCOME

(in € million)



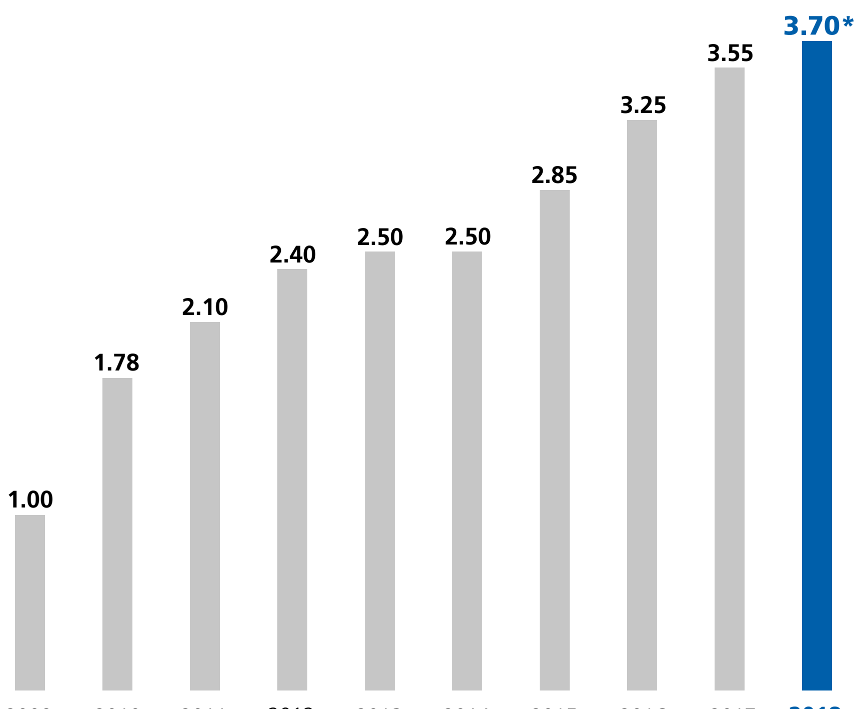
BASIC EARNINGS PER SHARE

(in €)



DIVIDEND PER SHARE

(in €)



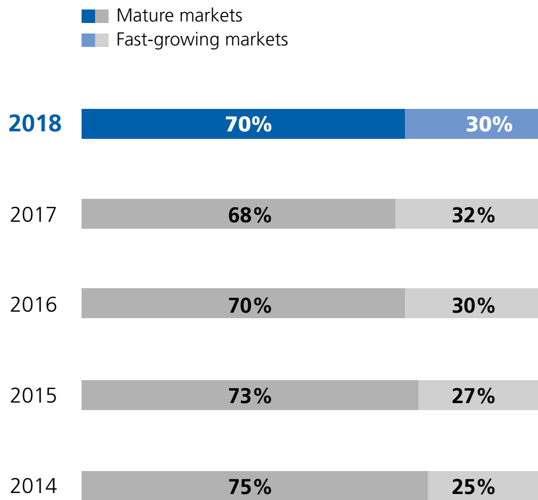
* *Subject to approval by the Annual Meeting of May 17, 2019.*

3.4 REPORTING SEGMENTS

3.4.1 AUTOMOTIVE AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

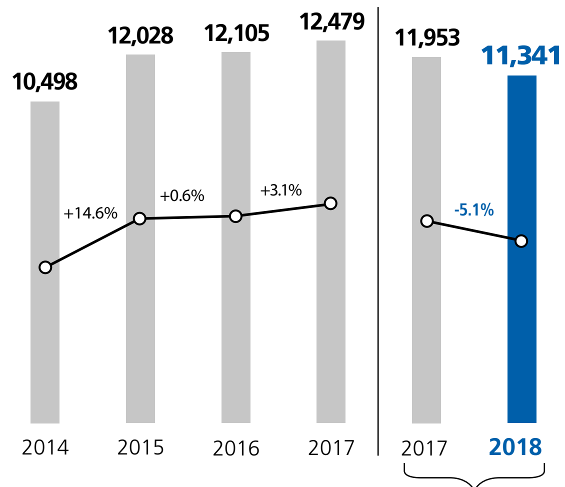
(in tons)



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

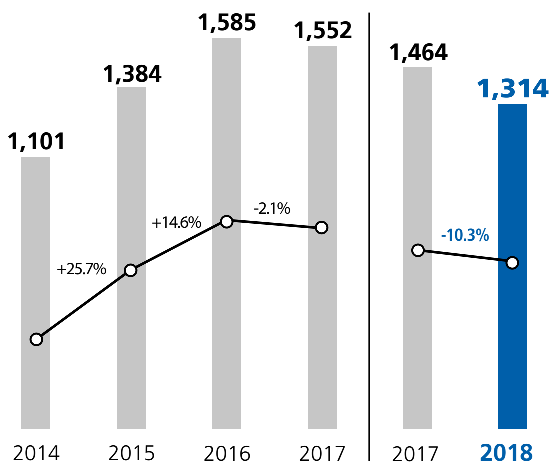
SALES

(in € million)



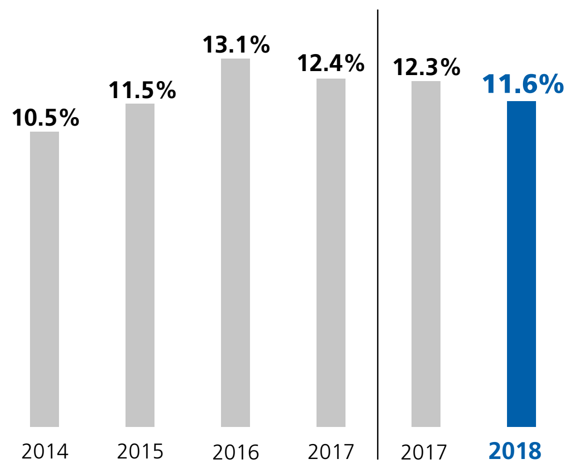
SEGMENT OPERATING INCOME

(in € million)



SEGMENT OPERATING MARGIN

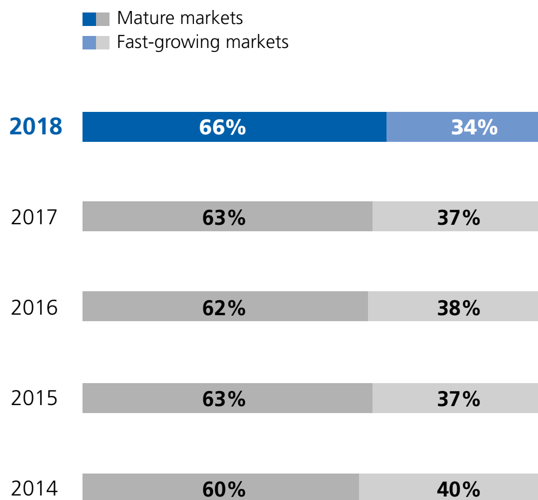
(as a % of sales)



3.4.2 ROAD TRANSPORTATION AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

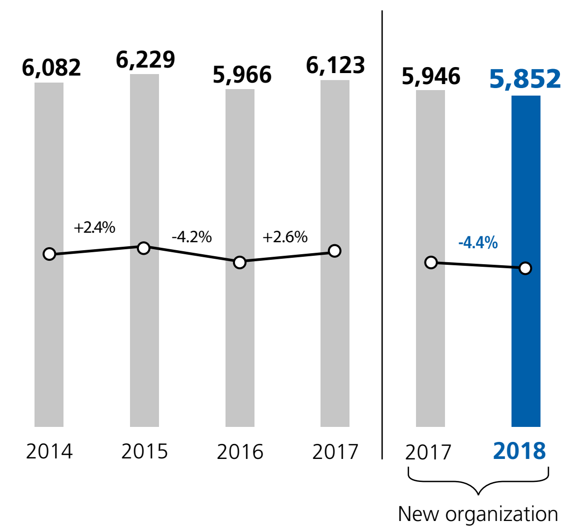
(in tons)



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

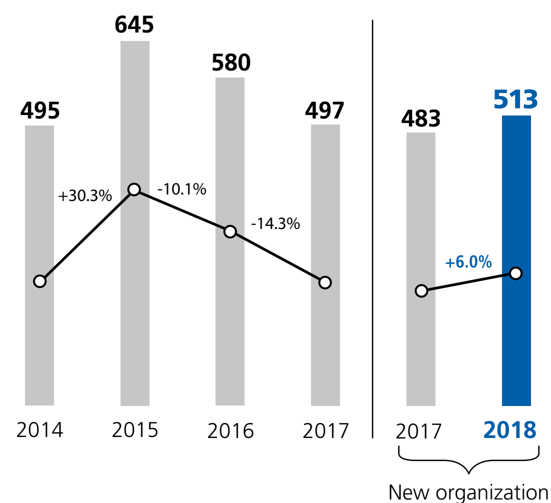
SALES

(in € million)



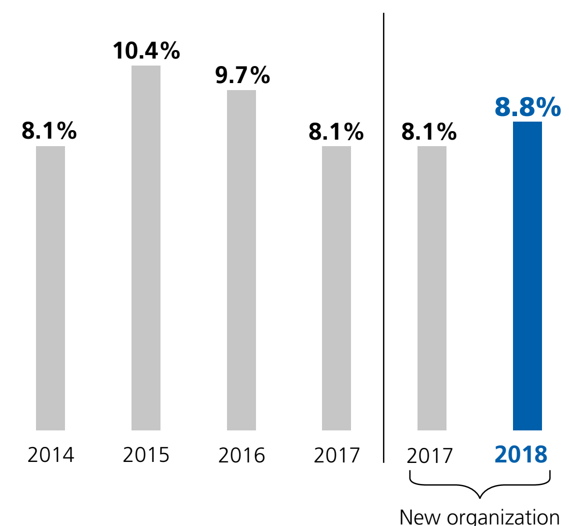
SEGMENT OPERATING INCOME

(in € million)



SEGMENT OPERATING MARGIN

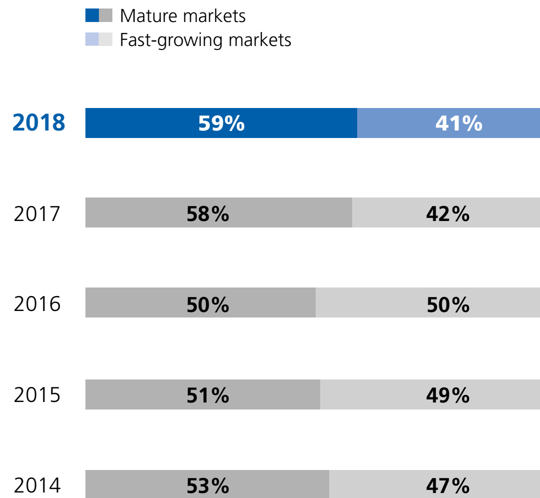
(as a % of sales)



3.4.3 SPECIALTY BUSINESSES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

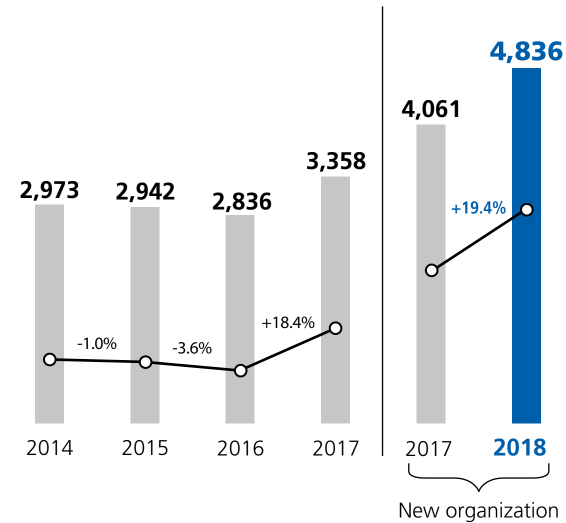
(in tons)



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

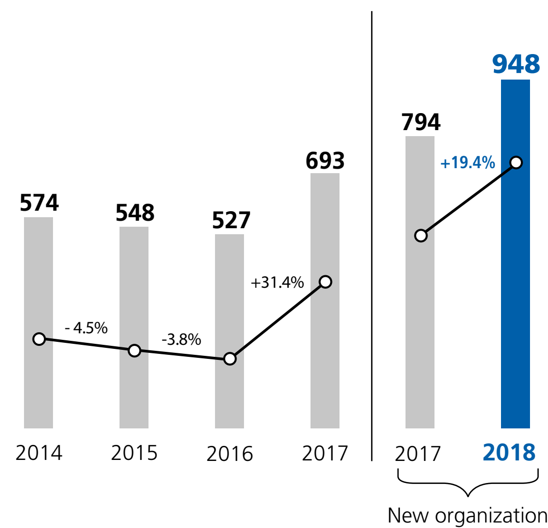
SALES

(in € million)



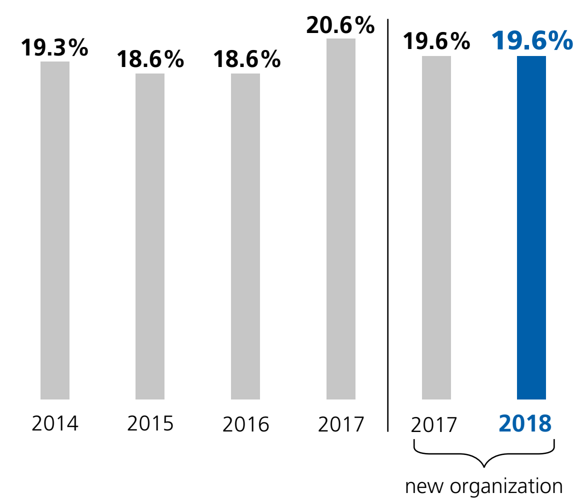
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

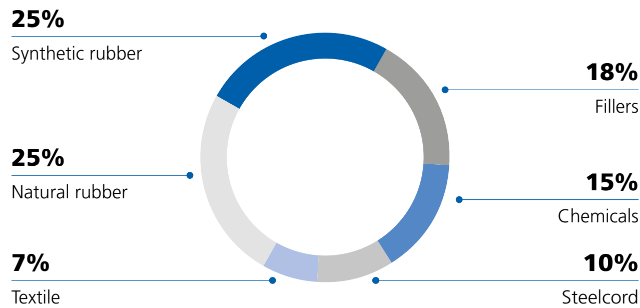
(as a % of net sales)



3.5 COST STRUCTURE

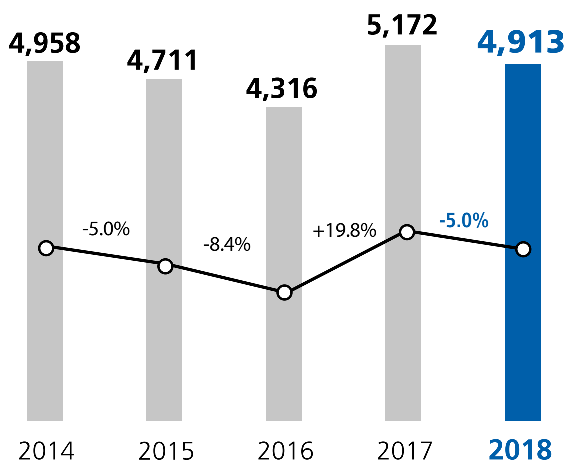
BREAKDOWN OF RAW MATERIAL NEEDS

(in %, in 2018)



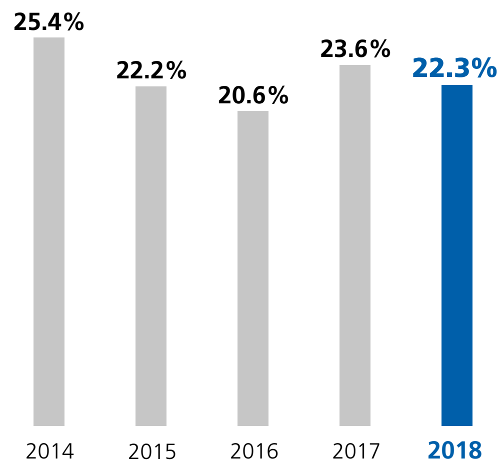
RAW MATERIAL COST

(in € million)



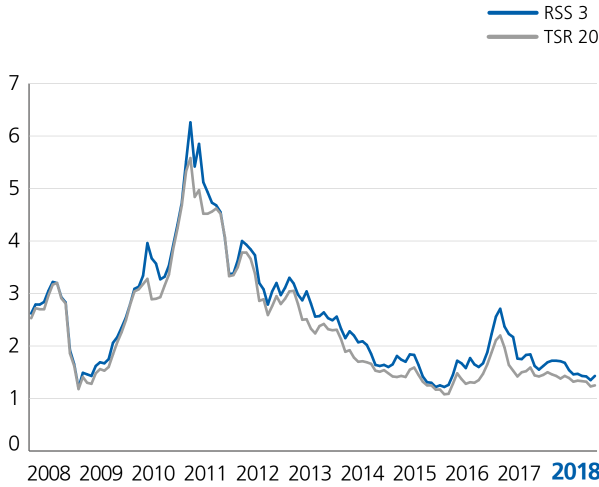
RAW MATERIAL COST

(as a % of sales)



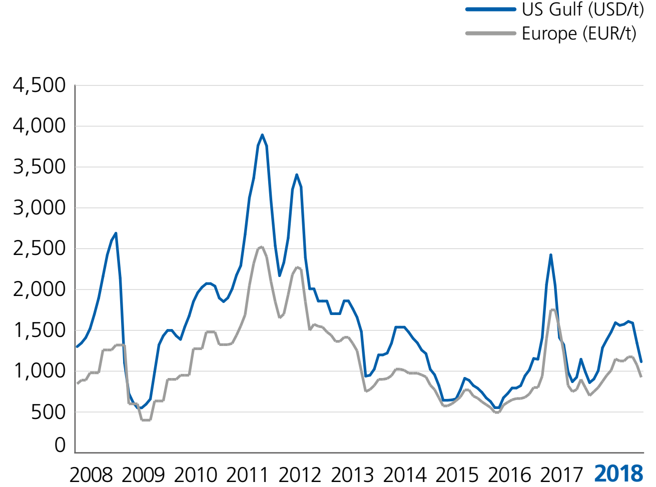
NATURAL RUBBER PRICES*

(in $/kg)



* *Monthly average.*

BUTADIENE PRICES*



* *Monthly average.*

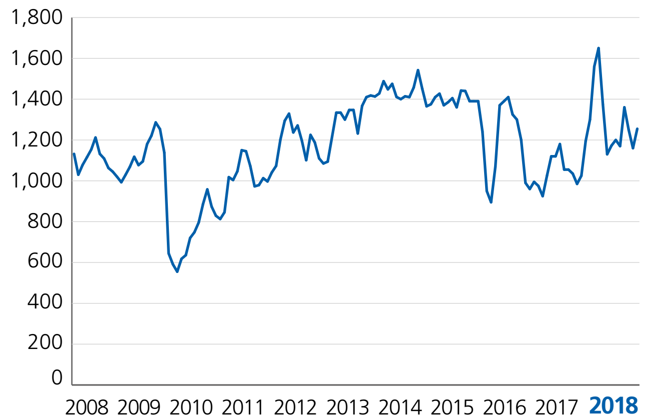
BRENT PRICES*

(in $/bbl)

* *Monthly average.*

STYRENE PRICES*

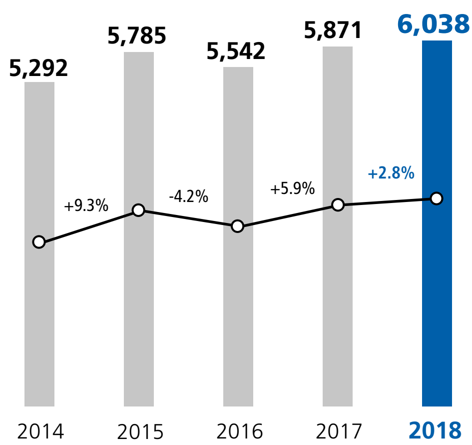
(in €/ton)



* *Monthly average.*

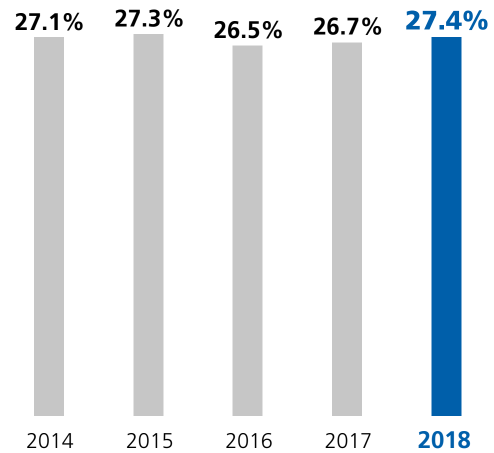
EMPLOYEE BENEFIT COSTS

(in € million)



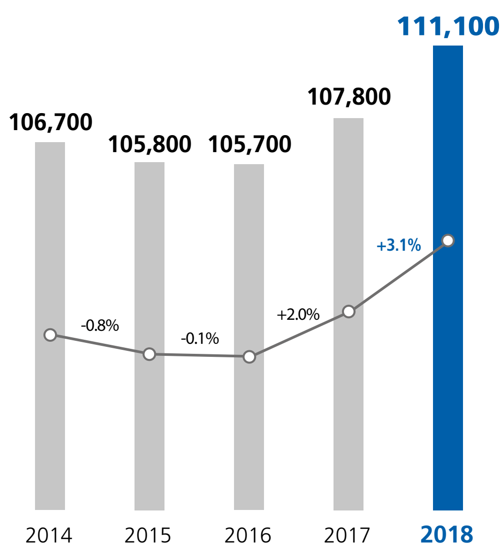
EMPLOYEE BENEFIT COSTS

(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	65,800	61,900	61,200	61,400	61,300
North America	20,800	21,800	22,000	21,700	21,900
Asia (excluding India)	15,200	15,000	14,800	15,000	15,400
South America	7,500	7,400	6,000	6,000	6,300
Africa India Middle-East	1,800	1,700	1,700	1,700	1,800
TOTAL	**111 100**	**107 800**	**105 700**	**105 800**	**106 700**
including mature countries[(1)]	*64%*	*64%*	*67%*	*67%*	*66%*
including fast-growing countries	*36%*	*36%*	*33%*	*33%*	*34%*

(1) Mature countries: United States, Canada, Western Europe, Japan.

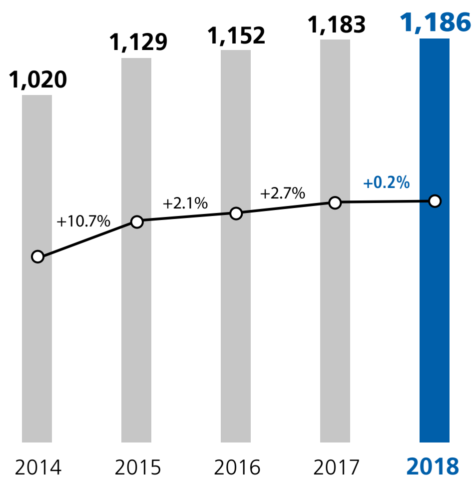
EMPLOYEES BY JOB CATEGORY

(total workforce at December 31)

	2017	2016	2015	2014	2013
Production workers	61.7%	61.9%	61.5%	61.5%	62.4%
Administrative and technical staff	29.3%	29.4%	30.0%	30.3%	30.0%
Managers	9.0%	8.7%	8.5%	8.2%	7.6%

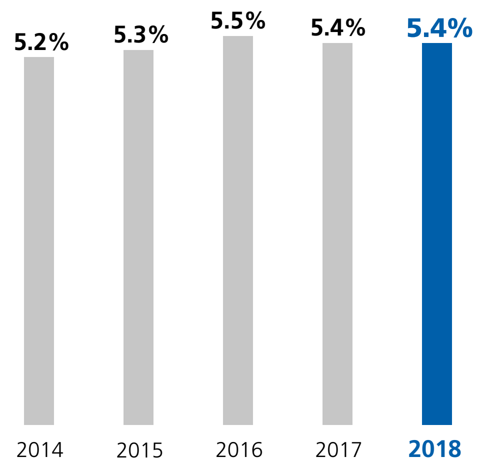
TRANSPORTATION COSTS

(in € million)



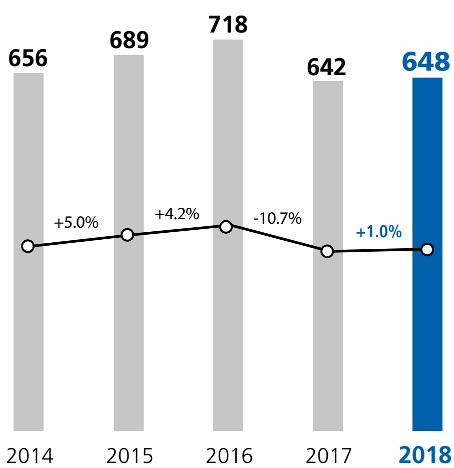
TRANSPORTATION COSTS

(as a % of sales)



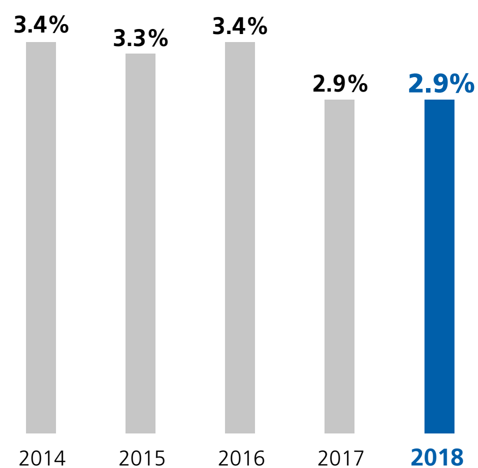
RESEARCH AND DEVELOPMENT COSTS

(in € million)



RESEARCH AND DEVELOPMENT COSTS

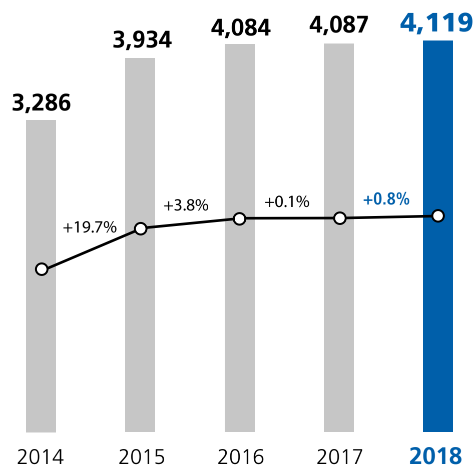
(as a % of sales)



3.6 CASH FLOW AND BALANCE SHEET

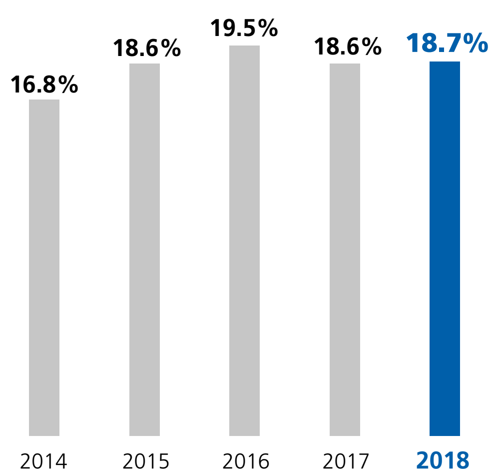
SEGMENT EBITDA[(1)]

(in € million)



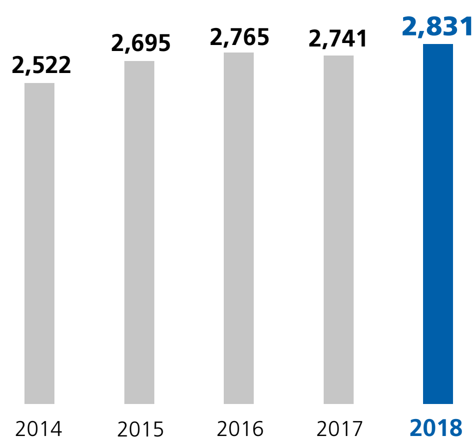
SEGMENT EBITDA[(1)]

(as a % of sales)



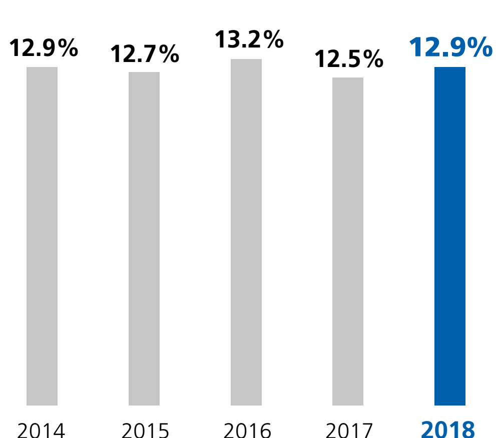
CASH FLOWS FROM OPERATING ACTIVITIES

(in € million)



CASH FLOWS FROM OPERATING ACTIVITIES

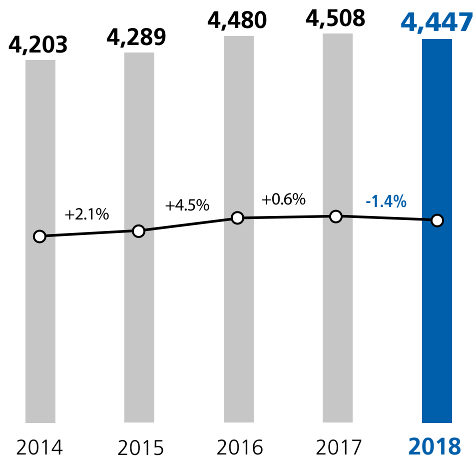
(as a % of sales)



(1) This indicator is as defined in note 3.7.2 to the consolidated financial statements.

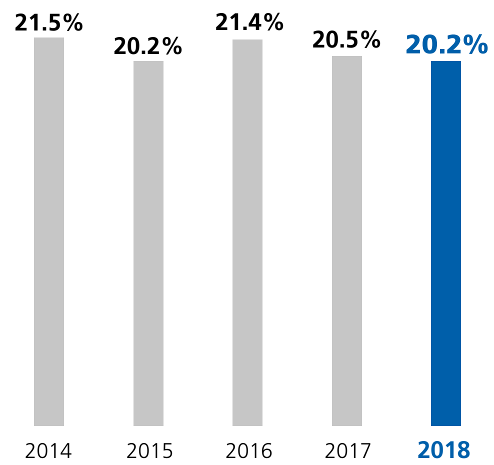
INVENTORIES

(in € million)



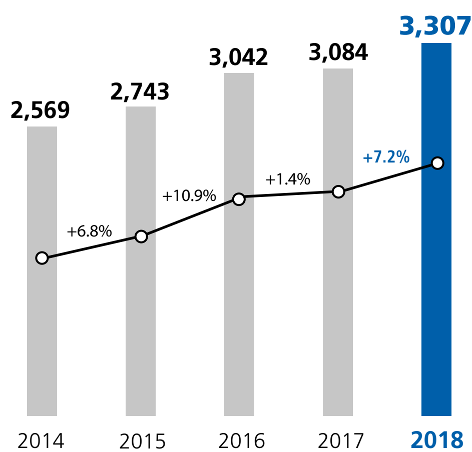
INVENTORIES

(as a % of sales)



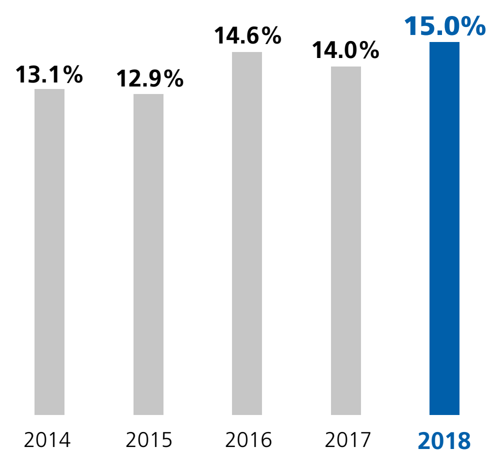
TRADE RECEIVABLES

(in € million)



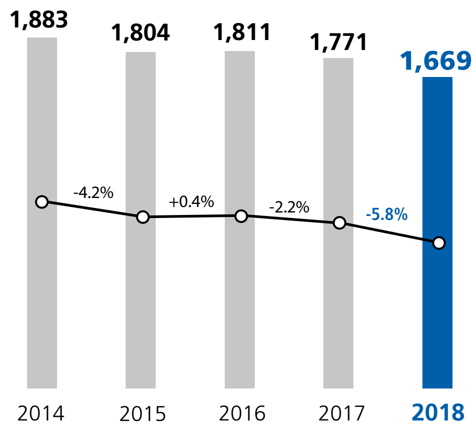
TRADE RECEIVABLES

(as a % of sales)



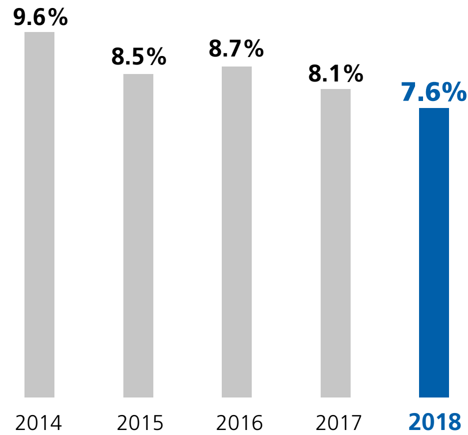
CAPITAL EXPENDITURE

(in € million)



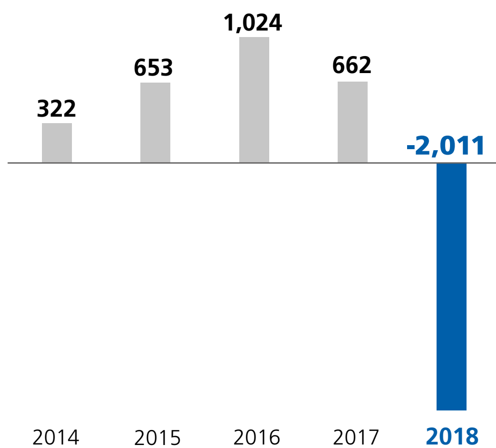
CAPITAL EXPENDITURE

(as a % of sales)



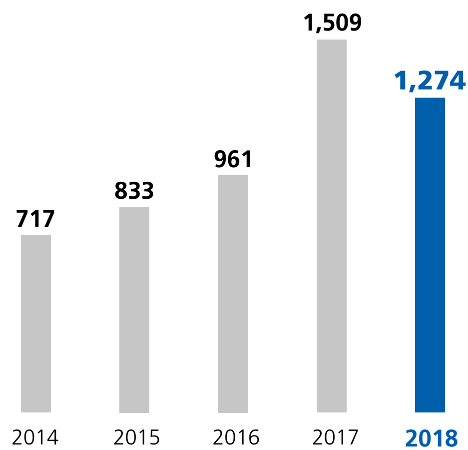
FREE CASH FLOW[(1)] (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)

(in € million)



STRUCTURAL FREE CASH FLOW[(1)]

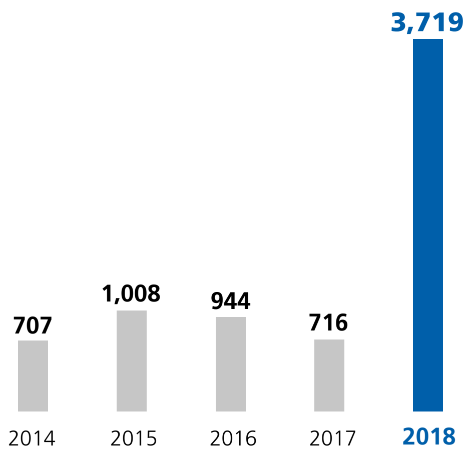
(in € million)



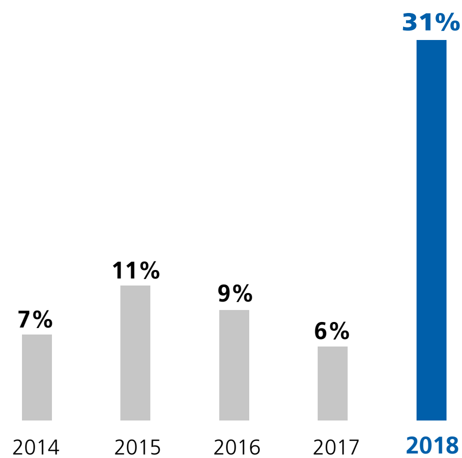
(1) This indicator is defined in section 2.5.3 of the present document.

NET DEBT[1]

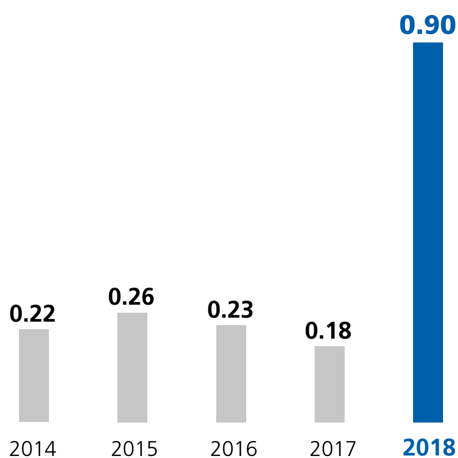
(in € million)



NET DEBT-TO-EQUITY RATIO[1]

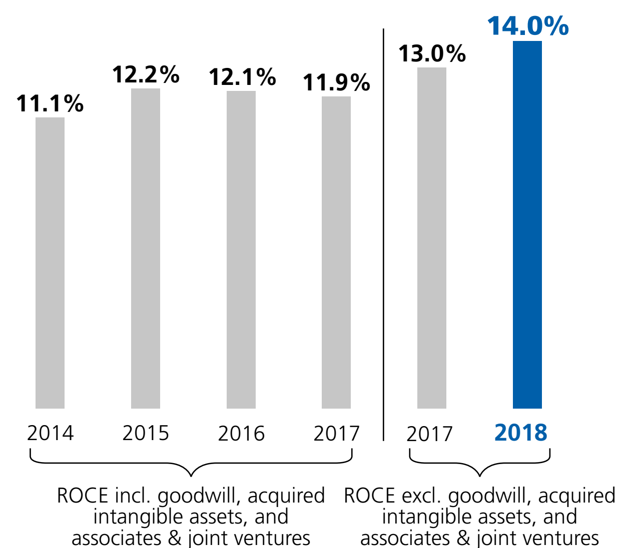


NET DEBT[1]-TO-EBITDA RATIO[2]



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.*

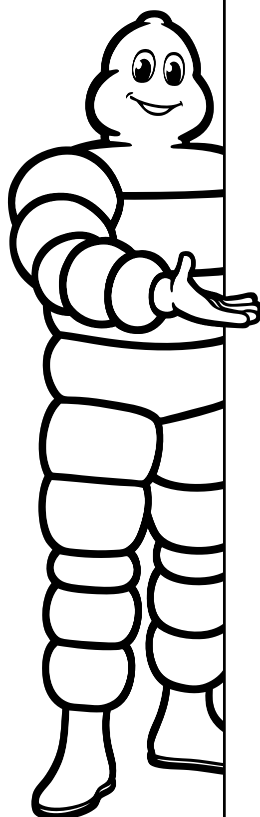
3.7 CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2018	2017	2016	2015	2014
Net sales	22,028	21,960	20,907	21,199	19,553
% change	+0.3%	+5.0%	-1.4%	+8.4%	-3.4%
Total employee benefit costs	6,038	5,871	5,542	5,785	5,292
as a % of sales	27.4%	26.7%	26.5%	27.3%	27.1%
Number of employees *(full time equivalent)*	111,100	107,800	105,700	105,800	106,700
Research and development expenses	648	641	718	689	656
as a % of sales	2.9%	2.9%	3.4%	3.3%	3.4%
EBITDA from recurring activities[(1)]	**4,119**	**4,087**	**4,084**	**3,934**	**3,286**
Operating income from recurring activities	2,775	2,742	2,692	2,577	2,170
Operating margin from recurring activities	12.6%	12.5%	12.9%	12.2%	11.1%
Operating income	2,550	2,631	2,791	2,207	1,991
Operating margin	11.6%	12.0%	13.3%	10.4%	10.2%
Cost of net debt	200	176	203	184	130
Other financial income and expenses	16	0	20	-30	-43
Income before taxes	2,230	2,354	2,464	1,869	1,651
Income tax	570	661	797	706	620
Effective tax rate	25.6%	28.1%	32.3%	37.8%	37.5%
Net income	1,660	1,693	1,667	1,163	1,031
as a % of sales	7.5%	7.7%	8.0%	5.5%	5.3%
Dividends[(2)]	637	585	522	463	464
Cash flows from operating activities	**2,831**	**2,741**	**2,764**	**2,695**	**2,522**
as a % of sales	12.9%	12.5%	13.2%	12.7%	12.9%
Gross purchases of intangible assets and PP&E	1,669	1,771	1,811	1,804	1,883
as a % of sales	7.6%	8.1%	8.7%	8.5%	9.6%
Net debt [(3)]	3,719	716	944	1,008	707
Equity	12,167	11,261	10,646	9,542	9,523
Gearing	31%	6%	9%	11%	7%
Net debt[(3)] / EBITDA[(1)]	0.9	0.18	0.23	0.26	0.22
Operating income from recurring activities / Net interest charge[(4)]	13.3	15.9	13.3	12.8	16
Free cash flow[(5)]	(2,011)	662	1,024	653	322
ROE[(6)]	13.6%	15.0%	15.7%	12.2%	10.8%
ROCE[(7)]	XX	11.9%	12.1%	12.2%	11.1%
Per share data *(in €)*					
Net assets per share[(8)]	67.8	62.7	59.1	52.5	51.3
Basic earnings per share	9.3	9.39	9.21	6.28	5.52
Diluted earnings per share	9.25	9.34	9.03	6.19	5.45
Price-earnings ratio[(9)]	9.3	12.7	11.5	14	13.6
Dividend for the year[(10)]	XX	3.55	3.25	2.85	2.5
Pay-out ratio[(11)]	XX	36.0%	36.5%	37.0%	40.6%
Yield[(12)]	XX	3.0%	3.1%	3.2%	3.3%
Share turnover rate[(13)]	92%	71%	78%	99%	91%

(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 17, 2019
(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.

4

CORPORATE GOVERNANCE REPORT



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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 *(Code de commerce)* 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 MANAGERS AT DECEMBER 31, 2018

Biographical details of the Managers are presented in section 2.15.4 of this Registration Document.

4.1.1 MANAGERS

Michelin is led by Jean-Dominique Senard, Managing Chairman, Florent Menegaux, Managing General Partner and Yves Chapot, General Partner.

The Managing Chairman'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.

The Company's Bylaws stipulate that each Managing General Partner must hold at least 5,000 shares.

JEAN-DOMINIQUE SENARD
Born in 1953
8,487 shares owned as of December 31, 2018
First elected: May 13, 2011
(Managing General Partner)

Directorships and other positions held

Managing Chairman

2014-2018
Manager of Compagnie Financière Michelin SCmA
Senior Independent Director of Saint-Gobain*, Chairman of its Audit and Risk Committee

FLORENT MENEGAUX
Born in 1962
25,051 shares owned as of December 31, 2018
First elected: May 18, 2018
(Managing General Partner)

Directorships and other positions held

2014-2018
No other directorships

YVES CHAPOT
Born in 1962
5,011 shares owned as of December 31, 2018
First elected: May 18, 2018
(General Partner)

Directorships and other positions held

2014-2018
No other directorships

* *Listed company.*

4.1.2 SUPERVISORY BOARD

4.1.2 a) Members

As of December 31, 2018, the Supervisory Board comprised nine members, seven of whom were qualified as independent.

The Supervisory Board's internal rules stipulate that each member must hold at least 400 shares or 600 shares in the case of the Chairman.

OLIVIER BAZIL
Born in 1946 – French national
1,010 shares owned as of December 31, 2018
First elected: May 17, 2013
Current term expires: 2021

Directorships and other positions held

Independent member
Chairman of the Audit Committee

2014
Director of Legrand and member of the Board's Strategy and Social Responsibility 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)

2018
Director of Legrand* and member of the Board's Strategy and Social Responsibility Committee and Nominating and Governance Committee
Member of the Supervisory Board of Société Civile du Château Palmer
Chairman of Fritz S.A.S.

BARBARA DALIBARD
Born in 1958 – French national
485 shares owned as of December 31, 2018
First elected: May 16, 2008
Current term expires: 2019

Directorships and other positions held

Independent member
Senior independent member
Chair of the Compensation and Appointments Committee

2014
Managing Chairman of SNCF Voyageurs
Chair of the Board of Directors 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
Managing Chairman of SNCF Voyageurs
Chair of the Board of Directors 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
Managing Chairman of SNCF Voyageurs, then Managing Chairman of SITA
Chair of the Board of Directors of VSC Group
Director of Eurostar International Limited
Member of the Board of Directors of Société Générale

2017-2018
Managing Chairman of SITA

* *Listed company.*

ANNE-SOPHIE DE LA BIGNE
Born in 1960 – French national
903 shares owned as of December 31, 2018
First elected: May 17, 2013
Current term expires: 2020

Directorships and other positions held

Independent member
Member of the Audit Committee
Member of the Compensation and Appointments Committee

2014-2017
No other directorships

2018
Member of the Board of Directors of SIAE SA (since September 2018)

JEAN-PIERRE DUPRIEU
Born in 1952 – French national
510 shares owned as of December 31, 2018
First elected: May 17, 2013
Current term expires: 2020

Directorships and other positions held

Independent member
Member of the Audit Committee

2014-2015
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
Independent Director of Korian and member of the Audit Committee

2017
Director of Air Liquide Welding (since June 2017)
Independent Director of Korian, Chairman of the Compensation and Appointments Committee and member of the Audit Committee

2018
Independent Director of Korian*, Chairman of the Compensation and Appointments Committee and member of the Audit Committee

ARUNA JAYANTHI
Born in 1962 – Indian national
400 shares owned as of December 31, 2018
First elected: May 22, 2015
Current term expires: 2019

Directorships and other positions held

Independent member
Member of the Compensation and Appointments Committee

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

2018
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
Director of SBI Capital Markets Limited
Director of Equation Capital Partners LLP
Director of Capgemini Sverige AB
Director of Capgemini Brasil S.A.
Director of Capgemini Business Services Guatemala S.A.
Director of Capgemini Business Services (China) Limited

* *Listed company.*

THIERRY LE HÉNAFF
Born in 1963 – French national
400 shares owned as of December 31, 2018
First elected: May 18, 2018
Current term expires: 2022

Directorships and other positions held

Independent member

2014-2016
Chairman and Managing Chairman of Arkema
Chairman of the Board of Directors of Arkema France
Director of Eramet

2017-2018
Chairman and Managing Chairman of Arkema
Chairman of the Board of Directors of Arkema France

MONIQUE LEROUX
Born in 1954 – Canadian national
1,000 shares owned as of December 31, 2018
First elected: October 1, 2015
Current term expires: 2022

Directorships and other positions held

Independent member
Member of the Audit Committee

2014
Chair of the Board, President and Managing Chairman of Mouvement des Caisses Desjardins
Managing Chairman of Desjardins Sécurité Financière
Managing Chairman 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 Managing Chairman of Mouvement des Caisses Desjardins
Managing Chairman of Desjardins Sécurité Financière
Managing Chairman 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 Managing Chairman of Mouvement des Caisses Desjardins
Managing Chairman of Desjardins Sécurité Financière
Managing Chairman 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
Member of the Board of Directors of S&P Global
Member of the Board of Lallemand (privately owned company) (since June 2017)
Strategic Advisor, Fiera Capital (since June 2017)

2018
Chair of the Board of Directors of Invest Quebec
Member of the Executive Committee and Director of the European Association of Cooperative Banks (until March 2018)
Member of the Board of Directors of the Rideau Hall Foundation
Member of the Board of Directors of Alimentation Couche-Tard
Member of the Board of Directors of Bell/BCE
Member of the Board of Directors of S&P Global
Member of the Board of Directors of Lallemand (privately owned company)
Strategic Advisor, Fiera Capital
Vice Chair of the Fiera Inc. Management Board

CYRILLE POUGHON
Born in 1975 – French national
420 shares owned as of December 31, 2018
First elected: May 16, 2014
Current term expires: 2022

Directorships and other positions held

Non-independent member (non-executive)
Member of the Audit Committee

2014

Secretary of the Michelin European Works Council

2015-2018

No other directorships

MICHEL ROLLIER
Born in 1944
24,392 shares owned as of December 31, 2018
First elected: May 17, 2013
Current term expires: 2021

Directorships and other positions held

Non-independent member (non-executive)
Chairman of the Supervisory Board
Member of the Compensation and Appointments Committee

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
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
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) (until December 2017)

2018

Chairman of the Supervisory Board of Somfy SA*
Chairman of the Remunerations Committee of Somfy SA*
Chairman of the Board of Directors of Siparex Associés
Chairman of the AFEP/MEDEF High Committee on Corporate Governance (until October 31, 2018)
Chairman of *Association Nationale des Sociétés par Actions* (ANSA)

* *Listed company.*

4.1.2 b) Terms of office of Supervisory Board members at December 31, 2018

Name	First elected/re-elected[1]	Current term expires[2]	Independent[3]
Olivier Bazil	May 17, 2013		
	May 19, 2017	2021	yes
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
Thierry Le Hénaff	May 18, 2018	2022	yes
Monique Leroux	October 1, 2015[4]		
	May 18, 2018	2022	Yes
Cyrille Poughon	May 16, 2014		
	May 18, 2018	2022	no
Michel Rollier (Chairman)	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 Managers, any Supervisory Board members and the Chairman of SAGES (CGEM's General Partner).

To the best of the Company's knowledge, neither Michelin's Managers 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 Managers 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 Manager or as a member of the Supervisory Board or as Chairman of SAGES;
- conflicts of interest between the duties to the Company of the Managers, 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 Managers.

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.

General Partners – regardless of whether or not they are Managers – may not take part in the vote. Supervisory Board members may be re-elected. 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 No. 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 a Member of its Strategy and Nominating and Governance Committees;
- **Barbara Dalibard,** Managing Chairman 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,** Independent Director of Korian(2), Chairman of the Compensation and Appointments Committee and member of the Audit Committee;
- **Aruna Jayanthi,** Managing Director, Asia Pacific and Latin America Business Unit at Capgemini;
- **Thierry Le Hénaff,** Chairman and Managing Chairman of Arkema(2)(3);
- **Monique Leroux,** Chair of the Board of Directors of Invest Quebec.
- **Cyrille Poughon,** France-Benelux Retail Market sales office manager, Manufacture Française des Pneumatiques Michelin;
- **Michel Rollier,** Chairman of the Supervisory Board of Somfy SA(3).

The following additional information about Supervisory Board members is provided in the sections indicated:

- information about the Supervisory Board diversity policy is provided in section 4.3.2 b) of this report;
- biographical details are provided in section 2.15.4 b) of this Registration Document;
- details of their compensation are provided in section 4.4.11 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 4.1.2 of this report.

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 Managing General Partners have unlimited personal liability and their 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(4) as well as the Supervisory Board's internal rules.

Pursuant to the internal rules, the Managers 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 j) prepared in accordance with the "comply or explain" rule.

(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.

(3) Thierry Le Hénaff was elected by the Annual Shareholders Meeting of May 18, 2018. The term as Supervisory Board member of Pat Cox expired at the close of the same meeting. Pat Cox is 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.

(4) 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 (...)".

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 Managers (election, re-election and removal from office) and the determination of the Managers' compensation.

Lastly, in accordance with its internal rules, the Supervisory Board may ask its Chairman to participate in the dialog with the Company's main shareholders concerning the matters addressed by the Board.

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 2018

4.3.2 a) General activities

At its meetings on February 9 and July 23 respectively, the Board reviewed (i) the statutory and consolidated financial statements for the year ended December 31, 2017 and (ii) the interim financial statements for the six months ended June 30, 2018. 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 Managing Chairman 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 scorecards – and the corresponding press releases;
- the Audit Committee's report;
- internal control and risk management;
- the new corruption prevention system;
- Group strategy and the plans rolling down this strategy to each major business unit;
- the Services & Solutions strategy;
- competitor analysis;
- proposed acquisitions;
- deployment of the Group's new organization and executive governance changes;
- the Compensation and Appointments Committee's report;
- 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;
- the Managing Chairman succession plan, including finalization of the preparatory process with input from the Compensation and Appointments Committee and the Chairman of SAGES, Non-Managing General Partner;
- compensation policies;
- preparation of the Annual Shareholders Meeting.

Part of each Supervisory Board meeting takes place behind closed doors, without the Managing Chairman or any representatives of Executive Management being present.

In addition, the independent members of the Board held two closed sessions.

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.

In 2018, Cyrille Poughon, the member representing employees, presented to the Board the insights obtained during his visit to Levorin in Brazil, which is the leader of the local two-wheel tire market. He observed in particular that since Levorin's recent acquisition by Michelin, employee relations had improved significantly, considerable advances had been made in the area of occupational health and safety, and employees had enthusiastically welcomed the Company's new empowerment policy.

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) Diversity policy

The Supervisory Board's diversity in terms of experience and backgrounds can be summed up by the fact that, in 2018:

- 45% of the Board members were women;
- 78% of the Board members were independent;
- 22% of the Board members were foreign nationals.

In line with the Group's values, the Board consistently endeavors to propose candidates from diverse backgrounds and cultures and with diverse experiences, so that its membership is balanced and aligned with its role and responsibilities.

The main terms of the diversity policy are proposed by the Compensation and Appointments Committee. The policy is applied by the Committee and the Board when preparing Supervisory Board succession plans and assessing the Board's practices. They can be assisted by recognized outside consultants.

The diversity policy is described below, as required by Article L. 225-37-4 of the French Commercial Code[(1)].

Criteria	Objectives confirmed in 2018	Implementation method	2018 results
Age limit	No more than one-third of Supervisory Board members to be aged 75 or over	No candidates aged 75 or over should be proposed for election or re-election at the Shareholders Meeting if their election or re-election would result in the one-third limit being exceeded	The candidates elected or re-elected at the Shareholders Meeting did not result in over one-third of Board members being aged 75 or over; no Supervisory Board members are aged over 75
Supervisory Board gender equality	At least 40% of Board members should be women, as required by Article L. 226-4-1 of the French Commercial Code	Board to recommend to the Shareholders Meeting to re-elect incumbent woman members and elect woman candidates to replace women who are stepping down	Martine Leroux was re-elected on the Board's recommendation; 45% of Board members are women, as was already the case before the Shareholders Meeting
Availability/ attendance	Members should demonstrate, through their availability and attendance rate at meetings of the Board and Board Committees, that they devote the necessary time and attention to their duties (going beyond the statutory requirements and the requirements of the AFEP/ MEDEF Code concerning multiple directorships)	Over half of each member's attendance fee is tied to his or her attendance rate at meetings of the Board and its Committees Incumbent Board members will not be proposed for re-election if their average attendance rate at scheduled meetings was less than 85% over the last three years of their term of office	Cyrille Poughon and Monique Leroux, both of whom attended all scheduled meetings in 2017 (100% average attendance rate), were re-elected on the Board's recommendation The Board members' overall attendance rate in 2018 was 98.3%
Qualifications/ professional experience/ international outlook/ adherence to the Group's values	Board members should offer an appropriate overall combination of academic qualifications, professional experience in the areas of manufacturing, finance, internal control, digital technology and leadership of major French listed groups with a global reach, and adherence to the Group's values	Decisions concerning candidates to be proposed for re-election or election to the Board by the Shareholders Meeting focus on maintaining the overall qualitative combination of qualifications and experience in the areas of executive management and new technologies The Chair and the majority of members of the Audit Committee are selected for their academic qualifications and international experience in finance and internal control	Monique Leroux (Audit Committee member, former Chair of the Board, President and Managing Chairman of Mouvement des Caisses Desjardins, Canada's largest cooperative financial group) was re-elected to the Board and Thierry Le Hénaff (Chairman and Managing Chairman of Arkema, graduate of *École Poytechnique* and *École Nationale des Ponts et Chaussées,* holder of a Masters' degree in industrial management from Stanford University) was elected to the Board, on the Supervisory Board's recommendation 22% of Board members are foreign nationals
Size of the Board	Number of Board members should not exceed the ten-member cap specified in the Bylaws (not including members representing employees elected in accordance with the law), to guarantee Board efficiency by fostering effective interactions between members and between the Board and the Managers	No additional members to be proposed for election at the Shareholders Meeting, except to comply with legal requirements	No additional members were proposed for election in 2018; the number of members was unchanged at nine

(1) The Company does not have any employees and the disclosures required by Article L. 225-37-4-6 of the French Commercial Code are therefore not applicable.

Criteria	Objectives confirmed in 2018	Implementation method	2018 results
Independence	At least 50% of Supervisory Board members should be independent, based on the definition in the AFEP/MEDEF Code	Incumbent independent members to be proposed for election for as long as they fulfill the independence criteria (in particular, not to have served on the Board for more than 12 years) or new independent members to be proposed for election to replace members who no longer fulfill the independence criteria	On the recommendation of the Board, Monique Leroux (independent member) re-elected and Thierry Le Hénaff elected as independent member to replace Pat Cox (who ceased to fulfill the independence criteria a few months before his term expired); 78% of Board members are independent
Employee representation	Supervisory Board should include one member representing Group employees (in line with the voluntary resolution presented and adopted at the 2014 Shareholders Meeting)	Re-election of a Board member representing employees recommended at the 2018 Shareholders Meeting	Cyrille Poughon re-elected, as recommended, to the Supervisory Board The Company is a holding company and does not have any employees. The Supervisory Board therefore decided to postpone its review of the basis for appointing additional Group employees to the Board until the final terms of the law on employee representation on company boards are known ("Pacte" bill)

4.3.2 c) Supervisory Board members' attendance rates

The Supervisory Board met nine times in 2018 – on January 21, January 24, February 9, April 25, May 18, July 5, July 23, October 8/9 and December 3 – with an average attendance rate (excluding unscheduled Board meetings and including meetings of Board Committees) of 98.3%.

The attendance rates of the individual Board members are presented in the table below:

	Participation at meetings held in 2018		
Supervisory Board members	Supervisory Board (9 meetings)	Audit Committee (4 meetings)	Compensation and Appointments Committee (4 meetings)
Olivier Bazil	9/9	4/4	N/A
Pat Cox(1)	4/4	N/A	3/3
Barbara Dalibard	9/9	N/A	4/4
Anne-Sophie de La Bigne	9/9	4/4	4/4
Jean-Pierre Duprieu	9/9	4/4	N/A
Aruna Jayanthi(2)	9/9	N/A	4/4
Thierry Le Hénaff(3)	4/5	N/A	N/A
Monique Leroux	9/9	3/4	N/A
Cyrille Poughon(4)	9/9	4/4	N/A
Michel Rollier	9/9	N/A	4/4

(1) Pat Cox participated in all meetings of the Supervisory Board and the Compensation and Appointments Committee held up to the end of his term, which expired at the close of the May 18, 2018 Annual Shareholders Meeting.
(2) Aruna Jayanthi participated in all the meetings of the Compensation and Appointments Committee held after her appointment to the Committee in January 2018.
(3) Thierry Le Hénaff participated in all the meetings of the Supervisory Board held after his election to the Board at the May 18, 2018 Annual Shareholders Meeting.
(4) Cyrille Poughon participated in all the meetings of the Audit Committee held after his appointment to the Committee in January 2018.
N/A: Not applicable.

4.3.2 d) 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 new member elected to the Board in 2018 was provided with specific information and insight about the Company, including its innovation strategy, and research and development activities.

The Supervisory Board held one of its meetings in 2018 at a major truck tire plant in India. The trip included a presentation about the plant's history and its production activities, which use advanced technologies, as well as a half-day tour of the plant and its various units.

The Supervisory Board members also learned about the plant's community outreach initiatives, including a program to improve access to medical care. The Executive Vice President responsible for the Asia, Africa, India & Middle East Region gave a presentation about the region, which comprises a very diverse range of markets and product operating conditions. The presentation gave the Supervisory Board members an opportunity to converse with local managers and the Region's management team.

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 e) Changes in the membership of the Supervisory Board in 2018

Part of the Board's work in 2018 entailed preparing for the expiration of Supervisory Board members' terms of office.

The terms of office of Pat Cox, Monique Leroux and Cyrille Poughon expired at the close of the Annual Shareholders Meeting held on May 18, 2018.

Monique Leroux and Cyrille Poughon informed the other Supervisory Board members that they wished to stand for re-election.

In accordance with best governance practices and with the agreement of the other Supervisory Board members, Pat Cox decided not to stand for re-election after serving on the Board for more than 12 years without interruption.

The Supervisory Board unanimously thanked Pat Cox for his exceptional contribution to the Board's work during his years of membership and as a member of the Compensation and Appointments Committee.

The Compensation and Appointments Committee decided to recommend Thierry Le Hénaff as new member of the Supervisory Board.

In reviewing the proposed election of Thierry Le Hénaff, the Compensation and Appointments Committee took into account the main candidate assessment criteria, covering his skills, experience, independence and availability (*i.e.*, that he does not hold too many other directorships), as well as the Board's commitment to promoting Board diversity in terms of both culture and background.

When examining the individual situations of Monique Leroux and Cyrille Poughon, 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.

Monique Leroux is currently Chair of the Board of Invest Quebec. She was previously 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 Managing Chairman of Mouvement des Caisses Desjardins, Canada's largest cooperative financial group. She has been a member of Michelin's Supervisory Board since 2015 and member of its Audit Committee since 2017. Monique Leroux is considered by the Supervisory Board as being an independent member because:

- she does not have any close family ties with either the Managing Chairman 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 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;
- she has not been an auditor of Michelin in any of the past five years;
- she is not a shareholder or an executive officer of SAGES, 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.

The Board examined Monique Leroux's candidature for re-election for a four-year term, 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 Audit 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 considered that Monique Leroux would continue to give the Group the benefit of her experience in two areas:

- the experience she acquired at Desjardins, 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. She did not take part in the Board's discussion or vote. She was re-elected at the Annual Shareholders Meeting of May 18, 2018 by a majority of 89.32% of the votes cast.

Cyrille Poughon is currently France-Benelux Retail Market sales office manager at Manufacture Française des Pneumatiques Michelin.

He was first elected to the Supervisory Board in 2014 and despite his independent mindset and conspicuous participation in Supervisory Board meetings, the Board considered that he could not be qualified as independent because of the implicit requirement for him, as a Michelin employee, to demonstrate loyalty to the Group.

He nevertheless serves on the Supervisory Board with the same powers as the other members.

The Board examined Cyrill Poughon's candidature for re-election for a four-year term, 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 Company, 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 have been greatly appreciated by the Supervisory Board members.

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. He did not take part in the Board's discussion or vote. He was re-elected at the Annual Shareholders Meeting of May 18, 2018 by a majority of 99.45% of the votes cast.

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 is Chairman and Managing Chairman of Arkema and a member of the Board of Directors of *École Polytechnique*'s Foundation. He began his career with Peat Marwick Consultants and subsequently held a variety of management positions, including that of Chairman and Managing Chairman of Bostik Findley, the company created through the merger of Total's and Elf Atochem's Adhesives divisions.

The Compensation and Appointments Committee considered that Thierry Le Hénaff 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;
- skills and experience that are complementary 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 considered that Thierry Le Hénaff qualified as an independent member because:

- he does not have any close family ties with either the Managing Chairman 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.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Thierry Le Hénaff be elected for a four-year term. He was elected at the Annual Shareholders Meeting of May 18, 2018 by a majority of 99.00% of the votes cast.

4.3.2 f) Preparing recommendations for re-electing Supervisory Board members and other resolutions to be presented at the 2019 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 Managing Chairman succession plan.

The Committee's procedures and recommendations are presented in the Supervisory Board's report on the resolutions to be submitted to the 2019 Annual Shareholders Meeting (see section 10.2 of this Registration Document

4.3.2 g) Activities of the Senior Independent Supervisory Board Member

Although, in a partnership limited by shares *(société en commandite par actions),* none of the Managers (who are equivalent to executive directors in a joint stock corporation) may also serve as Chairman of the Supervisory Board, the Board nevertheless decided in 2017 to appoint a Senior Independent Supervisory Board Member.

This role, given to an independent Board member, mainly covers the following responsibilities specified in the Board's internal rules:

- lead the group of independent Board members;
- organize and chair meetings of independent members (executive sessions);
- receive information about self-assessments of the Board's work;
- meet with the Chairman of the Board to inform him or her of all or some of the views or wishes expressed by the independent members during executive sessions;
- report on his or her activities to the Board.

Barbara Dalibard, Chair of the Compensation and Appointments Committee and independent Board member, has served as Senior Independent Supervisory Board Member since 2017.

In 2018, she organized and chaired two executive sessions, held without any Managers (equivalent to executive directors) being present. The main issues discussed during these executive sessions were as follows:

- membership of the Supervisory Board and its Committees;
- relations between the Supervisory Board and the Managers;
- role of the independent members.

In accordance with the Board's internal rules, at the meeting on February 11, 2019, Barbara Dalibard reported to the Supervisory Board on her activities during 2018. All the Board members expressed satisfaction with the way she had fulfilled her duties.

As in 2017, she was kept informed about the detailed aspects of the process for assessing the work of the Board and its Committees (see report on the results of this self-assessment in section 4.3.2 i) of this report).

4.3.2 h) 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 Manager or their fellow Supervisory Board members;
- they have not, 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 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;
- 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.).

(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.*

The Compensation and Appointments Committee conducted an independence review in early 2019. Its conclusions were presented to the Supervisory Board, which discussed and then adopted them. The review process can be summarized as follows:

The Committee examined the situation of **Anne-Sophie de La Bigne** in light of her position with Airbus 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, as some of the latter's subsidiaries purchase products and/or services from Michelin.

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 2018 from the sale of products and services not only to Airbus companies but also to these companies' customers that own or lease aircraft. The sales figure was then compared to Michelin's consolidated sales for 2018.

The comparison showed that the sales in question represented a very limited part 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 was not material.

The Committee also examined the business relationship between Michelin and the Capgemini group, whose Asia-Pacific and Latin America regions have been headed by **Aruna Jayanthi** since 2018.

Transactions between the Capgemini group and Michelin represent only a very small proportion of Michelin's purchases, and their contribution to Capgemini's revenue is not material.

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.

In addition, the Committee examined the business relationship between Michelin and Arkema, whose Chairman and Managing Chairman, **Thierry Le Hénaff,** was elected as a member of the Michelin Supervisory Board in 2018.

Transactions between Arkema and Michelin represent only a very small proportion of Michelin's purchases and their contribution to Arkema's revenue is not material.

Consequently, the Committee proposed considering that Thierry Le Hénaff's indirect business relationship with Michelin by virtue of his position with Arkema was not material.

Cyrille Poughon, 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, the Chairman of the Supervisory Board, **Michel Rollier,** Chairman of the Supervisory Board of Somfy SA, should continue to be qualified as a non-independent member of the Supervisory Board, despite the fact that he stepped down from his executive position at Michelin more than five years ago (at the Shareholders Meeting of May 11, 2012). 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 Cyrille Poughon and Michel Rollier, are independent based on the criteria in the AFEP/MEDEF Code. These independent members represent just under 78% 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 i) Assessment of the Supervisory Board's practices

In 2018, the assessment was performed by the Chairman of the Supervisory Board and consisted of interviewing each Board member individually based on a questionnaire that they had received beforehand.

In addition, with the agreement of the Chair of the Compensation and Appointments Committee, each Board member's personal contribution was assessed by a firm of consultants, based on individual interviews.

The 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.

As is the case every year, an exchange of views and a discussion of Board practices among its members was included on the agenda of the February 11, 2019 Supervisory Board meeting.

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 j) Implementation of the "comply or explain" rule

In accordance with Article L. 225-68 of the French Commercial Code and paragraph 27.1 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:

AFEP/MEDEF 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 1.9, first and second bullet points)	This recommendation in Article 1.9 of the AFEP/MEDEF Code (first and second bullet points) is not directly applicable because of the Company's legal form as a partnership limited by shares. With this type of partnership, the Managing General Partners have unlimited personal liability and their 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 Managing Chairman must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts and any other investment projects (*i.e.*, other than business acquisitions) in excess of €100 million, 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 – Cyrille Poughon – was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting, then re-elected at the 2018 Annual Shareholders Meeting by a majority of 99.45% of the votes cast. However, the Compensation and Appointments Committee, which determines executive compensation, does not include any member representing employees. The Company is a holding company and does not have any employees. The Supervisory Board therefore decided to postpone its review of the basis for (i) appointing an employee to sit on the Compensation and Appointments Committee and (ii) appointing additional Group employees to the Board until the final terms of the law on employee representation on company boards are known ("Pacte" bill).
Termination of employment contract in the event of becoming a company officer (Recommendation 21)	Due to their status and specific responsibilities, under the long-standing compensation policy applied to Managing General Partners, these partners cease to be covered by any employment contract that may have existed between them and a Group company prior to becoming Managing General Partner. This rule applies even if they have acquired considerable seniority with the Group. Besides, certain features of the Manager team in place since the 2018 Annual Shareholders Meeting and Yves Chapot's mandate as General Manager justify suspending Mr. Chapot's pre-existing employment contract with a Michelin Group company: ▶ Yves Chapot is not the most senior Manager; he reports to the Managing Chairman who, according to the Company's Bylaws, defines the Managers' areas of responsibility and any restrictions on their powers, as well as setting their annual objectives; ▶ the position of General Manager is therefore similar to that of a Chief Operating Officer or a member of the Management Board of a joint stock corporation. The AFEP/MEDEF Code does not recommend suspending these executives' employment contracts; ▶ Yves Chapot has acquired considerable seniority, having worked for the Michelin Group without interruption for over 26 years (since 1992); ▶ if Yves Chapot were to cease to be a Manager, any compensation for loss of office or non-compete benefit due to him would be reduced or cancelled if necessary so that the total amount payable – including the termination benefit in respect of his suspended employment contract – did not exceed his final two years' total compensation.
Payment of a non-compete benefit upon retirement or upon reaching the age of 65 (Recommendation 23.4)	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, each Manager is subject to a non-compete clause[2]. In the June 2018 version of the AFEP/MEDEF Code, the recommendation concerning payment of a non-compete benefit has been modified to include the following stipulations: "(...) no non-compete benefit to be paid once the officer claims his or her pension rights" and "In any event, no benefit can be paid over the age of 65". Jean-Dominique Senard, Managing Chairman, turned 65 in 2018 and will be eligible to claim pension rights in 2019. In addition, his term will expire at the close of the Annual Shareholders Meeting to be called in 2019 to approve the 2018 financial statements. Under the Group's 2019 compensation policy, application of the non-compete clause to Jean-Dominique Senard will be waived and no benefit will be due to him. This decision complies with the new recommendation set out above. Florent Menegaux is 57 and was appointed as Manager at the 2018 Annual Shareholders Meeting. Under the 2019 compensation policy, the terms of his non-compete clause would be modified this year so that no non-compete benefit would be paid once had he claimed his pension rights or turns 65. Yves Chapot is 56 and was appointed as Manager at the 2018 Annual Shareholders Meeting. Under the 2019 compensation policy, the terms of his non-compete clause would be modified this year so that no non-compete benefit would be paid once had he claimed his pension rights or turns 65.

(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 (...)".
(2) Please refer to sections 4.4.1 a) 7 and 4.4.2 m).

Provisions of the French Commercial Code	Explanation
Diversity policy (L. 225-37-4-6)	The Supervisory Board's diversity policy is described in section 4.3.2 b) above. The Company does not have any employees and the disclosures required by Article L. 225-37-4-6 of the French Commercial Code are therefore not applicable.

4.3.2 k) 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 January 2018 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 Managing Chairman 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 an independent Director of Korian[1] and Chairman of the Compensation and Appointments Committee, as well as member of the Audit Committee. He is the former Executive Vice President of the Air Liquide group[1] and from 2010 was 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[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 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 Managing Chairman of Mouvement des Caisses 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 Companion of the Canadian Business and Investment Industry Halls of Fame, member of the Order of Canada, Officer of the *Ordre national du Québec,* a *Chevalier* of the *Légion d'honneur* (France) and a recipient of the Woodrow Wilson Award (United States). She has been inducted as a Fellow of the Order of Certified Public Accountants and Fellow of the Institute of Corporate Directors, and holds honorary doctorates from eight Canadian universities.

- Cyrille Poughon, non-independent member (non-executive).

  Cyrille Poughon is currently France-Benelux Retail Market sales office manager 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.*

All of the Audit Committee's members have financial or accounting skills and, due to the extensive experience acquired during their careers, notably as part of the executive management and strategic advisory teams of large corporations, Anne-Sophie de La Bigne, Monique Leroux, Olivier Bazil, Jean-Pierre Duprieu and Thierry Le Hénaff 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 Managing Chairman 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;

(1) Listed company.

- 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 Auditor' 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 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 2018 – on February 8, April 24, July 23 and November 23 – with a 95.0% attendance rate.

/ Activities

During its meetings, the Audit Committee made inquiries of:

- the Group Health Coordination Director;
- the Chief Financial Officer;
- the Legal Affairs Director;
- the Deputy Chief Financial Officer;
- the Senior Vice President, Accounting;
- the Senior Vice President, Corporate Development;
- the Senior Vice President, Group Investment Portfolio;
- the Senior Vice President, Group Internal Control;
- the Executive Vice President, Audit, Quality, Internal Control and Risk Management;
- the Group Tax Affairs Director;
- the Group Budget Controller;
- the Executive Vice President, Corporate Information Systems;
- the OPE program Director;
- both Statutory Auditors.

The main purpose of the meetings held in 2018 was to review:

- the audited parent company and consolidated financial statements for the year ended December 31, 2017, and the parent company projections prepared in accordance with French law. The Committee focused on reviewing the treatment of recently acquired businesses in the consolidated financial statements, the cash-settled convertible bond issues, the creation of a retail joint venture, and 2017 key figures and non-recurring events. 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. They also submitted their written report to the Audit Committee;
- the interim consolidated financial statements for the six months ended June 30, 2018 and the information on the parent company projections prepared in accordance with French law. The Committee performed a detailed review of the Group's results for the first half of 2018 and discussed with the Statutory Auditors the nature and conclusions of their work. The Statutory Auditors reported to the Committee on their limited review of the interim financial statements for the six months ended June 30, 2018. Their limited review report did not contain any qualifications or emphasis of matter;
- Investment projects. The Executive Vice President, Corporate Development and the Senior Vice President, Group Investment Portfolio described the project management process and presented an analysis of the results of major capital projects, as well as the related return on investment;
- the organization of information and risk management systems. The Executive Vice President, Corporate Information Systems presented the current situation of the information systems units and the risks associated with information systems activities;
- risk management processes and the internal audit program. The Executive Vice President, Audit, Quality, Internal Control and Risk Management, the Senior Vice President, Audit and the Senior Vice President, Risk Management presented the overall internal control process, the self assessments and audits carried out since the last presentation and the progress made in implementing related action plans;
- execution of the OPE Business Process Management System program. The program director outlined the various phases of the program, its deployment status and the related budget;
- the new organization's reporting and management processes. The Executive Vice President, Accounting described how IAS 8 was being applied to the new organization and the Group Budget Controller outlined the consequences of the new organization for the Group's budget management;
- the Group competitiveness plan. The Group Budget Controller and the Manufacturing Division Business Partner Controller presented an analysis of the Group's competitiveness, particularly in terms of production costs;
- the subsidiary control structure project. The Group Tax Affairs Director outlined the project, which aims to simplify the Group's legal organization chart;
- legal risk management. The Legal Affairs Director presented the legal risk management policy, the organization of the management process and the awareness-raising and training initiatives launched by the department;

- impact of new IFRS accounting standards. The Deputy Chief Financial Officer and the Senior Vice President, Accounting presented the two new standards (IFRS 16 and IFRS 23) and commented on the work needed for their application by the Group.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 9, April 25, July 23, and December 3, 2018.

4.3.2 l) 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[1]:

- 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 Managing Chairman of SITA. Her previous positions included Managing Chairman 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;
- Aruna Jayanthi, an independent member of the Supervisory Board since her election. Aruna Jayanthi was born in 1962 and is an Indian national. Since 2018, she has been Managing Director, Asia Pacific and Latin America Business Unit at Capgemini. She was previously Managing Chairman of a Business Services Unit providing BPO and Platform (integrated technology and operations) services (Capgemini & IGATE). From 2011 until the end of 2015, Aruna Jayanthi was Managing Chairman 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;
- Anne-Sophie de La Bigne, an 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[2].

  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 Supervisory Board and is also Chairman of the Supervisory Board of Somfy SA[2]. 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 Managing Chairman 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 Managing General Partner by the Shareholders Meeting of May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as Managing General Partner in May 2011.

The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company – Cyrille Poughon – was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting, then re-elected at the 2018 Annual Shareholders Meeting by a majority of 99.45% of the votes cast.

The Company is a holding company and does not have any employees. The Supervisory Board therefore decided to postpone its review of the basis for (i) appointing an employee to sit on the Compensation and Appointments Committee and (ii) appointing additional Group employees to the Board until the final terms of the law on employee representation on company boards are known ("Pacte" bill).

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.3.2 j) 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 Managers, including career and succession plans, developed jointly with the Non-Managing General Partner (SAGES) in line with the Company's Bylaws.

Concerning the specific issue of the compensation paid to the Managers, 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 Managers' packages which currently include (i) variable compensation that depends on one or several performance criteria and (ii) fixed compensation paid by a subsidiary in respect of their 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 variable compensation payable to the Managers.

The Committee also reviews all amounts and benefits due, awarded or to be awarded to the Managers for the previous year by Group companies.

(1) Pat Cox, member of the Supervisory Board until his term expired at the close of the Annual Shareholders Meeting of May 18, 2018, participated in the Committee's work up to that date.
(2) Listed company.

As part of the review, the Committee particularly verifies that the amounts paid or awarded to the Managers are proportionate and consistent in terms of (i) the Company's performance and (ii) industry and market practice.

The Committee also ensures that the components of the Managers' 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.

In assessing the level of the Managers' variable compensation, the Committee considers (i) the inherent variability of the Company's profits, (ii) projected future profits and (iii) in the case of Managing General Partners, the fact that they 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 Managers for the previous year, in order to help the Board prepare its report to the Annual Shareholders Meeting for the advisory vote on the Managers' 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 Managing Chairman, 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 Committee met four times in 2018 – on January 29, April 25, May 4 and October 8 – with a 100% attendance rate.

The Committee's work mainly consisted in reviewing the following issues:

Review of the Managers' compensation

In early 2018, the Committee analyzed and submitted to the Board its conclusions about the achievement rates for the performance criteria used to determine the variable compensation due or awarded by the Company to the Managing Chairman for 2017, 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 18, 2018 and was approved by a majority of 92.76% of the votes cast (6th resolution).

The Compensation and Appointments Committee also proposed the components of the Managers' 2018 variable compensation for approval by the Non-Managing General Partner.

In early 2019, the Committee analyzed the various components of the Managers' compensation and noted the achievement rates for the applicable performance criteria.

With the agreement of the Non-Managing General Partner, the Board prepared and recommended the components to be submitted to the Annual Shareholders Meeting of May 17, 2019 ("say on pay" advisory vote on the compensation due or awarded to the Managers for 2018)[(2)].

The Committee also made recommendations to the Supervisory Board concerning the compensation policy to be applied to the Managers in 2019 that was prepared by the Board with the General Partners[(3)].

Compensation of the Chairman of the Supervisory Board

Based on the Committee's recommendation, 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 18, 2018. The "say-on-pay" advisory vote on the compensation due or awarded to the Chairman of the Supervisory Board for 2017 (7th resolution) was approved by a majority of 99.45% 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 17, 2019 for the 2018 financial year[(4)].

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[(5)].

Manager and executive management 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, Managers 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 proposed candidates to succeed Managers 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.

(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 4.4.2 to 4.4.8 of this Registration Document.

(3) See detailed description in section 4.4.1 a) of this Registration Document.

(4) See detailed description in sections 4.4.9 and 4.4.10 of this Registration Document.

(5) See the detailed description in section 4.3.2 h) of this report.

After working actively in 2017 to prepare the appointments linked to the early-2018 deployment of the Group's new organization[1], during 2018 the Compensation and Appointments Committee focused on adapting the Group's new internal management structures and selecting their members, based on the plans submitted to the Committee by the Managing Chairman and by the two new Managers.

In addition, following the work performed in 2017 to plan the Managing Chairman's succession[2] 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 Managers: Florent Menegaux as Managing General Partner and Yves Chapot as Manager.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board issued a unanimous opinion in favor of SAGES' proposal, which was also approved by Jean-Dominique Senard in his capacity as General Partner[3].

The Supervisory Board considered that the two candidates had considerable strengths, including:

- their respective experience;
- their deep knowledge of the Group's businesses;
- their involvement in the transformation of the Group's current 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.

These candidates were subsequently proposed for election at the Annual Shareholders Meeting of May 18, 2018, which elected them for four years.

- Florent Menegaux was elected as Managing General Partner by a majority of 99.70% of the votes cast (13th resolution);
- Yves Chapot was elected as Manager by a majority of 99.51% of the votes cast (12th resolution)[4].

In line with the Company's Bylaws, after consulting the Supervisory Board, SAGES decided on May 18, 2018 to appoint Jean-Dominique Senard as Managing Chairman for the remainder of his term as Manager, expiring at the close of the Annual Shareholders Meeting to be called to approve the 2018 financial statements. After that Meeting, the only other Managing General Partner elected by the Annual Shareholders Meeting of May 18, 2018, will take over from Jean-Dominique Senard as Managing Chairman.

Recommendations concerning the re-election of Supervisory Board members at the Annual Shareholders Meetings of May 18, 2018 and May 17, 2019

At the Supervisory Board's request, the Committee reviewed the proposed re-election of Supervisory Board members.

The Committee's work and its recommendations to the Supervisory Board are described in detail in section 10.2.1 of the 2017 Registration Document for the re-elections/elections proposed at the Annual Shareholders Meeting of May 18, 2018 and in the Supervisory Board's report on the proposed resolutions (see section 10.2.1 of this Registration Document) for the re-elections to be proposed at the Annual Shareholders Meeting of May 17, 2019.

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 section 4.3.2 k) of the 2017 Registration Document.
(2) See detailed description in sections 4.3.2 k) and 10.2.2 of the 2017 Registration Document.
(3) See the press release published on February 9, 2018.
(4) Biographical details for each of these candidates are provided in the Managing Chairman'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).

4.4 MANAGEMENT AND SUPERVISORY BOARD COMPENSATION

4.4.1 2019 COMPENSATION POLICIES APPLICABLE TO THE MANAGERS AND THE CHAIRMAN OF THE SUPERVISORY BOARD

4.4.1 a) Compensation policy: Managers

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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided to disclose the principles and criteria applied to determine, allocate and award the components of the Managers' compensation for 2019. The Supervisory Board and the Managing Chairman also submit a resolution to the Annual Shareholders Meeting giving shareholders the opportunity to issue an advisory vote on the compensation paid or awarded to each Manager, 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 17, 2019 Annual Shareholders Meeting).

/ 2019, a transition year

In connection with the transition announced by the Company on February 9, 2018:

- Florent Menegaux was elected as Managing General Partner by the Annual Shareholders Meeting of May 18, 2018 by a majority of 99.70% of the votes cast;
- Yves Chapot was elected as Manager by the Annual Shareholders Meeting of May 18, 2018 by a majority of 99.51% of the votes cast.

Similar to 2018, the 2019 compensation policy will be applied to three Managers during only part of the year, because once Jean-Dominique Senard steps down from his position as Managing Chairman at the close of the Annual Shareholders Meeting of May 17, 2019 called to approve the 2018 financial statements, the Company will have only two Managers:

- Florent Menegaux who, as sole Managing General Partner, will succeed Jean-Dominique Senard as Managing Chairman in accordance with the Company's Bylaws;
- Yves Chapot, Manager.

For the preparation of the 2019 compensation policy for Jean-Dominique Senard, the components of his compensation were prorated based on the period that he will serve as Managing Chairman in 2019 and his compensation was also reduced to take into the account the fact that, during a short period, he will combine the positions of Managing Chairman of Michelin and Chairman of the Board of Directors of Renault. Apart from the adjustments made necessary by this transitional situation, there are no fundamental changes in the 2019 compensation policy presented below compared to the 2018 policy, and the drive to simplify certain components of the policy has been pursued.

/ Principles inherent in the position of General Partner

In their capacity as General Partners of CGEM, the Managing General Partners have unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners[2] each receive a portion of the Company's profits (the "Profit Share") as provided for in the Bylaws. 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.

The Bylaws state that the allocation of Profit Shares between the General Partners is realized by agreement between them after consulting the Superviser Board.

This written agreement:

- sets the annual cap on the Profit Shares, as a percentage of profits, that can be allocated to each Managing General Partner;
- describes the Profit Share allocation terms and conditions, performance criteria and the related objectives to be met by each of the Managing General Partners.

The Managing General Partners present these objectives to the Compensation and Appointments Committee, which discusses their merits before submitting them to the Supervisory Board for approval.

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.

The agreement will reflect the variable components of the Managing General Partners' compensation described below.

At each fiscal year-end, the Compensation and Appointments Committee assesses each Managing General Partner's results in relation to the applicable objectives.

After making its recommendation to the Supervisory Board, the Compensation and Appointments Committee informs the Non-Managing General Partner (SAGES) of the amount of available Profit Shares remaining after each Managing General Partner's variable compensation has been deducted. This amount is then

(1) *Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.*

(2) *At December 31, 2018, the Company had three General Partners: Jean-Dominique Senard, Managing Chairman, Florent Menegaux, Manager, and SAGES, Non-Managing General Partner (see presentation in sections 2.15.3 and 2.15.4 c)).*

allocated to the Non-Managing General Partner (SAGES), which decides to allocate it to the contingency reserve fund set up in accordance with its Bylaws[1].

As for the General Manager although he has not unlimited personal liability for the Company's debts, his compensation also includes a performance-based variable component.

/ Principles for determining the Managers' compensation

In application of the Company's Bylaws and the internal rules of both the Supervisory Board and the Compensation and Appointments Committee, the Supervisory Board's opinion or approval is required for decisions concerning the determination of a Managers compensation.

The Managing General Partners' fixed compensation is paid to them by a subsidiary of the Company (*Manufacture Française des Pneumatiques Michelin* - MFPM), in respect of their position of General Manager within the subsidiary.

The fixed and variable compensation of the General Manager is determined by unanimous decision of the General Partners, after consulting the Supervisory Board, 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 Managers for the previous year by Group companies. As part of the review, the Committee particularly verifies that the amounts paid or awarded to the Managers are proportionate and consistent in terms of (i) the Group's performance and (ii) industry and market practice.

As noted earlier, since 2014, the Committee prepares and submits to the Board and to SAGES, the Non-Managing General Partner, its conclusions on the components of the compensation due or paid by the Company to the Managers for the previous year, in order to help the Board prepare its report to the Annual Shareholders Meeting for the advisory vote on the Managers' compensation[2].

4.4.1 a) 1. Fixed compensation

The Supervisory Board's policy is to maintain the Managers' 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.

- For Jean-Dominique Senard, Managing Chairman and Managing General Partner up to the Annual Shareholders Meeting to be called to approve the 2018 financial statements in line with this policy , the General Partner of MFPM would maintain the fixed compensation at the level of an amount: an amount corresponding to the annual fixed compensation paid to him since 2014, prorated to reflect the period served as Managing Chairman in fiscal 2019[3];
- For Florent Menegaux: in line with this policy, the General Partner of the Company would maintain the fixed compensation at the level of an amount corresponding to the annual fixed compensation set when he was elected in 2018 and unchanged since then[4];
- For Yves Chapot: in line with this policy, the General Partners of the Company would maintain the fixed compensation at the level of an amount corresponding to the annual fixed compensation set when he was elected in 2018 and unchanged since then[5].

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 its long-term interests in mind, the Managers variable compensation includes an annual component and a long-term component, both of which are subject to performance conditions.

This structure means that the Managers' 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.

The Supervisory Board and the Compensation and Appointment Committee take into consideration and apply the principles of compensation determination defined by the AFEP/MEDEF code recommendation n°24.1.2.

The level and terms of the Managers' compensation take into account the positions of Managing Chairman and Manager, as well as the difference in status between the Managing General Partners and the General Manager.

For the Managing General Partners, the Bylaws state that the allocation of Profit Share is the subject of an agreement between the General Partners as presented in the above section "Principles inherent in the position of General Partners".

4.4.1 a) 2.1. Annual variable compensation

Managing General Partners

In line with the simplification process launched in 2019, this component will be calculated as a direct percentage of the Managing General Partners' Profit Shares, without using the intermediate calculation grid applied in prior years.

For **Jean-Dominique Senard,** the performance criteria approved by the Supervisory Board include:

- a quantitative criterion based on net income for the year, for 8% of the Profit Share before prorating;
- quantitative criteria based on business growth, the level of overheads and growth in free cash flow (corresponding to the criteria also applied to determine the annual variable compensation of Executive Committee members and Group managers), for up to 6% of the Profit Share before prorating;
- quantifiable qualitative criteria based on the Group's strategic ambitions and managerial expectations, for up to 4% of the Profit Share.

The maximum amount receivable in respect of this annual variable compensation would:

- correspond to the amount payable if all the objectives for the selected criteria were met;
- be capped at 18% of the Profit Share before prorating; for example, if the Profit Share was equivalent to that proposed for 2018, the maximum annual variable compensation would stand at €746,832, taking into account the 2019 prorating adjustment (based on a period rounded to 5/12ths of a year).

(1) See section 2.15.3 in this Registration Document.
(2) The corresponding resolutions concerning the Managing Chairman, who was the Company's only executive director (dirigeant mandataire social exécutif) during the years concerned, were approved by the following majorities of the votes cast: 94.74% in 2014, 95.72% in 2015, 97.39% in 2016, 96.32% in 2017 and 92.76% in 2018.
(3) See detailed disclosures in section 4.4.3 a) of this Registration Document. The prorated compensation for 2019 will be based on a rounded period of 5/12ths of a year.
(4) See detailed disclosures in section 4.4.5 a) of this Registration Document.
(5) See detailed disclosures in section 4.4.7 a) of this Registration Document.

For **Florent Menegaux,** Managing General Partner since the Annual Shareholders Meeting of May 18, 2018, the performance criteria approved by the Supervisory Board take into account the fact that he will serve as Managing Chairman as from the 2019 Annual Shareholders Meeting, *i.e.*, during more than half of the year. The criteria include:

- a quantitative criterion based on net income for the year, for 6% of the Profit Share;
- quantitative criteria based on business growth, the level of overheads and growth in free cash flow (corresponding to the criteria also applied to determine the annual variable compensation of Executive Committee members and Group managers), for up to 10% of the Profit Share;
- quantifiable qualitative criteria based on the Group's strategic ambitions and managerial expectations, for up to 4% of the Profit Share.

The maximum amount receivable in respect of this annual variable compensation would:

- correspond to the amount payable if all the objectives for the selected criteria were met; and
- be capped at 20% of the Profit Share; for example, if the Profit Share was equivalent to that proposed for 2018, the maximum annual variable compensation would stand at €1,991,553.

For each Managing General Partner, the following will be applied to each criterion except for the one concerning net income:

- a trigger point below which no compensation will be due;
- an intermediate tranche between the trigger point and 100% of the objective, with the compensation prorated to the achievement rate for the objective;
- 100% of the objective, corresponding to the level at which the maximum compensation for the criterion would be payable.

For reasons of confidentiality and business secrecy, and in particular to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of the performance targets set for these quantitative and quantifiable criteria.

General Manager

For **Yves Chapot,** General Manager since the Annual Shareholders Meeting of May 18, 2018, the annual variable compensation will be calculated on the basis of an amount equal to one-and-a-half times his fixed compensation for 2019:

- the performance criteria proposed by the Supervisory Board include quantitative criteria based on business growth, the level of overheads and growth in free cash flow (corresponding to the criteria also applied to determine the annual variable compensation of Executive Committee members and Group managers), for up to 80% of the maximum annual variable compensation;
- quantifiable qualitative criteria based on the Group's strategic ambitions and managerial expectations, for up to 20% of the maximum annual variable compensation.

The maximum amount receivable in respect of this annual variable compensation would:

- correspond to the amount payable if all the objectives for the selected criteria were met;
- be capped at 150% of Yves Chapot's fixed compensation for 2019, representing a maximum amount of €900,000.

For the General Manager, the following will be applied to each criterion:

- a trigger point below which no compensation would be due;
- an intermediate tranche between the trigger point and 100% of the objective, with the compensation prorated to the achievement rate for the objective;
- 100% of the objective, corresponding to the level at which the maximum compensation for the criterion would be payable.

For reasons of confidentiality and business secrecy, and in particular to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of the performance targets set for these quantitative and quantifiable criteria.

4.4.1 a) 2.2. Deferred variable component: long-term incentive bonus

A long-term incentive bonus is awarded to the Managers each year.

Since 2016, in response to shareholder expectations and the changing tire market environment, the policy concerning the Managers' long-term incentive bonuses has consisted of aligning the performance criteria with the vesting criteria for employee performance share plans (that are not open to the Managers), 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 criteria for 2019 are aligned with those applied since 2016, as updated in the presentation of the proposed resolution on employee performances share plans to be presented at the 2019 Annual Shareholders Meeting.

Managing General Partners

The Managing General Partners' long-term incentive bonus does not represent a cost for the Company because it would be deducted from their allocated Profit Shares.

In line with the simplification process launched in 2019, the Managing General Partners' long-term incentive bonus will be calculated as a direct percentage of their Profit Shares and no longer by reference to a fixed baseline as was previously the case.

Jean-Dominique Senard, will serve as Managing Chairman and Managing General Partner only up to the 2019 Annual Shareholders Meeting to be called to approve the 2018 financial statements. Due to the imminent expiry of his term of office and his appointment as Chairman of the Board of Directors of Renault, the decision was made not to award him any long-term incentive bonus for 2019.

Florent Menegaux, Managing General Partner will serve as Managing Chairman during more than half of the year. He will be awarded a long-term incentive bonus equal to up to 30% of his Profit Share for the third year of the period covered by the three performance criteria fixed by the Supervisory Board, in accordance with the General Partners which will be weighted as follows:

- growth in the Michelin share price, for up to 11% of the Profit Share;
- corporate social responsibility performance (two indicators), for up to 8% of the Profit Share;
- growth in the Business Units' operating income, for up to 11% of the Profit Share;

The following will be applied to each criterion:

- a trigger point below which no compensation will be due;
- one or several intermediate tranches between the trigger point and 100% of the objective, with the compensation prorated to the achievement rate for the objective;
- 100% the objective, corresponding to the level at which the maximum bonus for the criterion will be payable.

The long-term incentive bonus receivable at the end of the performance measurement period will be capped at two-and-a-half (2.5) times the annual fixed compensation for 2019, *i.e.*, a maximum of €2,250,000.

Detailed information, including the other factors used to calculate the performance criteria, is provided in the presentation of the 13th proposed resolution to be presented at the 2019 Annual Shareholders Meeting (see section 10.1.2 of this Registration Document).

The final amount receivable under the long-term incentive plan will be:

- deducted from Mr. Menegaux's 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,
  - up to the amount of said available Profit Shares after deducting the annual variable compensation due for that year.

If the Managing Chairman 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.

The long-term incentive bonus and related performance criteria outlined above respond to (i) the need to recognize the overall effects of the strategy implemented by the Managing Chairman, and (ii) the Supervisory Board's commitment to ensuring that the decisions made by the Managing Chairman through to the end of his term of office reflect a long-term vision.

General Manager

Yves Chapot, General Manager, does not receive any Profit Share (unlike the Managing General Partners) from which the long-term incentive bonus could be deducted. The bonus will be calculated on a baseline amount equal to 100% of his 2019 fixed compensation and by reference to three performance criteria proposed by the Supervisory Board with the following weighting:

- growth in the Michelin share price, for up to 35% of the bonus;
- corporate social responsibility performance (two indicators), for up to 30% of the bonus;
- growth in the Business Units' operating income, for up to 35% of the bonus.

For the General Manager, the following will be applied to each criterion:

- a trigger point below which no compensation will be due;
- one or several intermediate tranches between the trigger point and 100% of the objective, with the compensation to the achievement rate for the objective;
- 100% the objective, corresponding to the level at which the maximum bonus for the criterion will be payable.

The amount receivable at the end of the performance measurement period will be capped at 120% of the average of Yves Chapot's annual variable compensation for 2019, 2020 and 2021.

Detailed information, including the other factors used to calculate the performance criteria, is provided in the presentation of the 13th proposed resolution to be presented at the 2019 Annual Shareholders Meeting (see section 10.1.2 of this Registration Document).

4.4.1 a) 3. Fringe benefits and attendance fees

Each Manager has a fringe benefit in the form of a Company car.

They do not receive any attendance fees from the Company or any Group subsidiaries.

As executive officers of the Company or MFPM, the Managers are covered by health and death/disability insurance plans in the same way as the employees of the Company or MFPM.

4.4.1 a) 4. Stock options and performance shares

No stock options or performance shares are granted to the Managers by the Company or any Group subsidiaries.

Performance shares may be awarded to the Managers as an alternative to the long-term incentive bonus described in section 4.4.1 a) 2.2. If a Manager 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 a Manager 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 retain the instruments initially awarded to him for an amount prorated to the time served in office during the plan period, and the reference three-year period will continue to run, during and beyond the end of his term.

4.4.1 a) 5. Pension benefits[1]

The Managers are not covered by any supplementary pension plan set up specifically for executive officers.

In their capacity as General Manager of the Company or its subsidiary MFPM, Jean-Dominique Senard, Florent Menegaux and Yves Chapot participate in the supplementary pension plan set up for MFPM and CGEM senior executives (the Michelin Executive Supplementary Pension Plan).

(1) The disclosures in this section and in section 4.4.3 e) of this Registration Document comply with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016.

This plan, which is governed by Article L. 137-11 of the French Social Security Code *(Code de la sécurité sociale)* and Article 39 of the French General Tax Code *(Code général des impôts)* 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 is funded through a contribution to an insured plan.

The reference compensation of Jean-Dominique Senard and Florent Menegaux consists solely of the fixed compensation paid to them by MFPM.

Jean-Dominique Senard, Managing Chairman, turned 65 in 2018 and can claim his pension rights in 2019.

In his capacity as Non-General General Manager of the Company, Yves Chapot participates in the supplementary pension plan whose terms are described above. His reference compensation corresponds to the total compensation paid to him by the Company.

If one or several Managers were no longer able to participate in the Michelin Executive Supplementary Pension Plan or a proposed equivalent plan, they could 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 a Manager 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 General Manager, SAGES, subject to the prior approval of the Supervisory Board. The amount of any such compensation would not exceed the equivalent of the Managers' 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" or the annual variable compensation (as applicable) 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 a Manager would not result in his receiving an aggregate severance package in excess of two years' compensation, as recommended in the AFEP/MEDEF Code.

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, each Manager is subject to a non-compete clause.

If the Company decided to apply this non-compete clause for a period of up to two years, in line with the conditions described in chapter 4.4.2 m) of this Document:

- Jean-Dominique Senard, Managing Chairman, would be entitled to a non-compete benefit of up to 16 months' compensation based on the most recent total compensation paid to him by Group companies;
- Florent Menegaux, Managing General Partner and future Managing Chairman, would be entitled to a non-compete benefit of up to 24 months' compensation based on his most recent annual fixed compensation as Manager;
- Yves Chapot, General Manager, would be entitled to a non-compete benefit of up to 24 months' compensation based on the compensation defined in his suspended contract of employment for the position held immediately before his election as Manager. The terms of the commitment would be amended in 2019 so that the above baseline would be indexed to the average growth in compensation of Michelin Executive Committee members since his employment contract was suspended.

In accordance with the AFEP/MEDEF Code:

- the Company may waive application of this clause;
- if compensation for loss of office were to be awarded as provided for above (see "Compensation for loss of office"), the non-compete indemnity would be reduced or withheld entirely, if necessary, so that the Manager's 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.

In the June 2018 version of the AFEP/MEDEF Code, the recommendation concerning payment of a non-compete benefit has been modified to include the following stipulations: "(...) no non-compete benefit to be paid once the officer claims his or her pension rights" and "In any event, no benefit can be paid over the age of 65". Consequently, the compensation policy has been amended as follows:

- Jean-Dominique Senard's term of office will expire at the close of the 2019 Annual Shareholders Meeting called to approve the 2018 financial statements. Consequently, in line with the above recommendation, his non-compete clause will be waived in 2019 and no benefit will be due to him;
- Florent Menegaux is 57 and was appointed as Manager by the 2018 Annual Shareholders Meeting. The terms of his non-compete clause would be modified in 2019 so that no non-compete benefit would be paid once had he claimed his pension rights or turned 65;
- Yves Chapot is 56 and was appointed as Manager by the 2018 Annual Shareholders Meeting. The terms of his non-compete clause would be modified in 2019 so that no non-compete benefit would be paid once had he claimed his pension rights or turned 65.

4.4.1 a) 8. Exceptional compensation

There are no plans to award any exceptional compensation to any Manager.

4.4.1 a) 9. Employment contract

Due to their status and specific responsibilities, under the compensation policy applied to Managing General Partners, these partners cease to be covered by any employment contract that may have existed between them and a Group company prior to becoming Managing General Partner. This rule applies even if they have acquired considerable seniority with the Group.

Consequently, Jean-Dominique Senard and Florent Menegaux no longer have an employment contract with either the Company or any of its subsidiaries.

In addition, the features of the Manager team in place since the 2018 Annual Shareholders Meeting and Yves Chapot's mandate as Manager justify suspending his pre-existing employment contract with a Michelin Group company:

- Yves Chapot is not the most senior Manager; he reports to the Managing Chairman who, according to the Company's Bylaws, defines the Managers' areas of responsibility and any restrictions on their powers, as well as setting their annual objectives;
- the position of Manager is therefore similar to that of a Chief Operating Officer or a member of the Management Board of a joint stock corporation. The AFEP/MEDEF Code does not recommend suspending these executives' employment contract;
- Yves Chapot has acquired considerable seniority, having worked for the Michelin Group without interruption for over 26 years (since 1992);
- if Yves Chapot were to cease to be a Manager, any compensation for loss of office or non-compete benefit due to him would be reduced or cancelled if necessary so that the total amount payable – including the termination benefit in respect of his suspended employment contract – did not exceed his final two years' total compensation.

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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board has decided to disclose the principles and criteria applied to determine, allocate and award the components of its Chairman's compensation for 2019.

The Supervisory Board also submits a resolution to the Annual Shareholders Meeting giving shareholders 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 17, 2019 Annual Shareholders Meeting).

4.4.1 b) 1. Attendance fees

Of the total attendance fees voted by the Annual Shareholders Meeting of May 13, 2016, the Supervisory Board decided to allocate 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.

As is the case 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.

His attendance rate in 2018 was 100%.

At the 2019 Annual Shareholders Meeting, the Supervisory Board plans to propose increasing the total compensation paid to Supervisory Board members (corresponding to attendance fees) from €555,000 to €770,000 (12th resolution), to take into account:

- the growing demands placed on members in terms of professionalization, engagement and availability, particularly in connection with the activities of the Committees of the Board (Audit Committee, and Compensation and Appointments Committee) and the Senior Independent Member;
- the significant gap between the average fees paid to Supervisory Board members and the members of the Supervisory Boards and Boards of Directors of other CAC 40 companies;
- the increase in the number of members sitting on the Audit Committee;
- the 50% increase in the number of Supervisory Board meetings held between 2016 (date of the last attendance fee increase) and 2018;
- the need to retain and continue to attract Supervisory Board members with the recognized experience and first-rate skills required to represent shareholders in a group that has a broad international footprint following its recent acquisitions.

Effective from 2019, subject to approval of the above resolution by the Annual Shareholders Meeting, the compensation awarded to the Chairman of the Supervisory Board would be increased in roughly the same proportions as the total attendance fees, with most of the fee still based on the Chairman's attendance rate at Board meetings.

4.4.1 b) 2. Other components of compensation

As Michel 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.

(1) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

4.4.2 SUMMARY INFORMATION CONCERNING THE MANAGERS, THE CHAIRMAN OF THE SUPERVISORY BOARD AND THE SUPERVISORY BOARD MEMBERS

The data and tables in this section:

- present the compensation of Jean-Dominique Senard, Managing Chairman, Florent Menegaux, Managing General Partner, and Yves Chapot, General Manager, who all qualify as executive directors *(dirigeants mandataires sociaux exécutifs),* 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 (June 2018) and related implementation guidelines;
- comply with AMF recommendation 2012-02 (as updated on November 30, 2018) 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".

The Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation paid and awarded to the Managing Chairman, the Managers 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 2018 compensation of the Managing Chairman and the Chairman of the Supervisory Board is presented in this Corporate Governance Report, including sections 4.4.4, 4.4.6, 4.4.8 and 4.4.10 of this Registration Document.

4.4.2 a) Compensation, stock options and performance shares awarded to the Managers (in €) (based on Table 1 in the AFEP/MEDEF Code)

Jean-Dominique Senard, Managing Chairman and Managing General Partner with unlimited personal liability for the Company's debts	**2018**	**2017**
Compensation due for the year	4,233,459	3,799,658
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[1]	0	0
TOTAL	**4,233,459**	**3,799,658**
Reference CGEM consolidated net income	*1,659,627,524*	*1,692,941,994*

(1) A long-term incentive bonus was awarded in 2018. No liability was recognized for this bonus in the Company's financial statements. See page 149 of this Registration Document for details.

Florent Menegaux, Managing General Partner since May 18, 2018 with unlimited personal liability for the Company's debts[1]	**2018**
Compensation due for the year	1,228,544
Value of stock options granted during the year	0
Value of performance shares granted during the year	0
Value of other long-term compensation plans[2]	0
TOTAL	**1,228,544**
Reference CGEM consolidated net income	*1,659,627,524*

(1) Florent Menegaux was elected as Managing General Partner on May 18, 2018 and the amounts reported in the above table correspond to the prorated compensation due for the period following his election, i.e., from May 18 to December 31, 2018. The components of this compensation, defined on an annual basis, are presented along with the related amounts in section 4.4.5 of this Registration Document.
For the period from January 1 to May 17, 2018, the compensation due to Florent Menegaux under his employment contract with the Company's subsidiary MFPM, amounted to €1,356,138 and corresponded mainly to (i) deferred payment of variable compensation and miscellaneous bonuses for 2017, (ii) prorated fixed and variable compensation for 2018 and (iii) settlement of his accrued vacation pay entitlement.

(2) A long-term incentive bonus was awarded in 2018. No liability was recognized for this bonus in the Company's financial statements. See section 4.4.5 b) of this Registration Document for details.

(1) In connection with the compensation policy described in section 4.4.1 and in the Notice of Meeting for the May 17, 2019 Annual Shareholders Meeting.
(2) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

Yves Chapot, General Manager since May 18, 2018[1]	2018
Compensation due for the year	640,923
Value of stock options granted during the year	0
Value of performance shares granted during the year	0
Value of other long-term compensation plans[2]	94,200
TOTAL	**735,123**

(1) Yves Chapot was elected as General Manager on May 18, 2018 and the amounts reported in the above table correspond to the prorated compensation due for the period following his election. The components of this compensation, defined on an annual basis, are presented along with the related amounts in section 4.4.7 of this Registration Document.
For the period from January 1 to May 31, 2018, the compensation due to Yves Chapot under his employment contract with the Company's subsidiary MFPM, amounted to €687,840 and corresponded mainly to (i) deferred payment of variable compensation and miscellaneous bonuses for 2017, (ii) prorated fixed and variable compensation for 2018 and (iii) settlement of his accrued vacation pay entitlement.
(2) A long-term incentive bonus was awarded in 2018. No liability was recognized for this bonus in the Company's financial statements. See section 4.4.7 b) of this Registration Document for details.

4.4.2 b) Compensation due and paid to Jean-Dominique Senard (in €) (based on Table 2 in the AFEP/MEDEF Code)

Jean-Dominique Senard, Managing Chairman and Managing General Partner with unlimited personal liability for the Company's debts	2018		2017	
	Due	Paid[1]	Due	Paid[1]
Fixed compensation[2]	1,100,000	1,100,000	1,100,000	1,100,000
Annual variable compensation	1,762,524[3]	1,696,328[4]	1,696,328[4]	1,700,597[5]
Long-term variable compensation	1,362,465	994,860	994,860	495,116
Exceptional compensation	0	0	0	0
Attendance fees	0	0	0	0
Fringe benefit (car)	8,470	8,470	8,470	8,076
TOTAL	**4,233,459**	**3,799,658**	**3,799,658**	**3,303,789**
Reference CGEM consolidated net income	*1,659,627,524*	*1,692,941,994*	*1,692,941,994*	*1,667,252,073*

(1) This table does not include amounts paid that are due solely for years prior to 2017 (see section 4.4.3 c) of this Registration Document).
(2) Compensation paid by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, in consideration of his role as General Manager of the Company.
(3) Amount before withholding tax estimated based on applying the performance criteria. It is proportional to CGEM's 2018 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 17, 2019 (see section 4.4.3 b). It includes the estimated €50,000 statutory share of the 2018 profit of Compagnie Financière Michelin SCmA (CFM) (Profit Share) that is payable by that company subject to approval by its shareholders at the 2019 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 2017.
(5) Entirely variable Profit Shares contingent on profit generated in 2016. Paid by CGEM and CFM in 2017 following approval of the related resolutions at their 2017 Annual Shareholders Meetings.

4.4.2 c) Compensation due and paid to Florent Menegaux (in €) (based on Table 2 in the AFEP/MEDEF Code)

Florent Menegaux, Managing General Partner since May 18, 2018 with unlimited personal liability for the Company's debts[(1)]	2018	
	Due	Paid
Fixed compensation[(2)]	554,672	554,672
Annual variable compensation	668,479[(3)]	0
Long-term variable compensation	0	0
Exceptional compensation	0	0
Attendance fees	0	0
Fringe benefit (car)	5,392	5,392
TOTAL	**1,228,544**	**560,004**
Reference CGEM consolidated net income	*1,659,627,524*	*1,692,941,994*

(1) Florent Menegaux was elected as Managing General Partner on May 18, 2018 and the amounts reported in the above table correspond to the prorated compensation due for the period following his election, i.e., *from May 18 to December 31, 2018. The components of this compensation, defined on an annual basis, are presented along with the related amounts in section 4.4.5 of this Registration Document. The amounts due for the period from January 1 to May 17, 2018 under his employment contract and not related to his position as Manager, are disclosed in the second table in section 4.4.2 a), Note 1.*

(2) Compensation paid by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, in consideration of his role as General Manager of the Company as from May 18, 2018. The components of this compensation, defined on an annual basis, are presented along with the related amounts in section 4.4.5 a) of this Registration Document.

(3) Amount before withholding tax estimated based on applying the performance criteria. It is proportional to CGEM's 2018 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 17, 2019 (see section 4.4.5 b).

4.4.2 d) Compensation due and paid to Yves Chapot (in €) (based on Table 2 in the AFEP/MEDEF Code)

Yves Chapot, General Manager since May 18, 2018[(1)]	2018	
	Due	Paid
Fixed compensation	372,808	372,808
Annual variable compensation	263,763[(2)]	0
Long-term variable compensation	0	0
Exceptional compensation	0	0
Attendance fees	0	0
Fringe benefit (car)	4,352	4,352
TOTAL	**640,923**	**377,160**

(1) Yves Chapot was elected as General Manager on May 18, 2018 and the amounts reported in the above table correspond to the prorated compensation due for the period following his election. The components of this compensation, defined on an annual basis, are presented along with the related amounts in section 4.4.7 of this Registration Document. The amounts due for the period from January 1 to May 31, 2018 under his employment contract and not related to his position as Manager, are disclosed in the third table in section 4.4.2 a), Note 1.

(2) Amount estimated based on applying the 2018 performance criteria proposed with the endorsement of the Supervisory Board and the agreement of the General Partners (see section 4.4.7 b).

4.4.2 e) Attendance fees and other compensation received by the non-executive members of Supervisory Board (based on Table 3 in the AFEP/MEDEF Code)

See the table in section 4.4.11 below.

4.4.2 f) Stock options granted during the year to the Managers 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 2018 to the Managers.

No stock options have been granted to the Managers since 2012.

	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	-	-
Florent Menegaux	-	-	0	0	-	-
Yves Chapot	-	-	0	0	-	-

4.4.2 g) Stock options exercised during the year by the Managers (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	-
Florent Menegaux	Plan 11 dated November 23, 2009 (stock options granted in his capacity as an employee of a Group company) Plan 12 dated May 12, 2010 (stock options granted in his capacity as an employee of a Group company)	11,514 8,000	€51.16 €52.13
Yves Chapot	Plan 13 dated May 19, 2011 (stock options granted in his capacity as an employee of a Group company)	853	€66.00

4.4.2 h) Performance shares granted during the year to the Managers by the issuer and any other Group company (based on Table 6 in the AFEP/MEDEF Code)[2]

None of the 129,270 performance share rights granted on November 22, 2018 pursuant to the authorization given at the May 13, 2016 Annual Shareholders Meeting were granted to the Managers.

	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	-	-	-
Florent Menegaux	-	0	0	-	-	-
Yves Chapot	-	0	0	-	-	-

(1) Refer also to the Managers' 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 Managers' Special Report and to the details of current plans in section 5.5.4 concerning performance shares.

4.4.2 i) Performance shares granted to the Managers for which the lock-up period ended during the year (based on Table 7 in the AFEP/MEDEF Code)[1]

	Plan no. and date	Number of performance shares for which the lock-up period ended during the year	Vesting conditions
Jean-Dominique Senard	-	0	-
Florent Menegaux	Plan 5 (Excellence Management) dated November 27, 2014 (performance shares granted in his capacity as an employee of a Group company)	1,903	The performance condition achievement rates are disclosed in section 5.5.4 c) of this Registration Document.
Yves Chapot	Plan 5 (Excellence Management) dated November 27, 2014 (performance shares granted in his capacity as an employee of a Group company)	500	The performance condition achievement rates are disclosed in section 5.5.4 c) of this Registration Document.

4.4.2 j) 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 k) 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 l) Long-term variable compensation awarded to the Managers (based on Table 10 in the AFEP/MEDEF Code)

See the table in section 4.4.3 c), 4.4.5 b) and 4.4.7 b) below.

(1) Refer also to the Managers' Special Report and to the details of current plans in section 5.5.4 concerning performance shares.

4.4.2 m) Managers' employment contracts, supplementary pension benefits and other benefits (based on Table 11 in the AFEP/MEDEF Code)

Manager	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: Managing Chairman and Managing General Partner								
Start date of term of office: 2011								
Expiration of term of office: 2019[1]		X	X[3]		X[4]		X[5]	
Florent Menegaux								
Position: Managing General Partner								
Start date of term of office: 2018								
Expiration of term of office: 2022		X[2]	X[3]		X[4]		X[6]	
Yves Chapot								
Position: General Manager								
Start date of term of office: 2018								
Expiration of term of office: 2022	X[7]		X[3]		X[4]		X[8]	

(1) See section 2.15.1 a) of the 2017 Registration Document.
(2) Florent Menegaux has resigned from the position that was the subject of his pre-existing employment contract.
(3) Defined benefit pension plan set up for senior executives of MFPM and CGEM. For detailed explanations, see sections 4.4.3 e), 4.4.5 d) and 4.4.7 d).
(4) Benefit defined in the CGEM Bylaws:
– set by the General Manager 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).
(5) Indemnity payable in his capacity as an executive officer of MFPM:
– with the possibility for the Board to waive implementation of the non-compete clause;
– capped at 16 months' worth of the most recent aggregate compensation paid to him by MFPM;
– deducted, where appropriate, from the cap equal to two years' fixed and variable compensation applicable to all termination benefits, including 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).
(6) Indemnity payable in his capacity as an executive officer of MFPM:
– with the possibility for the Board to waive implementation of the non-compete clause;
– capped at 24 months' worth of the most recent fixed compensation paid to him by MFPM;
– deducted, where appropriate, from the cap equal to two years' fixed and variable compensation applicable to all termination benefits, including 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).
(7) Suspended employment contract with MFPM.
(8) Indemnity payable under his suspended employment contract with MFPM:
– with the possibility for the Board to waive implementation of the non-compete clause;
– capped at 24 months' worth of the most recent aggregate compensation paid to him by MFPM;
– deducted, where appropriate, from the cap equal to two years' fixed and variable compensation applicable to all termination benefits, including 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, MANAGING CHAIRMAN 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, Managing Chairman, pursuant to the 2018 compensation policy. This policy is described in the Corporate Governance Report incorporated in the 2017 Registration Document[3] and was presented to the Annual Shareholders Meeting of May 18, 2018 by the Chair of the Compensation and Appointments Committee[4].

4.4.3 a) Fixed compensation

In 2018, Jean-Dominique Senard received fixed compensation of €1,100,000 from Manufacture Française des Pneumatiques Michelin (MFPM) for his role as the Company's General Manager, unchanged since 2014.

4.4.3 b) Variable compensation

/ Annual variable compensation

Shared features

These components have been determined in application of the 2018 compensation policy.

The annual variable components of Jean-Dominique Senard's compensation are paid out of the Profit Shares allocated to the two General Partners, which amounted to €9,957,765.14 for 2018[5].

Based on the Group's consolidated net income of €1,659,628 thousand[5], the Compensation and Appointments Committee has noted that the Consolidated Calculation Base of 0.6% of consolidated net income amounts to €9,957,765.14 for 2018.

Given the mutually agreed division of the Profit Share between the General Partners, and the results achieved in 2018 in relation to the performance conditions, as presented below, the total amount payable to Mr. Senard stands at €1,762,524 (after rounding).

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 €796,621.21 for 2018[6], *i.e.*, 72.4% of the fixed compensation.

Multi-Criteria Annual Variable Component

The following tables present, *inter alia,* the achievement rate for each criterion.

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[1]	Proportionate to observed increase	Achieved in stages from a minimum ratio	Achieved in stages from a minimum amount
Indicator: 2018 Actual	0.90%	55%	€1,214 million
Maximum value (in 100ths)	50	25	25
Achievement rate	12.90	25	25

(1) *For reasons of confidentiality and business secrecy, and more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and measurable criteria.*

(1) *At December 31, 2018, the Company had three General Partners: Jean-Dominique Senard, Managing Chairman, Florent Menegaux, Managing General Partner 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 4.6.5 below.*
(3) *See section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126.*
(4) *See the information/presentations on the May 18, 2018 Annual Shareholders Meeting on the Company's website www.michelin.com.*
(5) *See the 2nd and 3rd resolutions presented to the Annual Shareholders Meeting of May 17, 2019.*
(6) *This amount is net of the sum payable by CFM as compensation for Mr. Senard's role as Managing General Partner of this subsidiary, estimated at €50,000.*

Quantifiable qualitative criteria	Digital strategy	CSR/Environment & human rights	Manager transition	Group organization
Maximum value (in 50ths)	12.50	12.50	12.50	12.50
Achievement rate	12.08	12.50	12.50	7.50
Condition: Triggered when a criterion threshold is reached				When the cumulative achievement rate for the five criteria is at least 50/150ths: Achieved
Overall achievement rate (quantitative and qualitative criteria)				107/150ths(1)
Amount awarded according to quantifiable qualitative criteria *(in €)*				965,903.22
As a % of fixed compensation				87.80%

(1) Result rounded down by decision of the Supervisory Board. Jean-Dominique Senard would be awarded the maximum 14% of the Consolidated Calculation Base for this component only if the cumulative achievement rate for the seven criteria was 150/150ths.

The Compensation and Appointments Committee carefully reviewed achievement rates for each of the quantitative and qualitative criteria.

Concerning the qualitative criteria, the Committee's conclusions were as follows:

- for the "Continued active deployment of the Group's digital strategy" criterion, the Committee noted that substantially all of the objectives based on quantifiable indicators had been met:
  - best operating practices have been deployed in production/ digital manufacturing,
  - a technology and innovation center has been set up in Pune, India, that will be instrumental in helping the Group move up a gear in its digital transformation,
  - deployment of internal digital training for Group employees has been accelerated and global customer and employee relations have been transformed through the successful installation of dedicated digital platforms,
  - deployment of connected initiatives has also been accelerated, allowing the Group to become a leading provider of connected mobility services (connected vehicles, platform integration);
- for the "Corporate social responsibility and environmental responsibility" criterion (environment, human rights, CSR governance), the Committee noted that the objectives based on quantifiable indicators had been met:
  - environment objective: the Group has set a Science-Based Target for CO_2 emissions,
  - Human Rights objective: the Total Case Incident Rate (TCIR) has improved,
  - Group CSR Governance: dedicated governance structures have been deployed within the Group covering the environment, human rights and sustainable mobility;
- for the "Managers transition plan" criterion, the Committee noted that the objective concerning the transfer of powers to the new Managers had been met, as well as the objective of supporting Florent Menegaux as he prepares to take up the position of Managing Chairman;
- for the "Stabilization of the Group's organization" criterion, the Committee noted that Jean-Dominique Senard had met substantially all of the objectives designed to ensure that the new organization in place since January 1, 2018 is both robust and stable. The objective concerning the organization's cohesiveness was considered to have been partly met.

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 quantifiable qualitative criteria should be rated as 107/150ths. Based on the Consolidated Calculation Base of €9,957,765.14, application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €965,903.22 for 2018.

After discussing the matter during its meeting on February 11, 2019, 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, which approved them.

/ Cash-settled deferred variable compensation awarded in 2018 (long-term incentive bonus)

This long-term incentive bonus was determined in application of the 2018 compensation policy.

It was set at €1,080,000, representing a significant decrease compared to the bonuses awarded in prior years due to the nomination of a second Managing General Partner during the year.

This amount will be modulated by the application, over the three years 2018-2020, 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 growth in operating income. These criteria reflect implementation of the Ambitions for 2020 described in section 1.1 of this Registration Document[(1)].

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). For 2018, the decision was made to toughen up the trigger point and maximum objective for the "Michelin Environmental Footprint" indicator. The trigger point (below which the indicator will be 0) has been lowered to 53 from 63 previously, and the maximum objective (representing the point at which the maximum bonus for the criterion would be received) has been lowered to 51 from 60 previously.

The amount obtained after applying the performance criteria will be:

- prorated to reflect the period served as Managing Chairman during the three years 2018-2020;
- capped at 150% of the annual average of the Annual Variable Components paid for the years 2018-2020, as prorated to reflect the period served as Managing Chairman during the three years.

The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018.

Details of the performance criteria and related intermediate achievement rates are presented in Table 1.3 of section 4.4.3 c) of this Registration Document.

The long-term incentive bonus is subject to the shareholders' "say-on-pay" advisory vote on 2018 compensation.

No liability is recognized for the bonus 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 2021, as the bonus:

- is not paid by Michelin but is deducted from the General Partners' Profit Shares, with the result that no liability is recognized 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 Managing Chairman 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 the Managing Chairman ceases to hold office on the date his term expires (in May 2019), for reasons other than death or disability, and his term expires 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 until the end of 2020.

The incentive bonus would be paid at the end of said three-year period, for an amount prorated to the actual period served as Managing Chairman during the period.

As for the incentive bonus awarded in 2017, Jean-Dominique 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 2018 incentive bonus. He will be required to hold these shares for at least three years as from the date on which he steps down from the position of Managing Chairman, after which the shares may be sold on a phased basis.

(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.

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 2016 and payable in 2019

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2016-2018[1] period	Michelin Environmental site 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: (63 - average MEF)/ (63 - 60)*15%	If the average 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 - €70 million)/(€150 million - €70 million)*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: achieved	Growth in the Michelin share price[1] = 10.5% Growth in the CAC 40[1] = 9% The growth differential is 1.5 points, giving an achievement rate of 3.5% out of 35% for this criterion	2016 = 56.9 2017 = 53 2018 = 49.3 The average MEF is 52.93 giving an achievement rate of 15% out of 15% for this criterion	2016 = 80% 2017 = 80% 2018 = 80% The average engagement rate is 80%, giving an achievement rate of 15% out of 15% for this criterion	2016 = +€243 million 2017 = +€138 million 2018 = +€289 million Operating income grew by an average of €223.33 million, giving an achievement rate of 35% out of 35% for this criterion
Base amount	€1,800,000, as increased or reduced by the % change in the Michelin share price over the 2016-2018 period (+10.5%)[1]			
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			
Amount due	€1,362,465			
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.

(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 last related year.

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).

Based on the achievement rates for the bonus criteria observed by the Compensation and Appointments Committee (see above table), the Supervisory Board noted that the gross long-term incentive bonus payable in 2019 amounted to €1,362,465 (before withholding tax).

Jean-Dominique Senard is committed to investing 20% of the incentive bonus in Michelin shares, and to holding the shares for a fixed period extending beyond the date when he steps down from his position as Managing Chairman, with any subsequent sales to be carried out on a phased basis over four years.

1.2 – 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: (63 - average MEF)/(63 - 60)*15%	If the average 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 - €70 million)/(€150 million - €70 million)*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)] = 1.9% Growth in the CAC 40[(3)] = 15.8%	2017 = 53 2018 = 49.3	2017 = 80% 2018 = 80%	2017 = +€138 million 2018 = +€289 million
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 multi-criteria 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 2018 compared to the average share price for the second half of 2016.

The awarding of the long-term incentive bonus performance was presented at the Annual Shareholders Meeting of May 18, 2018 and was approved by a majority of 92.76% 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 three years.

1.3 – Cash-settled long-term incentive bonus awarded in 2018

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2018-2020[(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 51, 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 51 and 53, the result will be: (53 - average MEF)/(53 - 51)*15%.	If the average 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 - €70 million)/(€150 million - €70 million)*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 53, 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)] = -18.0% Growth in the CAC 40[(3)] = -1.4%	2018 = 49.3	2018 = 80%	2018 = +€289 million
Base amount	€1,080,000			
Ceiling	▶ 150% of the annual average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2018, 2019 and 2020 ▶ Amount of Profit Shares available for distribution in 2021 out of 2020 profit, after deducting single-criterion and multi-criteria variable compensation due for 2020			
Payment year	2021, after approval of the 2020 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 2020 compared to the average share price for the second half of 2017.
(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; for 2018, the trigger point and maximum objective for this criterion were made considerably tougher.
(3) Average share price for the second half of 2018 compared to the average share price for the second half of 2017.

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 amount.

1.5 – Cash-settled long-term incentive bonus awarded in 2015 and paid in 2018

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).

Payment of the bonus was approved at the Annual Shareholders Meeting of May 18, 2018 by a majority of 92.76% of the votes cast (6th resolution) (details of this long-term incentive bonus are provided in Table 1.1 of section 4.4.3 c) of the 2017 Registration Document, page 133).

In accordance with the terms of the bonus award, Mr. Senard acquired 1,800 Michelin shares(2), corresponding to approximately 20% of the bonus amount.

/ 2 – Cash-settled long-term incentive bonuses awarded between 2009 and 2011 (plans closed in 2012)

Grant year	2009	2010	2011
Amount awarded *(before indexation, in €)*	0 (waived)	368,034.00	0 (waived)
Exercise period	-	April 30, 2015 to April 29, 2019	-
Gross amount paid in 2018 *(in €)*	0	736,067.00	0
Incentive bonuses cancelled/expired	0	0	0
Long-term incentive bonuses outstanding at December 31, 2018 *(in €)*	0	0	0

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, he waived his right to this compensation.

Mr. Senard's 2010 long-term incentive bonus (2010 ILT) was equal to the average amount, in €, of the variable compensation paid to him for 2008, 2009 and 2010, representing €368,034.00.

The 2010 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.

Mr. Senard cashed in his 2010 ILT on June 13, 2018. During the indexation period, the average Michelin share price grew by 100.54% and he was therefore paid a gross amount of €736,067.00 after applying the maximum indexation adjustment.

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 2018 compensation policy(3), Mr. Senard did not receive any attendance fees in 2018 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).

4.4.3 e) Pension benefits

The Managers are not covered by any supplementary pension plan set up specifically for executive officers.

The pension plan's structure and rules are described in section 4.4.4 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 2017.

Mr. Senard's reference compensation for 2018 was made up solely of the fixed compensation paid by MFPM(4).

Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €165,000. The 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 2018 (fixed compensation and variable Profit Share), 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.

4.4.3 f) Compensation for loss of office

No compensation for loss of office was paid in 2018(5).

4.4.3 g) Non-compete clause

No non-compete indemnity was paid in 2018(5).

(1) See statement in section 4.5 of this Registration Document.
(2) See statement in section 4.5 of this Registration Document.
(3) See section 4.4.1 a) of the 2017 Registration Document.
(4) See detailed disclosures in section 4.4.3 a) of this Registration Document.
(5) See detailed disclosures in section 4.4.2 m) of this Registration Document.

4.4.4 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO JEAN-DOMINIQUE SENARD, MANAGING CHAIRMAN, IN RESPECT OF 2018 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 17, 2019 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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Managing Chairman/Managing General Partner[(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 Jean-Dominique Senard in respect of 2018 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 17, 2019 (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.

Compensation due or awarded for 2018	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 General Manager 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 section 4.4.3 a), Fixed compensation of this Registration Document, page 146, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
Annual variable compensation	1,762,524	**The structure of these components and their payment mechanisms are unchanged from 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 Share) allocated to the General Partners of CGEM – Jean-Dominique Senard, Florent Menegaux and SAGES – that is split between them on a mutually agreed basis. The consolidated net income to be presented at the Annual Shareholders Meeting on May 17, 2019, amounts to €1,659,628 thousand. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2018 is €9,957,765.14. Given the mutually agreed division of the Profit Share between the General Partners, and the performance achieved in 2018 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Senard represents €1,762,524 (after rounding, before withholding tax), breaks down as follows: **Single-Criterion Annual Variable Component** This component is equal to 8% of the Consolidated Calculation Base. The Compensation and Appointments Committee has noted that the Single-Criterion Annual Variable Component amounts to €796,621.21 for 2018.

(1) In line with the 2018 compensation policy described in the Corporate Governance Report incorporated in section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126.
(2) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Annual variable compensation (continued)	1,762,524	**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 2018 variable compensation of the Executive Committee members and Group managers) was 62.90/100ths, with: ▶ annual growth in sales volumes (tonnes): 12.90/50ths; ▶ efficiency project (annual reduction in operating costs): 25/25ths; ▶ annual growth in free cash flow: 25/25ths. Concerning the four qualitative criteria, the Committee's conclusions were as follows: ▶ for the "Continued active deployment of the Group's digital strategy" criterion, the Committee noted that substantially all of the objectives based on quantifiable indicators had been met (12.08/12.50ths): – best operating practices have been deployed in production/digital manufacturing, – a technology and innovation center has been set up in Pune, India, that will be instrumental in helping the Group move up a gear in its digital transformation, – deployment of internal digital training for Group employees has been accelerated and global customer and employee relations have been transformed through the successful installation of dedicated digital platforms, – deployment of connected initiatives has also been accelerated, allowing the Group to become a leading provider of connected mobility services (connected vehicles, platform integration); ▶ for the "Corporate social responsibility and environmental responsibility" criterion (environment, human rights, CSR governance), the Committee noted that the objectives based on quantifiable indicators had been met (12.50/12.50ths): – environment objective: the Group has set a Science-Based Target for CO_2 emissions, – Human Rights objective: the Total Case Incident Rate (TCIR) has improved, – Group CSR Governance: dedicated governance structures have been deployed within the Group covering the environment, human rights and sustainable mobility; ▶ for the "Managers transition plan" criterion, the Committee noted that the objective concerning the transfer of powers to the new Managers had been met (12.50/12.50ths), as well as the objective of supporting Florent Menegaux as he prepares to take up the position of Managing Chairman; ▶ for the "Stabilization of the Group's organization" criterion, the Committee noted that Jean-Dominique Senard had met substantially all of the objectives (7.50/12.50ths) designed to ensure that the new organization in place since January 1, 2018 is both robust and stable. The objective concerning the organization's cohesiveness was considered to have been partly met. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 44.58/50ths. 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 107/150ths. Based on the Consolidated Calculation Base of €9,957,765.14, application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €965,903.22 for 2018. For more information, see section 4.4.3 b), Variable compensation of this Registration Document, pages 146 and 147, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

(1) For reasons of confidentiality and business secrecy, and more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and measurable criteria.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2018	No cash-settled deferred variable compensation was due for 2018	**The structure of these components and their payment mechanisms are unchanged from 2017, but the base amount is significantly lower.** The base amount used to calculate Jean-Dominique Senard's deferred compensation for 2018 is €1,080,000. This is significantly lower than that for 2017 due to the election during the year of a second Managing General Partner. The amount will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the three-year period: ▶ growth in the Michelin share price; ▶ 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 those applicable to the 2018 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. For 2018, the decision was made to set considerably tougher MEF targets. 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 the Company 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 2018, 2019 and 2020; ▶ paid out of the Profit Shares allocated to the General Partners in respect of 2020 and payable in 2021 after the 2020 financial statements have been approved: – subject to the availability of Profit Shares payable in 2021 out of 2020 profit, – up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2020. 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 the Managing Chairman ceases to hold office on the date his term expires (in May 2019), for reasons other than death or disability, and his term expires 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 until the end of 2020. The incentive bonus would be paid at the end of said three-year period, for an amount prorated to the actual period served as Managing Chairman during the three years. As for the incentive bonus awarded in 2017, 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 2018 incentive bonus. He will be required to hold these shares for at least three years as from the date on which he steps down from the position of Managing Chairman, after which the shares may be sold on a phased basis. The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018. For more information, see section 4.4.3 c), Variable compensation of this Registration Document, pages 149 and 150, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

(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 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled differed variable compensation awarded in 2016 and due in 2019 in respect of 2018	1,362,465	**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).** 2018 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: the growth differential was 1.5 points, giving an achievement rate of 3.5% out of a possible 35%; ▶ improvement in the Michelin Environmental Footprint (MEF): the average MEF was 52.93 giving an achievement rate of 15% out of 15% for this criterion; ▶ employee engagement ("Moving Forward Together" survey): the average engagement rate was 80%, giving an achievement rate of 15% out of 15% for this criterion; ▶ growth in operating income: average operating income for the three-year period was €223.33 million, giving an achievement rate of 35% out of 35% for this criterion. Based on these results, the Supervisory Board noted that the gross long-term incentive bonus payable in 2019 amounted to €1,362,465 (before withholding tax). Mr. Senard is committed to investing 20% of the incentive bonus in Michelin shares, and to holding the shares for a fixed period extending beyond the expiry of his term as Managing General Partner, with any subsequent sales to be carried out on a phased basis over four years. For more information, see in section 4.4.3 c) of this Registration Document, pages 149 and 150, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 124 and 125.
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	N/A	Mr. Senard does not receive any attendance fees.
Value of fringe benefits	8,470	Company car.

(1) For reasons of confidentiality and business secrecy, and more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and quantifiable criteria.
(2) 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.

Components of compensation due or awarded for 2018 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 2018	**The detailed information in this section is unchanged from 2017.** 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. 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 4.4.1 a) 6 on compensation in the 2017 Registration Document, page 126 and section 4.4.2 m) of this Registration Document, page 145.

Components of compensation due or awarded for 2018 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
Non-compete indemnity	No indemnity was due under a non-compete clause in 2018	**The detailed information in this section is unchanged from 2017.** 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 4.4.1 a) 7 on compensation in the 2017 Registration Document, page 126 and section 4.4.2 m) of this Registration Document, page 145.
Supplementary pension benefits	No supplementary pension benefits were due for 2018	**The pension plan structure and rules are unchanged from 2017.** 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 General Manager 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 General Managers (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 is funded through a contribution to an insured plan. Mr. Senard's reference compensation is made up solely of the fixed compensation paid by MFPM (see section 4.4.3 a) of this Registration Document). Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €165,000. The 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 2018 (fixed compensation and variable Profit Share), 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 corporations (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 Managers (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 FLORENT MENEGAUX, MANAGING GENERAL PARTNER SINCE MAY 18, 2018

Florent Menegaux was elected as Managing General Partner by the Annual Shareholders Meeting of May 18, 2018 (13th resolution) by a majority of 99.70% of the votes cast[1].

In his capacity as General Partner of CGEM[2], he has unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners each receive a portion of the Company's profits as provided for in the Bylaws[3]. 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.

The Compensation and Appointments Committee of the Supervisory Board has reviewed all the components of the compensation due, awarded or to be awarded to Florent Menegaux in his capacity as Managing General Partner as from May 18, 2018, pursuant to the 2018 compensation policy. This policy is described in the Corporate Governance Report reproduced in the 2017 Registration Document[4] and was presented to the Annual Shareholders Meeting of May 18, 2018 by the Chair of the Compensation and Appointments Committee[5].

4.4.5 a) Fixed compensation

For the Managing General Partner elected in 2018, the 2018 compensation policy provides for the payment of fixed compensation (i) in an amount that is significantly lower than that of the Managing Chairman, (ii) prorated based on the period served as Managing General Partner in 2018.

In line with this policy, Florent Menegaux's annual fixed compensation was set at €900,000. His prorated fixed compensation for the period from his election as Managing General Partner on May 18, 2018 to December 31, 2018 amounted to €554,672[6].

4.4.5 b) Variable compensation

/ Annual variable compensation

Shared features

These components have been determined in application of the 2018 compensation policy.

The annual variable components of Mr. Menegaux's compensation are paid out of the Profit Shares allocated to the two General Partners, which amounted to €9,957,765.14 for 2018[7].

Based on the Group's consolidated net income of €1,659,628 thousand[7], the Compensation and Appointments Committee has noted that the Consolidated Calculation Base of 0.6% of consolidated net income amounts to €9,957,765.14 for 2018.

Given the mutually agreed division of the Profit Share between the General Partners, and the results achieved in 2018 in relation to the performance conditions, as presented below, the total amount payable to Mr. Menegaux stands at €668,479 (after rounding).

Single-Criterion Annual Variable Component

For the Managing General Partner elected in 2018, the 2018 compensation policy provides for the Single Criterion Annual Variable Component to be (i) calculated on a significantly lower Consolidated Calculation Base than that applicable to the Managing Chairman and (ii) prorated based on the period served as Managing General Partner in fiscal 2018.

In line with this policy and based on the Supervisory Board's recommendation, the General Partners set the Single Criterion Annual Variable Component at 5% of the Consolidated Calculation Base.

The Compensation and Appointments Committee has noted that the Single-Criterion Annual Variable Component amounts to €312,374 for 2018, representing 56.3% of Florent Menegaux's prorated fixed compensation for the year.

Multi-Criteria Annual Variable Component

For the Managing General Partner elected in 2018, the 2018 compensation policy provides for the Multi-Criteria Annual Variable Component to be (i) calculated on a significantly lower Consolidated Calculation Base than that applicable to the Managing Chairman and (ii) prorated based on the period served as Managing General Partner in fiscal 2018.

In line with this policy and based on the Supervisory Board's recommendation, the General Partners set the Multi-Criteria Annual Variable Component at between 0% and 8.50% of the Consolidated Calculation Base.

(1) As a result of his election, Mr. Menegaux resigned from the position covered by his employment contract with MFPM without receiving any termination benefit under the contract.
(2) At December 31, 2018, the Company had three General Partners: Jean-Dominique Senard, Managing Chairman, Florent Menegaux, Managing General Partner, and SAGES, Non-Managing General Partner (see sections 2.15.3 and 2.15.4 c)) of this Registration Document).
(3) See Article 30 of the Bylaws, reproduced in section 4.6.5 below.
(4) See section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126.
(5) See the information/presentations on the May 18, 2018 Annual Shareholders Meeting on the Company's website www.michelin.com.
(6) Compensation paid by Manufacture Française des Pneumatiques Michelin (MFPM) in consideration of his role as General Manager of the Company as from May 18, 2018.
(7) See the 2nd and 3rd resolutions presented to the Annual Shareholders Meeting of May 17, 2019.

The achievement rates for the different criteria were as follows:

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[(1)]	Proportionate to observed increase	Achieved in stages as from a minimum ratio	Achieved in stages from a minimum as amount
Indicator: 2018 Actual	0.90%	55%	€1,214 million
Maximum value (in 100ths)	50	25	25
Achievement rate	12.90	25	25

(1) For reasons of confidentiality and business secrecy, and more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and quantifiable criteria.

Quantifiable qualitative criteria	Digital strategy	CSR/Environment & human rights	Manager transition – Strategic goals	Group organization
Maximum value *(in 50ths)*	12.50	12.50	12.50	12.50
Achievement rate	12.08	12.50	12.50	7.50

Condition: Triggered when a criterion threshold is reached	When the cumulative achievement rate for the fiver criteria is a least 50/150ths: achieved
Overall achievement rate (quantitative and qualitative criteria)	107/150ths[(1)]
Amount awarded according to quantifiable qualitative criteria *(in €)*	356,106.00
As a % of fixed compensation	64.2%

(1) Result rounded down by decision of the Supervisory Board. Florent Menegaux would be awarded the maximum 8.50% of the Consolidated Calculation Base for this component only if the cumulative achievement rate for the seven criteria was 150/150ths.

The Compensation and Appointments Committee carefully reviewed achievement rates for each of the quantitative and qualitative criteria.

Concerning the qualitative criteria, the Committee's conclusions were as follows:

- for the "Continued active deployment of the Group's digital strategy" criterion, the Committee noted that substantially all of the objectives based on quantifiable indicators had been met:
  - best operating practices have been deployed in production/ digital manufacturing,
  - a technology and innovation center has been set up in Pune, India, that will be instrumental in helping the Group move up a gear in its digital transformation,
  - deployment of internal digital training for Group employees has been accelerated and global customer and employee relations have been transformed through the successful installation of dedicated digital platforms,
  - deployment of connected initiatives has also been accelerated, allowing the Group to become a leading provider of connected mobility services (connected vehicles, platform integration);
- for the "Corporate social responsibility and environmental responsibility" criterion (environment, human rights, CSR governance), the Committee noted that the objectives based on quantifiable indicators had been met:
  - environment objective: the Group has set a Science-Based Target for CO_2 emissions,
  - Human Rights objective: the Total Case Incident Rate (TCIR) has improved,
  - Group CSR Governance: dedicated governance structures have been deployed within the Group covering the environment, human rights and sustainable mobility;
- for the "Manager transition plan" criterion, the Committee noted that Florent Menegaux had met his objectives concerning his integration, as future Managing Chairman, in the economic, social and media environment, gradual assertion of his leadership and presentation of the Group's strategic goals to the governance structures;
- for the "Stabilization of the Group's organization" criterion, the Committee noted that Florent Menegaux had met substantially all of the objectives designed to ensure that the new organization in place since January 1, 2018 is both robust and stable. The objective concerning the organization's cohesiveness was considered as partly met.

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 107/150ths. Based on the Consolidated Calculation Base of €9,957,765.14, application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €356,106 for 2018.

After discussing the matter during its meeting on February 11, 2019, 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, which approved them.

/ Cash-settled deferred variable compensation awarded in 2018 (long-term incentive bonus)

For the Managing General Partner elected in 2018, the 2018 compensation policy provides for the long-term incentive bonus to be (i) calculated on a significantly lower base than that applicable to the Managing Chairman and (ii) prorated based on the period served as Managing General Partner in fiscal 2018.

In response to shareholder expectations and the changing tire market environment, the policy applied consistently since 2016 for the Managing Chairman 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).

In line with this policy and based on the Supervisory Board's recommendation, the General Partners set the Managing General Partner's long-term incentive bonus at €720,000.

This amount will be modulated by the application, over the three years 2018-2020, 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 growth in operating income. These criteria reflect implementation of the Ambitions for 2020 described in section 1.1 of this Registration Document[(1)].

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). For 2018, the decision was made to toughen up the trigger point and maximum objective for the "Michelin Environmental Footprint" indicator. The trigger point (below which the indicator will be 0) has been lowered to 53 from 63 previously, and the maximum objective (representing the point at which the maximum bonus for the criterion would be received) has been lowered to 51 from 60 previously.

The amount obtained after applying the performance criteria will be:

- prorated to reflect the period served as Managing General Partner during the three years 2018-2020;
- capped at 150% of the annual average of the Annual Variable Components paid for the years 2018-2020, as prorated to reflect the period served as Managing General Partner during the three years.

The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018.

The long-term incentive bonus is subject to the shareholders' "say-on-pay" advisory vote on 2018 compensation.

No liability is recognized for the bonus 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 2021, as the bonus:

- is not paid by Michelin but is deducted from the General Partners' Profit Shares, with the result that no liability is recognized 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 Managing General Partner 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.

The incentive bonus would be paid at the end of said three-year period, for an amount prorated to the actual time served as Managing General Partner during the period.

As for the incentive bonus awarded to Jean-Dominique Senard, Florent Menegaux is required to invest in Michelin shares 20% of the actual amounts received at the end of the three-year period for the 2018 incentive bonus and to hold the shares for a fixed period that may extend beyond the expiry of his term as Managing General Partner, with any subsequent sales to be carried out on a phased basis over four years.

(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 table below provides details of the long-term incentive bonus performance criteria and related intermediate achievement rates:

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2018-2020[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 51, 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 51 and 53, the result will be: (53 - average MEF)/ (53 - 51)*15%	If the average 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 - €70 million)/(€150 million - €70 million)*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 53, 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] = -18.0% Growth in the CAC 40[3] = -1.4%	2018 = 49.3	2018 = 80%	2018 = +€289 million
Base amount	€720,000			
Ceiling	▶ 150% of the annual average of the annual variable and multi-criteria variable compensation paid to Mr. Menegaux for 2018, 2019 and 2020 ▶ Amount of Profit Shares available for distribution in 2021 out of 2020 profit, after deducting single-criterion and multi-criteria variable compensation due for 2020			
Payment year	2021, after approval of the 2020 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. Menegaux 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 2020 compared to the average share price for the second half of 2017.
(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; for 2018, the trigger point for these criteria was made considerably tougher.
(3) Average share price for the second half of 2018 compared to the average share price for the second half of 2017.

4.4.5 c) Fringe benefits, stock options, performance shares, attendance fees

In line with the 2018 compensation policy, Mr. Menegaux did not receive any attendance fees in 2018 from the Company or any controlled entities, or any benefits other than those listed above.

Mr. Menegaux has a fringe benefit in the form of a Company car (see table 4.4.2 c).

4.4.5 d) Supplementary pension benefits

The Managers are not covered by any supplementary pension plan set up specifically for executive officers.

In his capacity as General Manager of the subsidiary MFPM, Mr. Menegaux participates in the supplementary pension plan set up for MFPM and CGEM 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, is described in the section 4.4.6 in this Registration Document.

The plan rules are unchanged from 2017.

Mr. Menegaux's reference compensation for 2018 in his capacity as executive director was made up solely of the annual fixed compensation paid by the subsidiary MFPM[1].

Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €135,000. The benefits will be taxed at the rate of 32%.

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.

4.4.5 e) Compensation for loss of office

No compensation for loss of office was paid in 2018[2].

4.4.5 f) Non-compete indemnity

No non-compete indemnity was paid in 2018[2].

4.4.6 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO FLORENT MENEGAUX, ELECTED AS MANAGING GENERAL PARTNER ON MAY 18, 2018, IN RESPECT OF 2018 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 17, 2019 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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Managing General Partner[3], in line with the AFEP/MEDEF Code recommendation[4] 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 Florent Menegaux in respect of 2018 and recommends that the shareholders cast a favorable advisory vote thereon.

The components of Mr. Menegaux's compensation will therefore be presented to shareholders at the Annual Meeting on May 17, 2019 (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.

(1) See detailed disclosures in section 4.4.5 a) of this Registration Document.
(2) See detailed disclosures in section 4.4.2 m) of this Registration Document.
(3) In line with the 2018 compensation policy described in the Corporate Governance Report incorporated in section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126.
(4) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	554,672	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. Menegaux in his capacity as General Manager of that company. The 2018 compensation policy provides for the payment to Mr. Menegaux of fixed compensation (i) in an amount that is significantly lower than that of the Managing Chairman, (ii) prorated based on the period served as Managing General Partner in fiscal 2018. For more information see section 4.4.5 a) Fixed compensation of this Registration Document, page 158, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
Annual variable compensation	668,479	**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. Menegaux's compensation are paid out of the share of profit (Profit Share) allocated to the General Partners of CGEM – Jean-Dominique Senard, Florent Menegaux and SAGES – that is split between them on a mutually agreed basis. The consolidated net income to be presented at the Annual Shareholders Meeting on May 17, 2019, amounts to €1,659,628 thousand. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2018 is €9,957,765.14. Given the mutually agreed division of the Profit Share between the General Partners, and the performance achieved in 2018 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Menegaux represents €668,479 (after rounding, before withholding tax), as follows: **Single-Criterion Annual Variable Component** This component is equal to 5% of the Consolidated Calculation Base. The Compensation and Appointments Committee has noted that the Single-Criterion Annual Variable Component amounts to €312,374 for 2018. **Multi-Criteria Annual Variable Component** This component corresponds to between 0% and 8.50% of the Consolidated Calculation Base, depending on the 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 2018 variable compensation of the Executive Committee members and Group managers) was 62.90/100ths, with: ▶ annual growth in sales volumes (tonnes): 12.90/50ths; ▶ efficiency project (annual reduction in operating costs): 25/25ths; ▶ annual growth in free cash flow: 25/25ths. Concerning the four qualitative criteria, the Committee's conclusions were as follows: ▶ for the "Continued active deployment of the Group's digital strategy" criterion, the Committee noted that substantially all of the objectives based on quantifiable indicators had been met (12.08/12.50ths): – best operating practices have been deployed in production/digital manufacturing, – a technology and innovation center has been set up in Pune, India, that will be instrumental in helping the Group move up a gear in its digital transformation, – deployment of internal digital training for Group employees has been accelerated and global customer and employee relations have been transformed through the successful installation of dedicated digital platforms, – deployment of connected initiatives has also been accelerated, allowing the Group to become a leading provider of connected mobility services (connected vehicles, platform integration); ▶ for the "Corporate social responsibility and environmental responsibility" criterion (environment, human rights, CSR governance), the Committee noted that the objectives based on quantifiable indicators had been met (12.50/12.50ths): – environment objective: the Group has set a Science-Based Target for CO_2 emissions, – Human Rights objective: the Total Case Incident Rate (TCIR) has improved, – Group CSR Governance: dedicated governance structures have been deployed within the Group covering the environment, human rights and sustainable mobility; ▶ for the "Manager transition plan" criterion, the Committee noted that Florent Menegaux had met his objectives (12.50/12.50ths) concerning his integration, as future Managing Chairman, in the economic, social and media environment, gradual assertion of his leadership and presentation of the Group's strategic goals to the governance structures;

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Annual variable compensation (continued)	668 479	▶ for the "Stabilization of the Group's organization" criterion, the Committee noted that Florent Menegaux had met substantially all of the objectives (7.50/12.50ths) designed to ensure that the new organization in place since January 1, 2018 is both robust and stable. The objective concerning the organization's cohesiveness was considered to have been partly met. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 44.58/50ths. 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 107/150ths. Based on the Consolidated Calculation Base of €9,957,765.14, application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €356,106 for 2018. For more information see section 4.4.5 b) Variable compensation of this Registration Document, pages 158 and 159, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
Cash-settled deferred variable compensation awarded in 2018	No cash-settled deferred variable compensation was due for 2018	This long-term incentive bonus is calculated using a reduced base amount of €720,000 due to the presence of two Managing General Partners during the management transition period. This amount will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the three-year period: ▶ growth in the Michelin share price; ▶ environmental and corporate social responsibility performance: employee engagement and environmental performance of manufacturing operations (as measured by the MEF); ▶ growth in operating income[(2)]. These criteria are the same as those applicable to the 2018 performance share plan for Group employees, which is not open to Florent Menegaux. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. For 2018, the decision was made to set considerably tougher MEF targets. 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 the Company 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. Menegaux for 2018, 2019 and 2020; ▶ paid out of the Profit Shares allocated to the General Partners in respect of 2020 and payable in 2021 after the 2020 financial statements have been approved: – subject to the availability of Profit Shares payable in 2021 out of 2020 profit, – up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2020. If Mr. Menegaux 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. The incentive bonus would be paid at the end of said three-year period, for an amount prorated to the term as Managing General Partner. As for the incentive bonus awarded to Jean-Dominique Senard, Florent Menegaux will be required to invest in Michelin shares 20% of the actual amounts received at the end of the three-year period for the 2018 incentive bonus. He will be required to hold these shares for at least four years as from the date on which he steps down from the position of Managing General Partner, after which the shares may be sold on a phased basis. The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018. For more information, see section 4.4.5 b) Variable compensation in this Registration Document, pages 158 and 161, and section 4.4.1 a) Compensation policy: Managing Chairman in the 2017 Registration Document, pages 122 to 126.
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	N/A	Florent Menegaux does not receive any attendance fees.
Value of fringe benefits	5,392	Company car.

(1) For reasons of confidentiality and business secrecy, and more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and quantifiable criteria.
(2) 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.

Components of compensation due or awarded for 2018 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 2018	In accordance with Article 13-2 of the Bylaws, as approved by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if Florent Menegaux 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. Menegaux's total compensation for the two years preceding the year of his removal from office. It would be based on performance conditions decided by the Supervisory Board. The final compensation would be reduced, if applicable, so that any other severance payments due to Mr. Menegaux 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 4.4.1 a) 6 on compensation in the 2017 Registration Document (page 126), and section 4.4.2 m) (page 145) in this Document.
Non-compete indemnity	No indemnity was due under a non-compete clause in 2018	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. Menegaux is subject to a non-compete clause in his capacity as General Manager of the subsidiary MFPM. The Supervisory Board 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. Menegaux the equivalent of up to 24 months' compensation based on the most recent fixed compensation paid to him by the subsidiary MFPM. The non-compete indemnity would be reduced or canceled, if necessary, so that Mr. Menegaux'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 4.4.1 a) 7 on compensation in the 2017 Registration Document (page 126), and section 4.4.2 m) (page 145) in this Document.
Supplementary pension benefits	No supplementary pension benefits were due for 2018	This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Menegaux is not a member of any pension plan set up specifically for executive officers. In his capacity as General Manager of MFPM, Mr. Menegaux participates in the supplementary pension plan set up for MFPM and CGEM 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 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 is funded through a contribution to an insured plan. Mr. Menegaux's reference compensation for 2018 in his capacity as executive director was made up solely of the annual fixed compensation paid by MFPM[2]. Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €135,000. 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 corporations (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 Managers (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.
(2) See section 4.4.5 a) of this Registration Document.

4.4.7 AMOUNTS ALLOCATED TO YVES CHAPOT, GENERAL MANAGER SINCE MAY 18, 2018

Yves Chapot was elected as General Manager by the Annual Shareholders Meeting of May 18, 2018 (12th resolution) by a majority of 99.51% of the votes cast[1].

The Compensation and Appointments Committee of the Supervisory Board has reviewed all the components of the compensation due, awarded or to be awarded to Yves Chapot in his capacity as General Manager as from May 18, 2018[2], pursuant to the 2018 compensation policy. This policy is described in the Corporate Governance Report reproduced in the 2017 Registration Document[1] and was presented to the Annual Shareholders Meeting of May 18, 2018 by the Chair of the Compensation and Appointments Committee[3].

4.4.7 a) Fixed compensation

For the General Manager elected in 2018, the 2018 compensation policy provides for the payment of fixed compensation (i) in an amount that is significantly lower than that of the Managing Chairman, (ii) prorated based on the period served as General Manager in 2018.

In line with this policy, Yves Chapot's annual fixed compensation was set at €600,000. His prorated fixed compensation for the period from his election as General Manager amounted to €372,808.

4.4.7 b) Variable compensation

/ Annual variable compensation

Under the 2018 compensation policy, the General Manager elected in 2018 is entitled to Multi-Criteria Annual Variable Compensation equivalent to that awarded to the Managing Chairman and the Managing General Partner. This compensation (i) would be significantly less than that awarded to the Managing Chairman and the Managing General Partner, (ii) would not be deducted from the Profit Shares allocated to General Partners and (iii) would be prorated to the period served as General Manager during 2018.

In line with this policy and based on the Supervisory Board's recommendation, the General Partners set the Multi-Criteria Annual Variable Compensation at a maximum of 120% of the fixed compensation received by Yves Chapot in 2018 in his capacity as Manager. The actual compensation amount will depend on performance in relation to five criteria.

Mr. Chapot will be awarded the maximum amount only if the targets and cumulative achievement rate for the following five criteria which are described below is 100/100ths:

Quantitative criteria	Growth in consolidated operating income from recurring activities	Level of consolidated inventories of finished and semi-finished products	Level of Automotive segment tire sales volume
Indicator	Amount	% of sales	Number of units
Target[1]	Achieved in stages as from a minimum amount, limited by a cap	Achieved in stages as from a minimum ratio, limited by a cap	Achieved in stages as from a minimum volume, limited by a cap
Indicator: 2018 Actual	+€265 million	20.50%	€154.9 million
Maximum value (in 70ths)	30	20	20
Achievement rate	24.75	12.86	0

(1) *For reasons of confidentiality and business secrecy, and more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and quantifiable criteria.*

(1) *See section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126.*
(2) *The employment contract between the subsidiary MFPM and Yves Chapot was suspended as from May 18, 2018 for the duration of his term as General Manager (see section 4.4.2 m) of this Registration Document, page 145).*
(3) *See the information/presentations on the May 18, 2018 Annual Shareholders Meeting on the Company's website www.michelin.com.*

Quantifiable qualitative criteria	Organizational transition – Strategic goals	Customer Service initiative
Maximum value (in 30ths)	15	15
Achievement rate	15	5.78

Overall achievement rate (quantifiable qualitative criteria)	58.39/100ths(1)
Amount awarded based on quantifiable qualitative criteria *(in €)*	263,763
As a % of fixed compensation	70.75%

(1) Result rounded by decision of the Supervisory Board. Mr. Chapot will be awarded the maximum amount if the cumulative achievement rate for the five criteria is 100/100ths.

The Compensation and Appointments Committee carefully reviewed achievement rates for each of the quantitative and qualitative criteria.

Concerning the qualitative criteria, the Committee's conclusions were as follows:

- for the "Organizational transition – Strategic goals" criterion, the Committee noted that the objective of presenting the organizational transition and the strategic goals to the Group's governance bodies had been met;
- for the "Deployment of the Customer Service initiative" criterion, the Committee noted that part of the objective related to the Net Promoter Score (NPS) indicator had been met.

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 58.39/100ths. Given the Calculation Base of 120% of Yves Chapot's annual fixed compensation (€600,000, prorated to the period served in 2018), the Multi-Criteria Annual Variable Component for 2018 amounts to €263,763.

After discussing the matter during its meeting on February 11, 2019, the Supervisory Board approved the Compensation and Appointments Committee's recommendation.

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 2018 (long-term incentive bonus)

Under the 2018 compensation policy, the long-term incentive bonus awarded to the General Manager elected during the year was determined considering that: the amount of the bonus (i) would be significantly less than that of the Managing Chairman and the Managing General Partner, (ii) would not be deducted from any Profit Share, and (iii) would be prorated to the period served by the new General Manager during the fiscal year.

In line with this policy and based on the Supervisory Board's recommendation, the General Partners set the General Manager's long-term incentive bonus at €600,000.

This amount will be modulated by the application, over the three years 2018-2020, 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 growth in operating income. These criteria reflect implementation of the Ambitions for 2020 described in section 1.1 of this Registration Document[1].

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). For 2018, the decision was made to toughen up the trigger point and maximum objective for the "Michelin site Environmental Footprint" indicator. The trigger point (below which the indicator will be 0) has been lowered to 53 from 63 previously, and the maximum objective (representing the point at which the maximum bonus for the criterion would be received) has been lowered to 51 from 60 previously.

The amount obtained after applying the performance criteria will be:

- prorated to reflect the period served as Manager during the three years 2018-2020;
- capped at 120% of the annual average of the Annual Variable Components paid for the years 2018-2020, as prorated to reflect the period served as Manager during the three years.

The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018.

The incentive bonus would be paid at the end of the three-year period, for an amount prorated to the actual period served as Manager during the three years.

The long-term incentive bonus is subject to the shareholders' "say-on-pay" advisory vote on 2018 compensation.

(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 table below provides details of the long-term incentive bonus performance criteria and related intermediate achievement rates:

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2018-2020[(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 51, 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 51 and 53, the result will be: (53 - average MEF)/ (53 - 51)*15%	If the average 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 - €70 million)/(€150 million - €70 million)*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 53, 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)] = -18.0% Growth in the CAC 40[(3)] = -1.4%	2018 = 49.3	2018 = 80%	2018 = +€289 million
Base amount	€600,000			
Ceiling	120% of the annual average of the annual variable compensation paid to Mr. Chapot for 2018, 2019 and 2020			
Payment year	2021, after approval of the 2020 financial statements			

(1) Average share price for the second half of 2020 compared to the average share price for the second half of 2017.
(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; for 2018, the trigger point for these criteria was made considerably tougher.
(3) Average share price for the second half of 2018 compared to the average share price for the second half of 2017.

The liability recognized for the long-term incentive bonus in the Company's accounts at December 31, 2018 breaks down as follows:

- €60,000 corresponding to the theoretical bonus;
- €34,200 for payroll taxes, based on current rules and rates.

4.4.7 c) Fringe benefits, stock options, performance shares, attendance fees

In line with the 2018 compensation policy, Yves Chapot did not receive any attendance fees in 2018 from the Company or any controlled entities, any benefits other than those listed above, or any stock options or performance shares from the Company or any controlled entities.

Mr. Chapot has a fringe benefit in the form of a Company car (see table 4.4.2 d).

4.4.7 d) Supplementary pension benefits

The Managers are not covered by any supplementary pension plan set up specifically for executive officers.

In his capacity as General Manager of CGEM, Yves Chapot participates in the supplementary pension plan set up for MFPM and CGEM 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, is described in the section 4.4.8.

Mr. Chapot's reference compensation for 2018 in his capacity as executive director was made up of his annual fixed compensation and his annual variable compensation[1].

Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €110,544. The benefits will be taxed at the rate of 32%.

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.

4.4.7 e) Compensation for loss of office

No compensation for loss of office was paid in 2018[2].

4.4.7 f) Non-compete indemnity

No non-compete indemnity was paid in 2018[2].

4.4.8 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO YVES CHAPOT, ELECTED AS GENERAL MANAGER ON MAY 18, 2018, IN RESPECT OF 2018 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 17, 2019 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 continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Managers[3], in line with the AFEP/MEDEF Code recommendation[4] 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 Yves Chapot in respect of 2018 and recommends that the shareholders cast a favorable advisory vote thereon.

The components of Mr. Chapot's compensation will therefore be presented to shareholders at the Annual Meeting on May 17, 2019 (8th 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 4.4.7 above.

(1) See detailed disclosures in sections 4.4.7 a) and 4.4.7 b) of this Registration Document.
(2) See detailed disclosures in section 4.4.2 m) of this Registration Document.
(3) In line with the 2018 compensation policy described in the Corporate Governance Report incorporated in section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126.
(4) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	372,808	For the General Manager elected in 2018, the 2018 compensation policy provides for the payment of fixed compensation (i) in an amount that is significantly lower than that of the Managing Chairman, (ii) prorated based on the period served as General Manager in 2018. In line with this policy, Yves Chapot's annual fixed compensation was set at €600,000. His prorated fixed compensation for the period from his election as Manager amounted to €372,808. For more information, see section 4.4.7 a) Fixed compensation in this Registration Document, page 166 and section 4.4.1 a) Compensation policy: Managing Chairman in the 2017 Registration Document, pages 122 to 126.
Annual variable compensation	263,763	Under the 2018 compensation policy, the General Manager elected in 2018 is entitled to Multi-Criteria Annual Variable Compensation equivalent to that awarded to the Managing Chairman and the Managing General Partner. This compensation (i) would be significantly less than that awarded to the Managing Chairman and the Managing General Partner, (ii) would not be deducted from the Profit Shares allocated to General Partners and (iii) would be prorated to the period served as General Manager during 2018. In line with this policy and based on the Supervisory Board's recommendation, the General Partners set the Multi-Criteria Annual Variable Compensation at a maximum of 120% of the fixed compensation received by Yves Chapot in 2018 in his capacity as General Manager. The actual compensation amount will depend on performance in relation to five criteria. Mr. Chapot will be awarded the maximum amount if the cumulative achievement rate for the five criteria is 100/100ths. 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 was 37.61/70ths, with: ▶ growth in consolidated operating income from recurring activities: 24.75/30ths; ▶ level of consolidated inventories of finished and semi-finished products: 12.86/20ths; ▶ annual level of tire sales volume (in million units) by the unit comprising the Group's "Automotive" businesses: 0/20ths. Concerning the two qualitative criteria, the Committee's conclusions were as follows: ▶ for the "Organizational transition – Strategic goals" criterion, the Committee noted that the objective of presenting the organizational transition and the strategic goals to the Group's governance bodies had been met (15/15ths); ▶ for the "Deployment of the Customer Service initiative" criterion, the Committee noted that part of the objective related to the Net Promoter Score (NPS) indicator had been met (5.78/15ths). The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 20.78/30ths. In conclusion of its analysis, the Committee recommended to the Supervisory Board that cumulative actual performance in relation to these quantifiable qualitative criteria should be rated as 58.39/100ths. Given the Calculation Base of 120% of Yves Chapot's annual fixed compensation (€600,000, prorated), the Multi-Criteria Annual Variable Component for 2018 amounts to €263,763. For more information, see section 4.4.7 b), Variable compensation of this Registration Document, pages 166 to 168, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

(1) For reasons of confidentiality and business secrecy, and more particular to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and quantifiable criteria.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2018	- No cash-settled deferred variable compensation was due for 2018 - Amount €94,200	This long-term incentive bonus is calculated on a base amount of €600,000. This amount will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the three-year period: ▶ growth in the Michelin share price; ▶ environmental and corporate social responsibility performance: employee engagement and environmental performance of manufacturing operations (as measured by the MEF); ▶ growth in operating income(2). These criteria are the same as those applicable to the 2018 performance share plan for Group employees, which is not open to Mr. Chapot. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. For 2018, the decision was made to set considerably tougher MEF targets. 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. Capped at 120% of the annual average of the Annual Variable Components paid for the years 2018-2020, as prorated to reflect the period served as General Manager during the three years. The incentive bonus would be paid at the end of the three-year period, for an amount prorated to the actual period served as Manager during the three years. The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018. The liability recognized for the long-term incentive bonus in the Company's accounts at December 31, 2018 breaks down as follows: ▶ €60,000 corresponding to the theoretical bonus; ▶ €34,200 for payroll taxes, based on current rules and rates. For more information, see section 4.4.7 b), Variable compensation of this Registration Document, pages 166 to 168, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
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	N/A	Yves Chapot does not receive any attendance fees.
Value of fringe benefits	4,352	Company car.

(1) For reasons of confidentiality and business secrecy, and in particular to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage, the Supervisory Board has elected not to disclose details of these performance targets to these quantitative and quantifiable criteria.

(2) 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.

Components of compensation due or awarded for 2018 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 2018	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. Chapot 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. Chapot's total compensation for the two years preceding the year of his removal from office. It would be based on performance conditions decided by the Supervisory Board. The final compensation would be reduced, if applicable, so that any other severance payments due to Mr. Chapot 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 4.4.1 a) 6 on compensation in the 2017 Registration Document (page 126), and in section 4.4.2 m) (page 145) of this Document.
Non-compete indemnity	No indemnity was due under a non-compete clause in 2018	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. Chapot is subject to a non-compete clause under his suspended employment contract with the subsidiary MFPM. The Supervisory Board 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. Chapot the equivalent of up to 24 months' compensation based on the most recent fixed compensation paid to him by the subsidiary MFPM. The non-compete indemnity would be reduced or canceled, if necessary, so that Mr. Chapot'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 4.4.1 a) 7 on compensation in the 2017 Registration Document (page 126), and in section 4.4.2 m) (page 145) of this Document.
Supplementary pension benefits	No supplementary pension benefits were due for 2018	This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Chapot is not a member of any pension plan set up specifically for executive officers. In his capacity as General Manager of CGEM, Yves Chapot participates in the supplementary pension plan set up for MFPM and CGEM 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 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 is funded through a contribution to an insured plan. Mr. Chapot's reference compensation for 2018 in his capacity as executive director was made up of his annual fixed compensation and his annual variable compensation[2]. Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €110,544. 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 corporations (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 Managers (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.
(2) See detailed disclosures in sections 4.4.7 a) and 4.4.7 b) of this Registration Document.

4.4.9 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 of the 2017 Registration Document.

4.4.9 a) Attendance fees

In 2018, Michel Rollier received total attendance fees of €90,000 in respect of 2017.

Based on the allocation and payment policy decided by the Supervisory Board in 2017, attendance fees totaling €90,000 have been awarded to Mr. Rollier for 2018, payable in 2019.

4.4.9 b) Other components of compensation

No other compensation was paid or awarded to Michel Rollier for 2018.

4.4.10 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO MICHEL ROLLIER, CHAIRMAN OF THE SUPERVISORY BOARD, IN RESPECT OF 2018 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 17, 2019 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 and 2018, 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 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.

The components and amounts of Michel Rollier's 2018 compensation are the same as for the compensation due or awarded for 2017.

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 2018.

The components of Mr. Rollier's compensation will therefore be presented to shareholders at the Annual Meeting on May 17, 2019 (9th resolution).

(1) In line with the compensation policy described in the Corporate Governance Report reproduced in section 4.4.1 b) of the 2017 Registration Document, pages 126 to 127.
(2) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

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 2018	**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 amember was 100% in 2018. For more information, see section 4.4.9 of this Registration Document, page 173.
Value of fringe benefits	N/A	No fringe benefits.

Components of compensation due or awarded for 2018 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.

4.4.11 COMPENSATION RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD IN 2018

ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY THE NON-EXECUTIVE MEMBERS OF THE SUPERVISORY BOARD IN 2018 (BASED ON TABLE 3 IN THE AFEP/MEDEF CODE)

Non-executive Supervisory Board members	Amount paid in 2018 (for 2017)	Amount paid in 2017 (for 2016)
Olivier Bazil		
Attendance fees	65,000	65,000
Other compensation	0	0
Pat Cox[1]		
Attendance fees	56,400	56,400
Other compensation	0	0
Barbara Dalibard		
Attendance fees	65,000	65,000
Other compensation	0	0
Anne-Sophie de La Bigne		
Attendance fees	58,333	55,000
Other compensation	0	0
Jean-Pierre Duprieu		
Attendance fees	52,000	55,000
Other compensation	0	0
Aruna Jayanthi		
Attendance fees	44,143	55,000
Other compensation	0	0
Monique Leroux		
Attendance fees	60,000	50,000
Other compensation	0	0
Thierry Le Hénaff[2]		
Attendance fees	N/A	N/A
Other compensation	0	0
Cyrille Poughon		
Attendance fees	45,000	45,000
Other compensation	0	0
Michel Rollier		
Attendance fees	90,000	90,000
Other compensation	0	0
TOTAL	**535,876**[3]	**536,400**

(1) Supervisory Board member until May 2018.
(2) Supervisory Board member since May 2018.
(3) 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).

4.4.12 TOTAL COMPENSATION AWARDED TO THE GROUP EXECUTIVE COMMITTEE

In 2018, the members of the Group Executive Committee received aggregate gross compensation of €10,953,109 (including €3,921,828 corresponding to the variable component for 2017 paid during the first half of 2018). In 2017, the gross aggregate compensation received by Group Executive Committee members totaled €12,701,293 (including €3,385,724 corresponding to the variable component for 2016 paid during the first half of 2017).

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 MANAGERS, GENERAL PARTNERS AND SUPERVISORY BOARD MEMBERS AND THEIR CLOSE RELATIVES IN 2018

/ Managers

Jean-Dominique Senard

1,800 shares purchased on July 31, 2018 at a unit price of €110.64 a share.

Florent Menegaux

11,514 shares acquired on April 5, 2018 at a unit price of €51.16 a share upon exercise of stock options, and 6,000 shares acquired on April 5, 2018 at a unit price of €52.13 a share upon exercise of stock options.

2,000 shares acquired on April 10, 2018 at a unit price of €52.13 a share upon exercise of stock options.

1,903 shares acquired on November 27, 2018 without consideration under the performance share plan.

Yves Chapot

853 shares acquired on December 27, 2018 at a unit price of €66.00 a share upon exercise of stock options.

500 shares acquired on November 27, 2018 without consideration under the performance share plan.

/ Supervisory Board

Thierry Le Hénaff

90 shares purchased on February 22, 2018 at a unit price of €125.70 a share.

310 shares purchased on April 12, 2018 at a unit price of €119.95 a share.

Cyrille Poughon

6 shares purchased on November 16, 2018 at a unit price of €82.31 under the employee savings plan and 4 shares acquired without consideration (employer's matching contribution).

/ SAGES (Non-Managing General Partner)

31,775 shares purchased on December 21, 2018 at a unit price of €84.48 a share.

To the best of the Company's knowledge, no other transactions in the Company's shares were carried out by the Managing Chairman, the Managers, 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, Managing General Partner).
- Florent Menegaux (Managing General Partner).
- Société Auxiliaire de Gestion – SAGES (registered in the Clermont-Ferrand Trade and Companies Register under number 870 200 466), a simplified joint stock company chaired by 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 MANAGERS (ARTICLE 10 OF THE BYLAWS)

The Company is led by a Managing Chairman and managed by one or more Managers, 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.

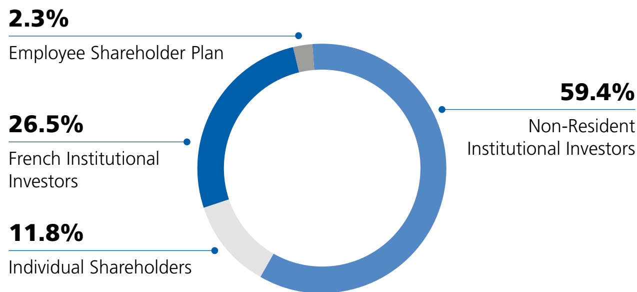
4.7 OWNERSHIP STRUCTURE AND VOTING RIGHTS

At December 31, 2018:

- share capital: €359,695,264;
- shares outstanding: 179,847,632 all fully paid up;
- voting rights outstanding: 246,076,593.

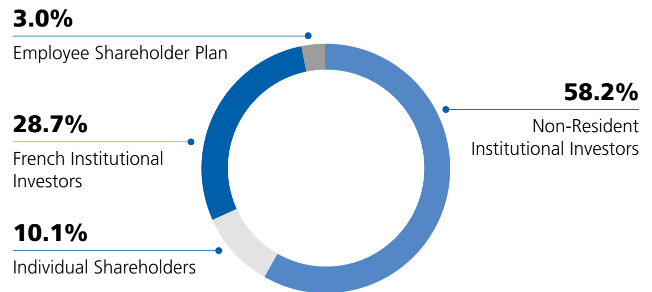
SHARE OWNERSHIP

(at December 31, 2018)



VOTING RIGHTS

(at December 31, 2018)



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

At December 31, 2018, 179,847,632 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 February 14, 2019, BlackRock Inc. held 5.00% of the capital and 3.68% 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 €87[(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)	▶ €5.52 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)	€3.48 billion	€80 million	None

(1) CGEM share price at December 31, 2018, 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 €87[(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)	▶ €1.57 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)	▶ €1.57 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, 2018, 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 328 of this 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 Managers ▶ Performance conditions over three years ▶ Capped at 0.5% of issued capital	Issuance of 129,270 rights(1)

(1) Please refer to section 5.5.4 c).

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 171,609 shares(1)
Share cancellations	10th	18 months (November 2018)	10% of issued capital	None

(1) Please refer to section 5.5.6.

4.8.3 GRANTED BY THE ANNUAL SHAREHOLDERS MEETING OF MAY 18, 2018

/ 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 €87(1) *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	14th	26 months (July 2020)	▶ €5.48 billion (shares) ▶ €2.50 billion(4) (securities carrying rights to shares)	€126 million(2)(3) (less than 35% of issued capital)	None
Issuance of new shares by capitalizing reserves	20th	26 months (July 2018)	€3.48 billion	€80 million	None

(1) CGEM share price at December 31, 2018, 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 €126 million, excluding any shares issued under the 18th and 20th resolutions (21st resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 14th, 15th and 16th resolutions (17th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 14th, 15th, 16th, 17th, 19th and 20th resolutions not to exceed €2.5 billion (21st 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 €87(1) *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	15th	26 months (July 2018)	▶ €1.57 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)*	16th	26 months (July 2018)	▶ €1.57 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	19th	26 months (July 2018)	€1.57 billion	€36 million(5)	None

(1) CGEM share price at December 31, 2018, 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 €126 million, excluding any shares issued under the 18th and 20th resolutions (21st resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 14th, 15th and 16th resolutions (17th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 14th, 15th, 16th, 17th, 19th and 20th resolutions not to exceed €2.5 billion (21st resolution).
(5) Amount to be included in the maximum total capital increase authorized under the 21st 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	8th	26 months (July 2020)	€5 billion	€2.5 billion(1)

(1) Please refer to section 7 page 328.

/ Employee share issues

Corporate action	Resolution	Duration *(expiry date)*	Comments	Utilization during the year
Issuance of new ordinary shares	20th	26 months (July 2020)	Less than 2% of issued capital	Issuance of 578,639 shares(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 2019)	▶ Statutory limit of 10% of issued capital ▶ Maximum purchase price: €180	Buyback of 476,622 shares(1)
Share cancellations	22nd	18 months (November 2019)	10% of issued capital	Cancellation of 648,231 shares(1)

(1) 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 Managers;
- amendment of the Bylaws;
- election of new General Partners.

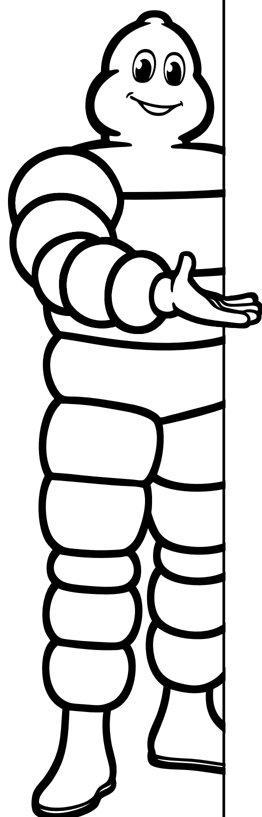
4.10 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 226-10-1 OF THE FRENCH COMMERCIAL CODE ON THE CORPORATE GOVERNANCE REPORT

In accordance with French professional auditing standard NEP 9510[1], the Statutory Auditors' review of the Supervisory Board's corporate governance report, pursuant to Article L. 225-235 of the French Commercial Code, is described in the Statutory Auditors' report on the annual financial statements presented in section 8.3 herein.

(1) Norme d'exercice professionnel *9510 (approved by the government order of October 1, 2018 published in France's Journal Officiel, edition no. 0232, on October 7, 2018) on the subject of the Statutory Auditor's procedures relating to the management report, other documents on the audited entity's financial position and financial statements and information included in the corporate governance report, as communicated to the members of the governance body called on to approve the financial statements.*

5

INVESTOR RELATIONS



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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 23, place des Carmes, Déchaux – 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 Euronext Paris stock exchange

- Compartment A;
- Eligible for the SRD deferred settlement system;
- ISIN: FR 0000121261;
- Par value: €2;
- Traded in units of: 1.

Market capitalization

- €15,593 million at December 31, 2018.

Average daily trading volume

- 649,347 shares since January 1, 2018.

Indices

The Michelin share is included in two leading stock market indices. As of December 31, 2018, it represented:

- 1.41% of the CAC 40 index;
- 0.65% of the Euronext 100 index.

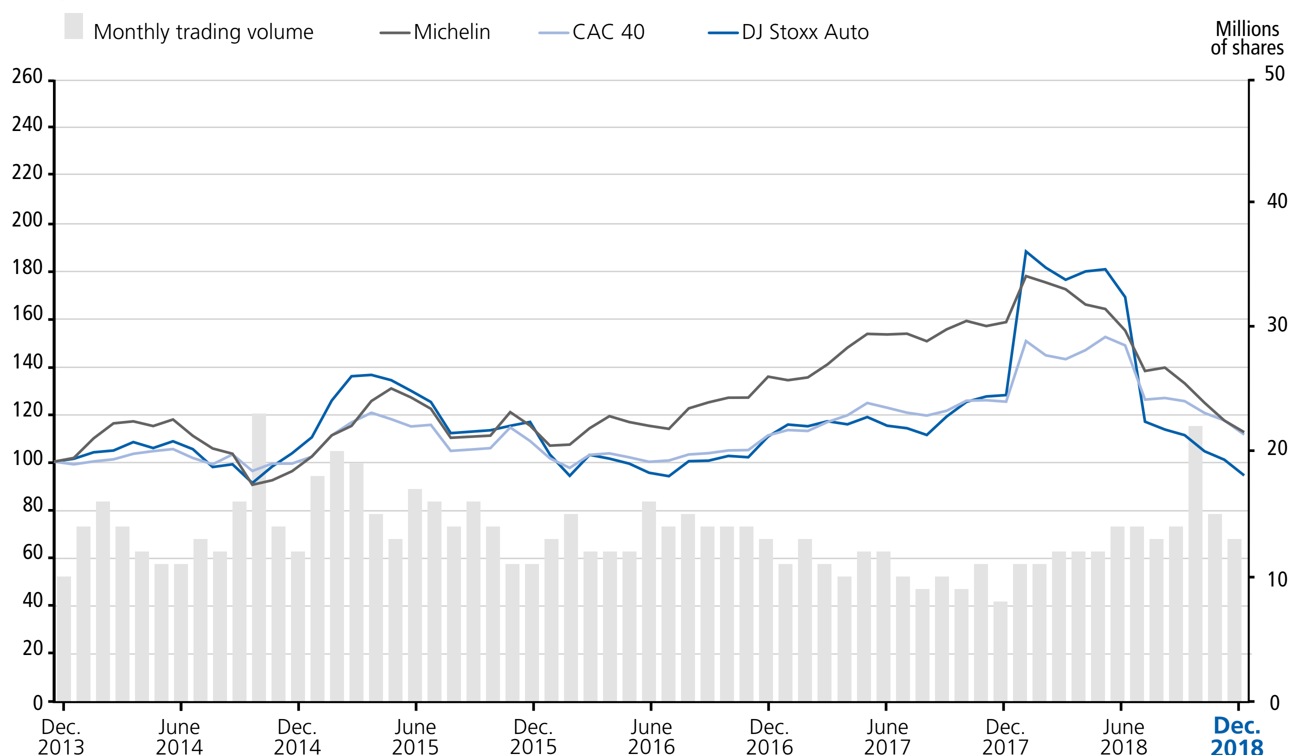
Michelin is also included in the main Socially Responsible Investing (SRI) Indices:

- FTSE4Good;
- Ethibel Sustainability Index (ESI) Europe.

(1) *See also section 4.6 for information on the Company's Bylaws.*

THE MICHELIN SHARE PERFORMANCE

(Closing price at December 31, 2018)



5.2.2 DETAILED SHARE DATA

Share price *(in €)*	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
High	130.85	128.40	106.80	103.90	94.33	84.71
Low	82.68	98.93	77.40	71.60	65.10	57.23
High/low ratio	1.58	1.30	1.38	1.45	1.45	1.48
Closing price, end of period	86.70	119.55	105.70	87.90	75.27	77.25
Average share price over the period	109.40	115.65	91.97	90.26	82.10	72.28
Change over the period	-27.48%	+13.10%	+20.25%	+16.78%	-2.56%	+7.91%
Change in the CAC 40 index over the period	*-10.95%*	*+9.26%*	*+4.86%*	*+8.53%*	*-0.54%*	*+17.99%*
Market value *(at end of period, in € billions)*	**15.59**	**21.45**	**19.03**	**15.98**	**13.98**	**14.35**
Average daily trading volume over the period	649,347	503,534	554,262	719,709	662,063	719,464
Average shares outstanding	179,384,513	182,212,806	182,122,667	185,960394	185,954,390	184,901,269
Volume of shares traded over the period	165,583,378	128,401,095	142,445,218	184,245,619	168,826,055	183,463,371
Share turnover ratio	**92%**	**71%**	**78%**	**99%**	**91%**	**99%**

5.2.3 PER-SHARE DATA

(in € per share, except ratios)	2018	2017	2016	2015	2014
Net assets per share	67.8	62.7	59.1	52.5	51.3
Basic earnings per share	9.30	9.39	9.21	6.28	5.52
Diluted earnings per share[1]	9.25	9.34	9.03	6.19	5.45
Price-earnings ratio	**9.4**	**12.7**	**11.5**	**14.0**	**13.6**
Dividend for the year	3.70*	3.55	3.25	2.85	2.50
Pay-out ratio	36.4%	36.0%	36.5%	37.0%	40.6%
Yield[2]	4.3%	3.0%	3.1%	3.2%	3.3%

(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 shareholders Meeting on May 17, 2019.*

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, 2018, Michelin's share capital amounted to €359,695,264.

	At December 31, 2018			At December 31, 2017		
	Number of shareholders	Shares outstanding	Voting rights outstanding	Number of shareholders	Shares outstanding	Voting rights outstanding
French institutional investors	3,793	26.5%	28.7%	2,923	25.3%	27.3%
Non-resident institutional investors		59.4%	58.2%		60.3%	60.3%
Individual shareholders	126,622	11.8%	10.1%	94,337	12.4%	9.7%
Employee Shareholder Plan	83,437	2.3%	3.0%	74,397	2.0%	2.7%
TOTAL	**213,852**	**179,847,632 SHARES***	**246,076,593 VOTING RIGHTS**	**171,657**	**179,520,987 SHARES***	**247,029,830 VOTING RIGHTS**

** 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 2018 four shareholder information meetings were organized in France, in La Rochelle, Nantes, Strasbourg and Toulouse, as well as a meeting with shareholders in Paris led by the Managing Chairman.

During the year, more than 2,300 institutional investors and financial analysts were contacted.

Created in 2003 to forge closer ties between Michelin and its individual shareholders, the Shareholder Consultative Committee meets twice a year for workshops. These meetings are led by the Investor Relations team and attended by Marc Henry, Chief Financial Officer of the Group and member of the Executive Committee.

In parallel to these workshops, the Shareholder Consultative Committee participates in Michelin site visits whereby its members meet the operational teams and deepen their understanding of the Group.

The Committee is made up of nine individual Michelin shareholders from across France and with a wide variety of professional backgrounds. Among its various responsibilities, the Committee provides recommendations to help improve the quality of Michelin's communication with individual shareholders. Its recommendations are assessed and regularly implemented by the Group.

In 2018, 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 €)*
	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**	
2018	Employee share issue	578,639	1,157,278	46,470,498
	Exercise of stock options	201,946	403,892	10,245,710
	Vesting of performance shares	194,291	388,582	0
	Cancellation of shares	(648,231)	(1,296,462)	(73,928,476)
	AT DECEMBER 31, 2018	**179,847,632**	**359,695,264**	

5.5.2 POTENTIAL SHARES

5.5.2 a) Outstanding securities convertible, exchangeable, redeemable or otherwise exercisable for shares

/ 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, 2018

(in number of shares with a par value of €2)	Maximum number of potential new shares	Issued capital *(in €)*
ISSUED CAPITAL AT DECEMBER 31, 2018		**359,695,264**

/ Stock options outstanding as of December 31, 2018

Grant date	Adjusted exercise price *(in €)*	Vesting date	Expiry date	Number of options outstanding	
May 12, 2010	52.13	May 12, 2014	May 11, 2019	34,304	
May 19, 2011	66.00	May 19, 2015	May 18, 2020	40,637	
June 25, 2012	51.16	June 25, 2016	June 24, 2021	36,468	
TOTAL STOCK OPTIONS OUTSTANDING				**111,409**	**222,818**

/ Performance shares outstanding at December 31, 2018

Grant date	Vesting period ends	Performance shares outstanding	
November 25, 2015 *(Excellence Management)*	November 25, 2019	83,464	
November 25, 2016 *(Excellence Management)*	November 25, 2020	119,540	
November 14, 2017 *(Excellence)*	November 14, 2021	290,965	
November 22, 2018 *(Excellence Management)*	November 22, 2022	129,270	
TOTAL PERFORMANCE SHARES OUTSTANDING		**623,239**	**1,246,478**
MAXIMUM POTENTIAL SHARES AS OF DECEMBER 31, 2018 (+0.41%)			**361,164,560**

5.5.3 STOCK OPTIONS

5.5.3 a) Stock option plans in effect at December 31, 2018[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 Managers	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] (CEO, Managing General Partner)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
▶ Florent Menegaux[2] (Managing General Partner)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
▶ Yves Chapot[2] (Manager)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
▶ Michel Rollier[3] (Chairman of the Supervisory Board)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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, 2018	647,332	239,847	207,064	182,088	117,189	223,557	864,725	138,663	798,635	317,539	1,346,155	225,178	118,479	95,152
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	101,217	656	93,784	11,656
NUMBER OF OPTIONS OUTSTANDING AS OF DECEMBER 31, 2018	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**34,304**	**40,637**	**36,468**

(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) Granted in his capacity as Manager.

(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 Managers who received the greatest number of options and options exercised by the ten grantees other than Managers 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)	83,178	51.16 52.13 66.00	11/22/2018 05/11/2019 05/18/2020	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 Managing Chairman

No stock options were granted during the year.

The ten employees other than Managers who exercised the greatest number of options exercised 83,178 options at a unit price of €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.

No Manager holds non-exercisable stock options.

Clermont-Ferrand, February 11, 2019

Jean-Dominique Senard

Managing Chairman

5.5.4 PERFORMANCE SHARES

5.5.4 a) Performance share plans in effect at December 31, 2018 (Table 9 of the AFEP/MEDEF Corporate Governance Code)

COMPLETED PLANS

	Plan 1	Plan 2	Plan 3	Plan 4 *(Excellence)*	Plan 5 *(Excellence Management)*
Date of the shareholder authorization	May 13, 2011	May 13, 2011	May 13, 2011	May 16, 2014	May 16, 2014
Date granted by the Managers	November 28, 2011	November 28, 2012	November 29, 2013	November 27, 2014	November 27, 2014
Number of rights granted	287,944	371,936	81,400	288,426	108,292
O/w to:					
▶ Jean-Dominique Senard (CEO, Managing General Partner)	-	-	-	-	-
▶ Florent Menegaux[1] (Managing General Partner)	-	-	-	-	-
▶ Yves Chapot[1] (Manager)	-	-	-	-	-
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)	November 27, 2018 (4 years)	November 27, 2018 (4 years)
End of lock-up period *(in years)*	November 28, 2016 (France) (2 years)	November 28, 2017 (France) (2 years)	N/A	N/A	N/A
Performance conditions[2] (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	▶ 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
Number of vested shares at December 31, 2018	195,068	237,243	39,084	166,786	26,749
Number of cancelled or voided shares	92,876	134,693	42,316	121,640	81,543
NUMBER OF PERFORMANCE SHARES OUTSTANDING AS OF DECEMBER 31, 2018	**0**	**0**	**0**	**0**	**0**

(1) In his capacity as Manager.
(2) On a like-for-like consolidated basis, excluding changes in exchange rates for the financial criteria.

PLANS IN EFFECT

	Plan 6 *(Excellence Management)*	Plan 7 *(Excellence Management)*	Plan 8 *(Excellence)*	Plan 9 *(Excellence Management)*
Date of the shareholder authorization	May 16, 2014	May 13, 2016	May 13, 2016	May 13, 2016
Date granted by the Managers	November 25, 2015	November 25, 2016	November 14, 2017	November 22, 2018
Number of rights granted	84,892	120,520	296,440	129,270
O/w to:				
▶ Jean-Dominique Senard (CEO, Managing General Partner)	-	-	-	-
▶ Florent Menegaux[1] (Managing General Partner)	-	-	-	-
▶ Yves Chapot[1] (Manager)	-	-	-	-
Vesting date *(in years)*	November 25, 2019 (4 years)	November 25, 2020 (4 years)	November 14, 2021 (4 years)	November 22, 2022 (4 years)
End of lock-up period *(in years)*	N/A	N/A	N/A	N/A
Performance conditions[2] (period over which criteria are applied: 3 years)	▶ 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[3] 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[3] 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	▶ Michelin share price that outperforms the CAC 40 by at least 15 points, comparing the average closing price between the second half of 2017 and the second half of 2020 ▶ Corporate social responsibility objective: – Average MEF[3] of 51 or less in 2018, 2019 and 2020 – and average employee engagement rate of at least 80% in 2018, 2019 and 2020 ▶ Average annual growth in consolidated operating income of €150 million in 2018, 2019 and 2020
Number of vested shares at December 31, 2018	376	380	0	0
Number of cancelled or voided shares	1,052	600	5,475	0
NUMBER OF PERFORMANCE SHARES OUTSTANDING AS OF DECEMBER 31, 2018	**83,464**	**119,540**	**290,965**	**129,270**

(1) *In his capacity as Manager.*
(2) *On a like-for-like consolidated basis, excluding changes in exchange rates for the financial criteria.*
(3) *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 129,270 performance shares were granted during the year.

	Number of shares granted	Grant date
Performance shares granted by CGEM to the ten grantees other than Managers who received the greatest number of shares	67,740	November 22, 2018

5.5.4 c) Special Report of the Managing Chairman

/ November 22, 2018 Plan

The Annual Shareholders Meeting of May 13, 2016 authorized the grant of shares without consideration to employees of the Company (except Managers) 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 2018 to grant 129,270 rights to one new share of common stock to 84 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 2017 and the second half of 2020;
- 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 (2018-2020 period) must be less than 51.
  - Since 2013, the annual "Moving Forward Together: Your Voice for Action" survey has measured the employee engagement rate. The average engagement rate over the 2018-2020 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 2018-2020 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 Managing Chairman), 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 2018

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 over the 2014-2016 period	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**
				2014	**2015**	**2016**	**Average**	
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 ended 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				Achievement of criteria
			2015	2016	2017	Average	
Growth in sales	Like-for-like growth in consolidated net sales value of **at least an average 2%** a year over the 2015-2017 period	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**
			2015	**2016**	**2017**	**Average**	
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**
			2015	**2016**	**2017**	**Average**	
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**

(1) Indicator replacing operating income before non-recurring income and expenses.

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.

FULFILLMENT OF PERFORMANCE CONDITIONS UNDER THE NOVEMBER 25, 2016 PERFORMANCE SHARE PLAN

Criteria		Weighting	Results				Achievement of criteria
Share price performance			2018 vs. 2015				
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)		35%	1.5				4%
			2016	**2017**	**2018**	**Average**	
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, 2017, 2018) must be **less than 60**	15%	57	53	49	53	15%
	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%	80%	80%	15%
Operating income/ (loss)	Like-for-like growth in consolidated operating income from recurring activities, of **€150 million** a year over the 2016-2018 period	35%	243	138	289	223	35%
TOTAL							**69%**

(1) Indicator replacing operating income before non-recurring income and expenses.

Given that one of the performance conditions was partially met, no more than 69% of the performance shares will vest.

Note that the vesting period will end in November 2020 (with no lock-up period) for all grantees.

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)	35%		2018 vs. 2016 13.9	
			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	49	-
	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%	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	35%	145	265	-

(1) Indicator replacing operating income before non-recurring income and expenses.

INTERIM FULFILLMENT OF PERFORMANCE CONDITIONS UNDER THE NOVEMBER 22, 2018 PERFORMANCE SHARE PLAN

Criteria		Weighting	Interim results		
Share price performance	Michelin share price outperforms the CAC 40 by **at least 15 points** for the 2017-2020 period (average closing price for the second half of the two years)	35%		2018 vs. 2017 -16.6	
			2018	**2019**	**2020**
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 (2018, 2019, 2020) must be **less than 51**	15%	49	-	-
	Average **employee engagement rate:** must be **at least 80%** a year on a like-for-like consolidated basis over the 2018-2020 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 2018-2020 period	35%	265	-	-

(1) Indicator replacing operating income before non-recurring income and expenses.

/ Performance shares vested and delivered

Note that during 2018:

- no Manager of the Company received any performance shares;
- the ten employees other than Managers who were granted the greatest number of share rights:
  - received 67,740 rights to one performance share (two grantees received 8,420, one received 7,580, four received 6,740, one received 6,240 and two received 5,060),
  - definitively received 14,406 performance shares vest (one grantee received 1,903, two received 1,631, six received 1,359 and one grantee received 1,087).

Clermont-Ferrand, February 11, 2019

Jean-Dominique Senard

Managing Chairman

5.5.5 EMPLOYEE SHARE OWNERSHIP

At the Annual Shareholders Meeting of May 13, 2016, shareholders approved the Managing Chairman's motion to authorize the Company to carry out a rights issue for members of a Group Employee Shareholder Plan, in accordance with the terms and conditions provided by law.

As a result, a new Employee Shareholder Plan open to 98,640 employees was announced in early summer 2018.

At the end of the offer period, which ran from September 19 to October 4, 2018, a total of 52.34% of eligible employees in 43 countries worldwide in 5 continents had invested in this sixth plan. A corporate mutual fund was created for this purpose for employees in Hungary.

Note that the participation rate was remarkably high (over 80%) in Asia (China, Thailand and India).

Michelin is very pleased that the plan proved so popular, despite a high offer price compared with that of previous plans. Its success attests to employees' confidence in the Group's strength and growth prospects.

Shares were issued to employees (excluding the United Kingdom) under the plan through a rights issue.

Following the rollout of the plan, the Group has 83,437 employee and retired employee shareholders in more than 50 countries. At December 31, 2018, employees owned 2.33% of the issued capital.

5.5.6 INFORMATION CONCERNING A SHARE BUYBACK PROGRAM CURRENTLY IN EFFECT

The following information includes the disclosures reported in the Managing Chairman's Report in compliance with Article L. 225-211 of the French Commercial Code.

5.5.6 a) Authorizations granted to the Managing Chairman

At the Annual Shareholders Meeting of May 19, 2017, shareholders granted the Managing Chairman 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 €160 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 2017 (please refer to section 5.5.7 a) of the 2017 Registration Document) and in 2018 (please refer to section 5.5.6 b) below).

At the May 18, 2018 Annual Shareholders Meeting, shareholders granted the Managing Chairman 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 €180. From its entry into force this authorization has replaced the previous authorization.

The Company signed a share buyback agreement with Natixis to take effect between February 2018 and November 2018.

At the Annual Shareholders Meeting on May 17, 2019, shareholders will be asked to authorize the Managing Chairman 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 17, 2019".

5.5.6 b) Transactions in the Company's shares in 2018

The following transactions were carried out under the share buyback programs authorized by shareholders at the May 19, 2017 and May 18, 2018 Annual Shareholders Meetings, for 171,609 and 476,622 shares respectively.

The Company no longer held any shares in treasury at December 31, 2018, as was the case at January 1, 2018. A total of 648,231 shares were bought back by the Company during the year, all of which were purchased for cancellation.

5.5.6 c) Purpose of shares held in treasury at December 31, 2018

The Company held no shares in treasury at December 31, 2018.

5.5.6 d) Market value of treasury shares at December 31, 2018

No shares were held at December 31, 2018.

	Treasury shares bought back and sold during the year	
	Buybacks	**Sales/transfers**
Number of shares	648,231	0
Average transaction price per share *(in €)*	115.70(1)	0
Average exercise price	N/A	N/A
Total cost of transactions *(in €)*	75,000,000(1)	0

(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, 2018.

5.5.7 DESCRIPTION OF THE SHARE BUYBACK PROGRAM SUBMITTED FOR SHAREHOLDER APPROVAL AT THE ANNUAL SHAREHOLDERS MEETING OF MAY 17, 2019

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 17, 2019.

/ 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., 17,984,763 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 €3,237,257,340.

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, 2018.

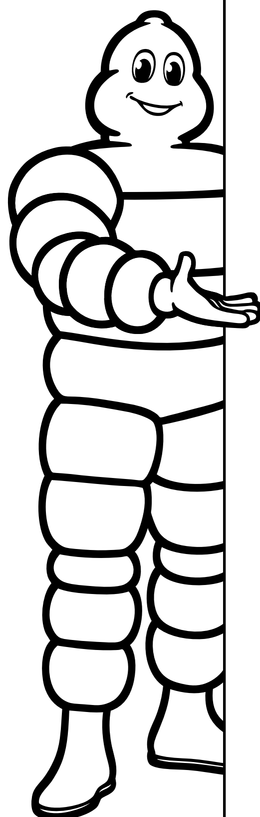
/ Duration of the share buyback program

Subject to shareholder approval, the shares may be bought back at any time during the 18 months from the May 17, 2019 Annual Shareholders Meeting, *i.e.,* until the close of trading on November 17, 2020.

Effective as from the Annual Shareholders Meeting of May 17, 2019, this authorization would replace the similar authorization granted by shareholders at the Annual Shareholders Meeting of May 18, 2018.

6

2018 EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION



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6.1 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 to the concerted actions being taken by stakeholders to foster mobility that is safer, more efficient and more environmentally sensitive.

In 2013, six forward-looking objectives were set for 2020, with targets and performance indicators defined for each (see section 1.1.9). 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, we apply the CSR reporting standards defined by French legislation. As a result, the structure and content of this report primarily follow the guidelines defined in French legislation applicable to companies like Michelin.

Specifically, they comply with Article L. 225-102-1 of the French Commercial Code, which 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. This article requires every listed company in France with (i) more than an average of 500 employees under permanent work contracts, and (ii) more than €20 million in total assets or (iii) more than €40 million in annual net revenue to include in its management report a non-financial performance statement, disclosing how the Company manages the social and environmental impact of its business operations, as well as the impact of these operations with regard to upholding human rights and preventing corruption and tax evasion.

In the following section, sub-section 6.2 presents the Group's business and value creation model, while sub-sections 6.3, 6.4, 6.5 and 6.6 cover, respectively, human rights and business ethics, social responsibility, employee relations and the Group's environmental policies.

The various disclosures stipulated in articles L. 225-105-2[1] and R. 225-105-1 of the Commercial Code may be found in the sections listed in the cross-reference table on p. 430.

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 corresponding tables on page 433 below). This report has been prepared in accordance with the Core Option for GRI compliance reporting.

This enhanced approach means that the current report takes a broad view of the notion of "main risks" found in Article L. 225-105 of the Commercial Code. In line with the method of assessing and prioritizing the most pertinent corporate social responsibility issues, as expressed in the materiality matrix below, the report also addresses aspects that correspond more to opportunities for the Group than to risks in the narrow sense of the term. As a result, in addition to describing the policies and, where appropriate, due diligence procedures, aimed at preventing, identifying and mitigating the occurrence of the "main risks," the report also discloses employee numbers and movements (6.4.1), presents the Group's social dialogue process and employee relations culture (6.4.4) and discusses the stakeholder dialogue system.

Moreover, it includes a sub-section 6.8, on the "Duty of Care Plan," which 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.

The Group's CSR governance system is based on guidelines derived from the ISO 26000 (Social Responsibility) and ISO 20400 (Sustainable Procurement) standards. All of the production plants have implemented EHS management systems and have earned ISO 14001 (Environmental Management) certification and OHSAS 18001 (Occupational Health and Safety Management) certification.

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, 2018. This complies with the requirements of the "Non-Financial Performance Statement" legislation.

(1) *Information on (i) the impact that the Company's business operations and the use of its products and services may have on climate change; (ii) the Company's social commitments to supporting sustainable development and the circular economy, reducing food waste and combatting food insecurity, respecting animal welfare and responsible, fair, sustainable food systems; (iii) the collective agreements signed in the Company and their impact on business performance and working conditions; (iv) initiatives to prevent discrimination and promote diversity; and (v) measures taken in favor of the disabled.*

MATERIALITY AND MAIN RISKS

/ Identification of the main risks

To define and manage its main social responsibility issues, the Group has prepared a materiality matrix, which serves as a frame of reference in identifying the main risks that structure this Non-Financial Performance Statement. The issues covered by the matrix represent not only potential risks, but also opportunities for growth and business development. For this reason, the materiality matrix is closely aligned with the risk map, and any updates to one will result in changes to the other. Unlike the risk map, however, the materiality matrix also incorporates the perception of Michelin stakeholders.

The definitions of the main risks and the guidelines for managing them are systematically indicated in the introduction to each section of this report. In this way, the content is based on the materiality matrix (below), the Group's risk map (see 2.9 "Risk Factors") and the Duty of Care Plan (see 6.8). It has also been audited by the internal control department.

Policies and due diligence procedures are presented in extensive detail, in particular to express the Group's sustainable development strategy quantitatively, qualitatively, transparently and in a manner comparable with reports from years prior.

The results indicators for each of the main risks are mostly derived from the six Ambitions for 2020 (Section 1.1.9), which help to track the Group's responsible performance. Means indicators have also been defined for the main opportunities. For each of the main risks, an essential indicator has been highlighted in the introduction. In the interests of transparency and materiality, however, other indicators have been presented alongside the deployed policies, depending on the issues addressed.

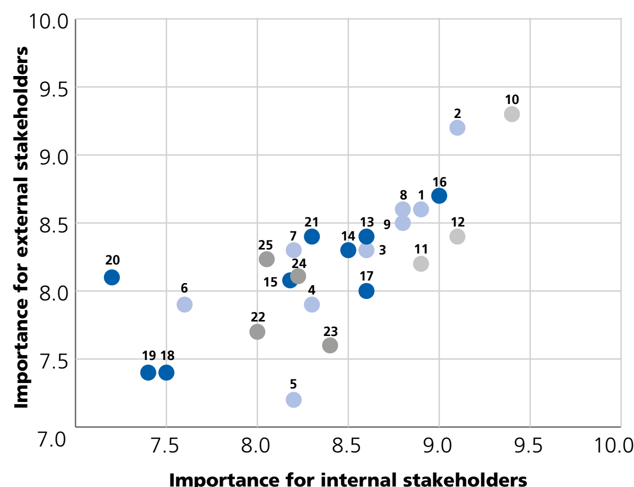
/ Materiality Matrix

The materiality matrix is based on the findings of surveys of external stakeholders and Michelin employees in seven countries (Brazil, Canada, China, the United States, France, India and Poland) that are representative of the Group's business base.

This process involved six phases. After an initial period of qualitative preparation to give the polling organization a thorough understanding of the Group and its industry, the second phase selected the issues to assess, based on general trends (demographics, transportation, consumer spending patterns, growth or decline in resources, etc.), benchmarks, data and features specific to the transportation industry, and issues identified in the previous matrix. Thirdly, the external stakeholders in each country were identified. Then, four to ten face-to-face interviews were organized in each country, prior to conducting an online survey, with 50 to 100 respondents per country. The fifth phase was to perform the same survey of Michelin employees in the same countries. Lastly, the responses of these external and internal stakeholders could be compared and analyzed, in order to build the materiality matrix.

This new matrix revealed:

- a general convergence among external stakeholders and Michelin employees concerning the relative importance of the various issues;
- the importance, for a company like Michelin, of getting involved in every aspect of sustainable development, including the environment, human rights, relations with local host communities and governance;
- the role that Michelin is expected to play in building and promoting sustainable mobility;
- the Group's responsibility in its operations and in the growth and development of its employees.



OUR COMMITMENTS TO SUSTAINABLE DEVELOPMENT

1 Sustainable, responsible governance
2 Business ethics
3 Transparency
4 Staff commitment to Sustainable Development
5 Diversity of teams
6 Contribution to the development of local communities
7 Dialogue with stakeholders
8 Environment (as a Group performance indicator)
9 Respecting Human Rights and duty of vigilance

Offering responsible, sustainable mobility solutions, clean and accessible to all

10 User safety (of Michelin products and services)
11 Commitment to accessible, clean, sustainable and responsible mobility
12 High-performance, competitive, responsible products and services

Improving the impact on Sustainable Development activities

13 Sustainable, responsible operations
14 Energy transition and carbon reduction
15 Responsible purchasing
16 Health and well-being of staff
17 Staff development
18 Impact of digital on our working methods
19 Reasoned/balanced development in emerging countries
20 Impact on local communities
21 Eco-design of our products and service

Exploring new, innovative, value-creative markets

22 Development of products and services in line with newconsumer trends (e.g. car-sharing)
23 The business opportunities offered by digital in our customer relations
24 Innovation via new partnerships
25 The business opportunities offered by an innovative range of eco-responsible and sustainable products and services

INDICATORS

To ensure comparability of data, the indicators used in this Registration Document have not been materially changed from the prior year. For the same reason, performance data in the key indicators have been reported over five years.

In addition to the consolidated report, separate information has been provided for Manufacture Française des Pneumatiques Michelin (MFPM), which coordinates most of the manufacturing, sales and research operations based in France and accounts for around 19% of the consolidated workforce.

Employee relations 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. Rather than limiting reported data just to the main risks covered by the Non-Financial Performance Statement, the broader scope of the 2017 report was maintained in 2018, both to ensure comparability and to meet the expectations of a wide range of stakeholders.

/ Data collection applications and scope of reporting

PeopleSoft/Oracle human resources management software is used to manage employee data in in the Group's main consolidated companies in 13 languages. In August 2018, the application's Chorus database was migrated to the new InTouch database as part of the Workday software suite. As a result, most of the 2018 employee data were consolidated from Chorus for the first half of the year and from InTouch for the second half.

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 Commercial Code – workforce numbers, working hours, health & safety data, labor relations, training, equal opportunity – concerns all of the Group's consolidated units, *i.e.* 80.6% of all employees on payroll, except for the dealership networks, Tigar and recently acquired companies. 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, the Corporate Personnel Department 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: the development of the local economy, 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).

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 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 sent to landfill.

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.

Each aspect is weighted according to its impact and calculated per ton of tires produced according to the following formula: Each of the six basic components is expressed in units per ton of finished product. By definition, the Group MEF was base 100 in 2005.

(1) Except employees of Euromaster, Sascar, IHLE, Fenner, Blackcircles, Book-a-Table and a few other small units.

$$MEF = \frac{\text{Reporting year energy use (GJ/t)} \times 15}{\text{Group energy use 2005 (GJ/t)}} + \frac{\text{Reporting year water use } (m^3/t) \times 15}{\text{Group water use 2005 } (m^3/t)} + \frac{\text{Reporting year VOC emissions (kg/t)} \times 25}{\text{Group VOC emissions 2005 (kg/t)}} + \frac{\text{Reporting year } CO_2 \text{ emissions (t/t)} \times 15}{\text{Group } CO_2 \text{ emissions 2005 (t/t)}} + \frac{\text{Reporting year waste generated (kg/t)} \times 15}{\text{Group waste generated 2005 (kg/t)}} + \frac{\text{Reporting year waste landfilled (kg/t)} \times 15}{\text{Group waste landfilled 2005 (kg/t)}}$$

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 2018, the scope of MEF reporting covered 75 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 MEF at the end of the calendar year in which it closed. The environmental data for these facilities are included in the MEF until the last month of reported production.

As an exception to this rule, the plants in Manaus and São Paulo were not included in the 2017 and 2018 scope of reporting, but have been incorporated since January 2019.

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.

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 [(1)] indirect GHG emissions from activities in both the upstream and downstream value chain. As in the case of Scope 1 and 2 [(1)] 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 reduce 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 [(2)] 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 moderate 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 2018, for the first time, their review was conducted in accordance with the enabling decree of August 9, 2017, which defines guidelines for independent third parties in performing their review of the Non-Financial Information Statement. Following the review, a report was issued by PricewaterhouseCoopers attesting to the presence and fairness of the required information.

(1) ***Scope 1*** *direct GHG emissions occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.; emissions from chemical production in owned or controlled process equipment. (Direct* CO_2 *emissions from the combustion of biomass and GHG emissions not covered by the Kyoto Protocol, e.g. CFCs, NOx, etc. shall not be included in scope 1 but may be reported separately).*

Scope 2 *accounts for GHG emissions from the generation of purchased electricity consumed by the company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organizational boundary of the company. Scope 2 emissions physically occur at the facility where electricity is generated.*

Scope 3 *all other indirect emissions. Scope 3 emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.*

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

6.2 BUSINESS AND VALUE CREATION MODEL

The components of the Group's business model are described in sections 1 and 2 above. The following sub-section describes the model's alignment with Michelin's social responsibility commitment, with references to the two sections above.

/ Our mission: "offering everyone a better way forward."

The entire Michelin community embraces the Group's mission of "offering everyone a better way forward" (see 1 "Offering everyone a better way forward"):

"Because we believe that mobility is essential for human development, we are passionately innovating 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."

In particular, this mission is embodied in the Group's commitment to sustainable mobility, *i.e.* mobility that is more affordable, safer, greener and more efficient.

/ Scope, organization and main resources

Compagnie Générale des Établissements Michelin and its subsidiaries (together "the Group)" manufacture, distribute and sell tires and mobility products and services around the world.

The Group is present on every continent through its business lines, subsidiaries and dealership networks. As of December 31, 2018, it had 121 production plants in 25 countries (see 1.6.1).

On January 1, 2018, a new Group-wide organization was introduced (see 1.2.3 "An efficient organization") as follows:

- 10 Regions, which are Michelin's direct points of contact with customers;
- 14 Business Lines, which define their strategy based on the needs identified by the Regions;
- 8 Operating Units, which oversee the cost-effective design, manufacturing and organization of product and service flows to meet customer expectations;
- support functions, which are provided either by local departments based in the Regions or global platforms providing superior services to the business and operating units;
- a streamlined Corporate Unit, which spearheads design and overall strategy while regulating interactions among the various units and keeping local initiatives aligned with the Group's mission and vision.

In 2018, the Group was led by the Managing Chairman, assisted by two Managers and the 10-member Group Executive Committee. The Managers are responsible for administering and managing the Group. The Supervisory Board is specifically tasked with exercising permanent oversight of the Group's management (see 1.8.1 and 1.8.2).

The Michelin Group deeply believes that its performance is intrinsically linked to the success and professional growth of its 117,393 employees – of which 70,599 in Europe and 18,968 at Manufacture Française des Pneumatiques Michelin (see 6.4 "Employee relations"). As business environments and markets become more complex, employee diversity is seen not just as an obligation but also as a driver of greater performance (see 6.3.3 "Employee diversity and non-discrimination").

To support its growth, proactively manage its constantly evolving skills requirements and adjust to conditions in its local labor markets, the Group is deploying assertive, forward-looking hiring policies that reaffirm its commitment to making "the Michelin Employer Brand a distinguishing factor for recruiting the people the Group needs, in addition to promotions and transfers from within the organization."

Michelin emphasizes promotion from within. By transforming its Personnel process, the Group is pursuing its vision of enabling every employee to take an active role in managing his or her career path and professional development. As of 2018, for example, 76% of Group managers had come up through the ranks (see 6.4.3).

Quality of worklife and employee engagement are regularly measured, in particular through the annual Group-wide 'Mooving Forward Together" survey of all employees. In 2018, the engagement rate stood at 80%, with 91% of employees responding to the survey[(1)] (see 6.4.4 "Social dialogue").

In terms of procurement, services account for around 30% of the Group's purchases, production inputs and energy for around 30% and raw materials for around 40%.

/ Core businesses and achievements

The Group conducts its business in four core value creation areas: (i) offering customers the right tire for every need; (ii) making mobility more efficient with tire-related services and solutions; (iii) enabling customers to enjoy outstanding mobility experiences; and (iv) providing expertise in elastomer-based and other high-tech materials (see 1.1.3 "Creating value in four areas").

Founded in 1863, Michelin's history (see 1.5 "History and development of the Company") closely parallels the history of the pneumatic tire (see 1.2.1 "A comprehensive brand portfolio"). This is why today, most of its customers are automobile manufacturers, and road users, most of which are individual car owners. Nearly a quarter of its consolidated revenue comes from the sale of Truck tires and nearly 20% from Specialty tires (Mining, Earthmover, Agricultural, Aircraft and Two-Wheel tires).

Alongside the dealership networks, which span more than 7,000 proprietary and franchised outlets in 29 countries, the Group is deploying a growing number of tire-related services, such as authorized service centers and networks, mobile tire-fitting vans and on-site maintenance services.

More generally, the Group is developing fleet service solutions that already support more than 850,000 vehicles in 24 countries, under contract to Michelin Solutions in Europe, Michelin Fleet Solutions in the United States, Sascar in Brazil and Mexico, and NexTraq in the United States (see 1.1.3 b).

For consumers, the Mobility Experiences division includes MICHELIN Maps and Guides (fine dining and travel), Tablet (dining events, curated hotel selection), ViaMichelin (trip and travel planning) and bookatable.com (restaurant booking).

(1) In the tire business, including Michelin and Oliver Retread.

Lastly, Michelin Lifestyle is partnering with licensees to develop a variety of product lines, such as car and bike accessories, work and sports gear, and collectibles (see 1.2.2 "Products and services you can trust").

2018 achievements and creation of value

The Michelin Group derives its structural ability to create value from the competitive strengths it has built up over the years: a powerful brand, technological leadership, a global manufacturing and marketing footprint, a comprehensive range of tires and services, and a robust balance sheet (see 1.1.4).

In 2018, the Group completed acquisitions capable of driving faster growth in each of its four value creation areas, including, respectively: (i) Camso, a world leader in rubber tracks and solid tires, which, by joining Michelin's Off-Road Business Line, has made the Group the market leader in this segment, and Fenner, a world leader in conveyor belts and reinforced polymers (see 2.8 "Highlights"); (ii) the TBC 50-50 joint venture between the Group and Sumitomo Corporation of Americas, which combined their respective tire wholesaling and retailing operations in North America, forming the second largest tire wholesaler in the United States; (iii) Truckfly, a free digital application designed to make life easier for truck drivers; and (iv) Tablet, a hotel selection and booking platform for travelers seeking an unforgettable hotel experience.

As a leader in sustainable mobility, profoundly aware of its responsibility to society, Michelin sees its impact and value not just in business or financial terms, but also in the way it engages with employees, society and the environment (cf. "Six Ambitions for 2020", p. 16, and 6.5.4 "Social commitments to supporting sustainable development"). This means that at the heart of the Group's value is the potential of its 117,393 employees, as they work towards fulfilling the six Ambitions for 2020 combining performance and responsibility.

The global tire market was worth USD 170 billion in 2017[1], with light vehicles accounting for 60% of sales (more than 1.5 billion tires) and trucks 30% (more than 225 million tires). Three-quarters of all tires were sold as replacements (see 2.1 "Tire markets"), with Michelin representing 14% of the market.

Consolidated net sales amounted to €22 028 million in 2018 (cf. 2.2 "Net sales").

Lastly, another major asset in the value created and enhanced by Michelin over the course of its history is its brand image (see 1.1.4 a "The MICHELIN brand"), which was valued at $7.93 billion in 2018 (source: Brand Finance Global 500).

/ Challenges, strategy and outlook

Michelin's core challenge is to maintain its leadership in sustainable mobility and its position as one of the world's most innovative, responsible and top-performing companies. As a result, the Group has structured its sustainable growth strategy around its six Ambitions for 2020, expressed in objectives backed by quantifiable key progress indicators, with performance continuously tracked and reported yearly (see 1.1.2 and 1.1.9).

Operational excellence

In a highly competitive and structurally expanding mobility market, Michelin is driving continuous improvement in its competitiveness and striving to deliver operational excellence in every business process, from production plants to corporate services and overheads.

The search for operational excellence focuses primarily on (i) improving customer service, with progress tracked at the highest levels of management and measured by the Net Promoter Score, and (ii) reducing costs while improving the ability of the production base to respond to customer demand. Two powerful levers of improvement in these areas are digitalization and simplification, supported by competitiveness plans (see 1.1.6 "Growth strategy" and 1.1.7 "Constantly improving competitiveness").

In resonance with the simplification drive, deployment of Empowering Organizations in the production operations and support functions is the key to encouraging employees to demonstrate expected attitudes and behaviors. These Empowering Organizations enhance the Group's ability to innovate and respond agilely to change, while profoundly transforming quality of worklife, workplace relationships and human resources management around the world.

Innovation and differentiation

Maintaining its technological lead is a core factor underpinning Michelin's sustainable performance. Since its founding, the Group has been the source of pioneering technological breakthroughs, both in tires (the radial tire, the fuel-efficient tire, the summer tire approved for winter use and the connected tire) and in materials. In this way, customer-centric innovation is impelling the Group's growth, while acting as a powerful vector of differentiation.

Michelin has focused its innovation on sustainable mobility for more than 20 years. Today, it is the world's leading manufacturer of fuel-efficient tires[2] 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 (see 1.1.5 a).

Since 2012, the innovation process has been governed by the Michelin Corporate Innovation Board, with input from all executive teams (see 1.1.5 c).

Among the recent innovations brought to market to meet customer expectations have been the MICHELIN CrossClimate car tire (and its AGILIS van version since 2018), the MICHELIN X Multi Energy truck tire, the MICHELIN XDR 250 and XDR 3 mining tires, and the new BFGoodrich intermediate truck tire lines (see 1.1.5 d "Bringing customer-focused innovation to market more quickly"). The growing digitalization of our businesses is encouraging the deployment of new services, thanks in particular to the connected tire and onboard information systems. In 2018, three digital applications earned an Innovation Award from France's Road Safety Association: MyInspection, which standardizes vehicle inspections, MyTraining, which facilitates driver training, and MyRoadChallenge, a serious game that rewards truckers for their good driving practices.

Outlook and future trends

Over the 2017-2023 period, Michelin expects new tire demand to grow by 2.5% a year in the Passenger car and Light truck segment and by an 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 5% a year and the agricultural tire market by 1% (see 2.1).

In this environment, the Group is maintaining its strategic commitment to increasing net sales in the tire business by 20% in 2020 compared with 2015, doubling net sales from services and solutions over the same period and tripling net sales from the mobility experiences business.

Looking out to the longer term, the Group is exploring three pathways to the mobility of tomorrow: (i) the vehicle of the future, with projects on fuel cells and the role of connected tires in improving road user safety (including in the case of self-driving cars); (ii) the mobility of the future, with the integration of tire and telematics solutions into intelligent transportation systems (ITS) and emerging usage trends like ride- and car-sharing; and (iii) the reinvention of urban mobility, given that 60% of the world's population is projected to live in cities by 2030.

(1) Source: Tire Business, August 2018.
(2) Michelin estimates.

/ Helping to meet the United Nations Sustainable Development Goals

By measuring its actions(1) against the United Nations Sustainable Development Goals (SDGs), Michelin hopes to respond more effectively to the rising stakeholder expectations for better CSR communication, and to gain greater insight into its future challenges.

Sustainable Development Goals

	Clients	Well being and development of people	Financial results	Performance of our products	Responsible industry	Local communities
1 NO POVERTY						Low
2 ZERO HUNGER				Moderate	Low	
3 GOOD HEALTH AND WELL-BEING	High	High		Moderate	Moderate	Moderate
4 QUALITY EDUCATION						Low
5 GENDER EQUALITY		High				Low
6 CLEAN WATER AND SANITATION					Low	
7 AFFORDABLE AND CLEAN ENERGY					Moderate	
8 DECENT WORK AND ECONOMIC GROWTH		High	High	High		Low
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE				High	High	
10 REDUCED INEQUALITIES		High				Low
11 SUSTAINABLE CITIES AND COMMUNITIES				High		Moderate
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	High			High	High	
13 CLIMATE ACTION				High	Moderate	
14 LIFE BELOW WATER						
15 LIFE ON LAND				Moderate		Moderate
16 PEACE, JUSTICE AND STRONG INSTITUTIONS					Moderate	
17 PARTNERSHIPS FOR THE GOALS		Moderate				High

Contribution to the objective: Low Moderate High

(1) *https://www.michelin.com/developpement-mobilite-durables/performance-transparence/objectifs-developpement-durable-onu/*

6.3 HUMAN RIGHTS AND BUSINESS ETHICS

Michelin is formally committed to respecting ethical standards and fighting corruption.

6.3.1 FAIR, HONEST BUSINESS PRACTICES

Michelin expects every employee to consistently act with integrity and in full compliance with Group standards and applicable laws and regulations, which have underpinned its corporate culture for over a century. To this end, a Code of Ethics and a broad array of policies, documents and action plans have been deployed worldwide and locally, in particular to prevent active or passive corruption, in France and abroad, and to encourage compliance with fair competitive practices. To support open, transparent communication about its business operations, products and services, the Group takes care to ensure the fairness of publicly released information.

The Code of Ethics covers 17 issues, corresponding to the risks of ethics violations and legal risks, particularly in the case of competition law violations and breaches of confidentiality.

The deployment and diligent application of these ethical guidelines are managed and controlled by a governance system comprising ethics committees at the Group, Region and sometimes country levels. The Group committee comprises representatives from the Group Executive Committee, and the Audit, Legal Affairs, Safety & Security and Sustainable Development and Purchasing Departments. The regional committees generally include representatives of the legal affairs, safety & security and quality departments, as well as the Regional chief executives and corporate secretaries.

The primary indicator for tracking warnings of ethical violations distinguishes between the major categories (fraud, confidentiality, etc.). To ensure the effectiveness of its alert system, the Group has set up a secure mechanism that allows any employee to use the available **ethics hotlines** without fear of retaliation.

6.3.1 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 Codes. 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.

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, a dedicated webpage, local legal affairs teams, career managers, direct managers or, in some cases, occupational physicians or employee representatives.

When **ethics violations** are observed, they are analyzed according to a Group-wide process defined by the Corporate Information Systems Security, Safety & Security and Environment Department. 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 2018[1], around 31% concerned the protection of Group assets, 14% fraud, 1% confidentiality, 7% compliance with laws and regulations, 5% conflicts of interest, a little over 35% issues involving people, and the remaining 7% other categories in the Code of Ethics. Following the investigations conducted in 2018 and prior years, disciplinary measures (warnings, unpaid leave and dismissals) were applied and legal action was taken to bring charges for fraud and, in certain cases, initiate civil proceedings to recover corporate 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.*

6.3.1 b) Taking a firm stand against corruption

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 typical cases such as bribes, kickbacks and payoffs, the use of agents and intermediaries, payments for favors or other inducements, charitable or political contributions, gifts and invitations.

Each local team manages its employee awareness-building and training programs, based on the corruption risk analysis performed in the Region with the support of the local legal affairs department. In addition, members of the Group Executive Committee participated in training in these issues in 2018.

6.3.1 c) Responsible tax management

Michelin's tax policies are defined and implemented in line with its operating objectives, with the goal of supporting the Group's responsible and sustainable business development. In this regard, the Group's primary responsibility is to ensure that it fulfills all of its international, regional and local tax obligations, in both the spirit and the letter of the law. Moreover, Michelin has defined its own fundamental guidelines, in a commitment to securing its positions and ensuring that the Group fairly pays all of the taxes due in its host communities.

This is why Michelin systematically interprets tax legislation in compliance with both the law and the legislator's intent, without taking advantage of any eventual loopholes.

The Group also recognizes the need and the value of nurturing trustworthy relationships with tax authorities. As a result, the Group Vice President of Tax Affairs and the regional tax affairs officers foster, nurture and maintain ongoing, transparent relationships with tax authorities at every level, to ensure that all of the disclosures required by law are easily accessible and shared on a timely basis.

Naturally, the Group's tax policies strongly condemn all forms of tax evasion and expressly forbid management from taking advantage of tax regimes deemed to be prejudicial or non-transparent. Similarly, Michelin does not engage in any transaction, financial or otherwise, that would have the effect of evading taxes or of optimizing its corporate tax liability without generating any other operational or economic benefit.

Tax risk management policies are based on:

- a transfer pricing policy deployed in accordance with the latest OECD guidelines, with remuneration of Group units determined on an arm's length basis;
- application of the transfer pricing policy across the entire Group, with understandable, transparent information systematically provided as requested by the local tax authorities;
- protection of shareholder value by implementing a full range of procedures to mitigate the risk of double taxation of profits, involving the use of all forms of recourse, as necessary, including internal recourse, governing authorities and arbitration;
- the assurance that all of the open tax positions are consistent with the Group's core values, including respect for facts, the environment and people;
- a preference for solutions that avoid unnecessarily complex tax analyses, to reduce the risk of divergent interpretations that may lead to tax disputes, while improving transparency.

All tax risks are tracked specifically by the Tax Affairs Department, under the supervision of the Corporate Finance Department. The system for managing these risks is also governed by the Group's tax policies.

6.3.1 d) Special measures governing procurement

As part of the internal control process, the Purchasing Department has implemented a number of dedicated measures (see 6.5.2).

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.**

Before taking up his or her position, all new hires in the Purchasing Department must participate in a **dedicated sustainable procurement training module covering ethics and anti-corruption issues.** In addition, to support compliance with the ethical guidelines specified in the Group's reference documents (the Code of Ethics and the Anti-Corruption Code of Practice), an **online training module** was developed in 2017 and deployed in 2018 among buyers and internal partners in contact with 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 6.5.2).

A **dedicated supplier relationship management application** enables Michelin to collect and administer the full range of supplier data.

6.3.2 RESPECT FOR HUMAN RIGHTS

Michelin is committed to upholding human rights in all its businesses and in every host community. **The Group embraces both the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.** Since 2010, it has supported the UN Global Compact, a United Nations-led initiative that encourages businesses to deploy sustainable and socially responsible policies.

The Group ensures that (i) it is not complicit in human rights violations, such as forced and compulsory labor or any form of child labor; (ii) it respects freedom of association and the right to collective bargaining; and (iii) it does not 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.**

Human rights encompass employee issues (employee health and safety, freedom of association), societal concerns (the safety of products and services, the impact on local communities) and ethics (combatting corruption and tax fraud). As a result, the Group's risk map includes human rights risks in the "People management/Social" and "Ethics" risk families.

Therefore, while all of these issues are discussed herein, their related policies and due diligence procedures are presented in dedicated sub-sections. In addition, the human rights risks identified by the Group and the measures put in place to address them are described in detail in the Duty of Care Plan (see 6.8.4).

Four performance indicators, derived from the six Ambitions for 2020, are being tracked.

/ Governance and indicators

Since 2018, human rights issues have been discussed in a dedicated governance body led by an Executive Committee member. It also oversees the improvement action plan and the following indicators, all of which have steadily improved (or held firm in the case of the engagement rate) over the past three years.

		2018	2017	2016
Health and safety	Total Case Incident Rate (TCIR)	1.9	2.14	2.5
Discrimination	% of women in management positions	26.8%	25.57%	24.6%
Workplace sentiment	Employee engagement rate	80%	80%	80%
Suppliers	% of suppliers found to be in compliance with Group standards for fair working conditions during desktop reviews of their CSR performance.	80% (of the 654 suppliers audited)	78% (of the 547 suppliers audited)	74% (of the 419 suppliers audited)

/ Impact studies and risk analysis

In 2018, a review of the six action plans deployed in India, Indonesia, Mexico, Thailand, Brazil and Romania, following the in-country human rights impact studies conducted between 2013 and 2017, found that the post-audit recommendations were effectively implemented at the local level, with a large number of mitigation initiatives undertaken in each country.

During the year, particular attention was paid to the process of identifying human rights risks within the Group and to the measures taken to attenuate them (see 6.8.4 b). In addition to the risks covered in the Group's risk map – discrimination and harassment (see 2.9.3 a), employee relations (see 2.9.3 j), protection of property (see 2.9.3 h), protection of privacy and personal data, corruption (see 2.9.3 a) – other risks were addressed for the first time in the Duty of Care Plan, including child labor, forced labor, impact on local communities and a living wage (see 6.8.4 b). On October 18, 2018, the human rights section of the Duty of Care Plan was submitted to the Corporate Stakeholders Committee, which made many suggestions for improvement, a number of which were reflected in the final version.

/ Ensuring that human rights are respected by suppliers

The Purchasing Department is pursuing its long-standing structured approach to assessing the human rights performance of Group suppliers (see 6.5.2 b and Duty of Care Plan 6.8.5 a). Supplier questionnaires, desktop reviews and the ESQF supplier quality system audit procedure all include questions concerning employee relations and working conditions. The special focus on the natural rubber supply chain resulted in a number of initiatives. Rolled out in several countries during the year, the Rubberway mobile application allows smallholders, brokers, large plantations and processing plants to input data on a wide range of human rights issues, such as income, working hours, working conditions and possible child labor (see 6.3.2 and 6.8.5 a). Eventually, this information will help to identify regions at risk and to target remedial action more effectively. Another major milestone was reached in October 2018 with the launch in Singapore of an industry-wide platform to support sustainability across the natural rubber supply chain.

6.3.3 EMPLOYEE DIVERSITY AND NON-DISCRIMINATION

Michelin sees diversity not just as an obligation but also as a driver of greater performance. As business environments and markets become more complex, the Group feels that a diversity of personalities enables it 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.

This is why the corollary of diversity – combatting discriminatory practices – is a priority for the Group. Based on the risk map, the Duty of Care Plan also addresses harassment as part of the fight against discrimination.

The Diversity process, expressed in the Diversity and Workplace Equality Policy, is structured around four priority issues – gender, nationalities and cultures, age and disabilities – while remaining attentive to emerging expectations and issues, such as religion in the workplace.

For more than 13 years, the process has been delivering steady progress, as seen in the diversity indicators and the focus on such specific issues as the hiring of more women sales representatives since 2017, the signing of new partnerships with AGEFIPH in France, the distribution of anti-discrimination and awareness training tools, and the management of particular cultural phenomena, with the Stereotypes and Sexism Kit and the Guide to Religion in the Workplace.

The Group's performance in encouraging diversity and preventing discrimination is being measured by a wide range of indicators. **Increasing the percentage of women managers and supervisors, which rose to 26.8% in 2018, and the proportion of local top managers in the growth regions, which stood at 75%, are part of the Group's six Ambitions for 2020, with goals of respectively 30% and 80%.** Depending on the local situation, other indicators may be tracked, such as the gender wage gap or the percentage of employees with disabilities.

6.3.3 a) Managing diversity seamlessly around the world

Prepared and distributed in all of the Regions in 2016, **the Group's Diversity and Workplace Equality Policy** reaffirms a number of fundamental principles and defines appropriate indicators and **guidelines, particularly in the area of non-discrimination.**

The Diversity process is governed by a global, multi-level organization led by the Corporate Vice President of Sustainable Development and Mobility. Its remit and objectives are approved by the Human Rights governance body. At the corporate level, it is led by a five-member steering committee with representatives from the Public Affairs, Sustainable Development and Mobility, Training and Hiring departments and from the Employee Relations office of the Corporate Personnel Department.

Based on the steering committee's guidelines, each Regional Director sets annual objectives, backed by action plans and indicators that are continuously tracked with the support of management.

An international diversity network, led by the Corporate Vice President of Sustainable Development and Mobility, brings together 20 diversity managers from each of the Group's host countries and/or regions. They support managers and Personnel Department employees, especially development partners and recruiters, one of whose objectives is to promote diversity. In 2018, an in-house social media network was created to link the diversity managers to the Corporate process leaders, enabling everyone to immediately share the latest news from the country organizations and to discuss policies and best practices in real time.

Lastly, throughout the year, employees around the world are encouraged to submit Progress Ideas capable of improving diversity.

6.3.3 b) 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, in recent years, programs have focused on gender stereotypes, sexism and religion in the workplace.

Before taking up their position, all line managers and development partners 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 a pilot stereotype and sexism awareness tool, each country organization can prepare its own sensitivity modules or kits, communication campaigns and other applications 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. In addition, internal audits act as a continuous diagnostic system, backed by mandatory action plans.

/ Religion in the workplace

In 2017, particular attention was paid to religious issues in the workplace, 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, with the support of a specialized French law firm. It has been available on request at the French plants in Bassens and Cholet since 2018, and is now being adapted for use in Germany, in accordance with national law and the specific concerns of German employees.

/ Employee engagement

Michelin urges its country organizations in the European Union to sign a European Diversity Charter, as Poland and Hungary did in 2016. In 2018, they were joined by Romania, while France and Spain reaffirmed their support during the year. However, what is basically being encouraged is the real-world engagement of Personnel Departments and employees, for example, in signing gender diversity and disability agreements (France) or organizing "creative event" employee workshops to help find ways of increasing diversity in hiring (France and the United States).

The challenge is also to foster the emergence of networks and to support them, as is the case in the United States, which has eight community-based business resource groups, as well as the Women's Network. Created three years ago in Europe and supported by the Managing Chairman, 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 2018, as part of sixth annual worldwide "Moving Forward Together: Your Voice for Action" survey, 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 80%, while the second, concerning the feeling that "people are treated with respect, regardless of who they are or their position," also improved, with 81% of respondents agreeing.

6.3.3 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 11.9% of operators in 2018 (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 (33.9%) and, to a lesser extent, among managers and supervisors (26.8%, up steadily every year from 22.5% in 2013).

In 2018, for the eighth year in a row, women accounted for more than one-third (37.9%) of all administrative employees, technicians, supervisors and managers hired worldwide. Michelin is committed to **having women account for 30% of all managers by 2020.**

Women account for three of the ten members of the Group Executive Committee and four of the nine members of the Supervisory Board. In addition, three of the four members of the Board's Compensation Committee, including its Chairperson, are women.

An audit of women in the sales force performed in 2017 under the aegis of an Executive Committee member led to the deployment of action plans in certain Regions, in particular with the goal of offering women new career paths. In two examples, a dedicated women's business resource group was set up for the country sales forces in the Southern Europe Region, while in Central Europe, an action plan was successfully implemented to increase the hiring of women. To improve women's access to management positions across the sales force, in July 2018, the Northern Europe Region organized a Women4Future convention attended by 70 employees, including the Region's executive team. It defined four priorities – flexible working arrangements, hiring, working hours in management positions, and reverse mentoring (juniors to seniors) – and assigned them to working groups tasked with devising actionable initiatives for deployment in 2019. At Corporate level, a new target for the percentage of women in the echelons from middle to top management is now being defined.

/ Women as a percentage of employees at December 31, 2018

(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	11.9%	31.7%	27.3%	18.5%	GRI 102-08
MFPM	*6.4%*	*23.2%*	*27.6%*	*17.6%*	
North America	14.1%	47.2%	25.0%	18.4%	
South America	7.1%	23.2%	27.1%	13.2%	
Asia, excluding India	10.9%	42.2%	29.7%	18.4%	
Africa/India/Middle East	9%	25.6%	15.8%	13.4%	
GROUP TOTAL	**11.9%**	**33.9%**	**26.8%**	**18.1%**	**GRI 102-08**

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

/ 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 involves adjusting workstation ergonomics.

Since 2014, the FACE Foundation's *Fondation Égalité Mixité,* which comprises four founding members (Michelin, AXA, Orange and Engie), has led progress on 13 innovative projects that are helping to improve gender balance in the workplace, in such areas as access to jobs and starting a business, encouraging gender balance and university research in management practices. Eleven projects received total funding of €400,000 in 2014 and €500,000 in 2016, while two new projects initiated in 2018 have been granted an aggregate €125,000.

/ The representation of women in management

Diversity*	2018	2017	2016	2015	2014	GRI Indicator
Percentage of women managers and supervisors(1)	26.8%	25.7%	24.8%	24.2%	23.5%	GRI 405-1
MFPM	*27.6%*	*26.8%*	*26.1%*	*24.9%*	*24.3%*	
Percentage of women among top managers(2)	18.7%	18.1%	17.3%	16.4%	15.7%	
MFPM	*18.1%*	*18.3%*	*17.3%*	*15.7%*	*14.7%*	
Percentage of women among executives(3)	12.7%	11.6%	11.1%	9.9%	9.1%	
MFPM	*13.0%*	*12.7%*	*11.3%*	*10.2%*	*9.2%*	

* *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 Region. 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 2018, more than 50 women in Europe participated in the program.

Around the world, Michelin is committed to facilitating **work/life balance** with a variety of supportive benefits, including flextime arrangements, telecommuting (see 6.4.2 c), 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 2018, the exercise covered a third of total employees (excluding the dealership networks, Tigar and recently acquired companies). 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 Personnel Department managers in the countries concerned. **Since 2011, the gender wage gap has steadily narrowed year after year,** down to 2.58% in 2018, based on a sample of 31,638 people with the same level of responsibility.(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, 2016 and 2017. 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, administrative employees and managers in grades L, M and N (56% of total managers Group-wide) and 1.6% for managers grade K and above. 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).

In Spain, Michelin was honored in 2018 with the "Óptima Castilla y León" award for gender equality in the workplace.

(1) *Employees in categories 1 to 4, accounting for 33% of total employees on payroll Group-wide. The sample did not include production operators.*

6.3.3 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.

The Corporate 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 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 France, an agreement was signed in 2017 with AGEFIPH to co-finance ergonomic improvements to help retain disabled employees, with AGEFIPH contributing a grant of €446,825 to a total budget of €1,671,350. Deployment of the related action plan continued apace in 2018, helping to fill 3% of job vacancies with disabled applicants, significantly reduce the number of dismissals for incapacity, create 18 positions for disability employment officers in France, support 400 employees and secure our procurement from sheltered work centers and social enterprises.

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 wide legal disparities, which reflect deep-rooted cultural differences, mean that almost every situation is unique, making it difficult to consolidate Group-wide data on disabled employment.

At MFPM in France, disabled employees made up 7.2% of the workforce in 2017 and the legally mandated 6% quota will once again be amply exceeded in 2018.

6.3.3 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[1] in the growth regions. **In 2018, the percentage was 75%,** up from 74% in 2017. 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, annual 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) 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.

6.4 EMPLOYEE RELATIONS

6.4.1 APPROACH, WORKFORCE AND MOVEMENTS

Prior to discussing the Group's main employee-related risks, this section presents the general environment in which they may arise, including a description of the Group's employee relations vision and an analysis of the workforce, its structure and its movements over the year.

Employee relations standards and responsibilities

Michelin's employee relations are governed by the highest standards in accordance with the universal principles of human rights and international labor conventions.

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 6.4.4), the elimination of discrimination in employment and occupation, the elimination of forced labor and the effective abolition of child labor (see 6.3.2).

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.

Analysis of the workforce

In 2018, Michelin deployed a new organization based on 10 Regions, which replaced the five Geographic Zones that previously structured the Group's operations around the world.

At year-end, the workforce totaled **117,393** people,[1] of whom 18.1% were women.[2]

/ Employees on payroll at December 31, 2018

(Employees on payroll, consolidated companies, under any form of work contract, excluding temp. agency workers)

	Africa, India, Middle East	Central America	North America	South America	Southeast Asia and Australia	China	Central Europe	Northern Europe	Southern Europe	Eastern Europe	Group total	GRI Indicators
2018 workforce	1,723	1,326	20,230	8,151	8,621	6,618	14,555	18,423	36,758	988	117,393	GRI 102-07 GRI 102-08
2017 workforce	1,603	1,155	21,510	7,983	8,498	6,580	13,865	14,562	37,326	987	114,069	
MFPM											*18,968*	

The worldwide workforce rose in 2018, ending the year at an aggregate 117,393 employees, compared with 114,069 at December 31, 2017. Employee numbers increased in every Region except North America, with a more significant gain in Europe due to the acquisition of UK-based Fenner.

(1) Including the dealership networks, Tigar and recently acquired companies.
(2) Excluding the dealership networks, Tigar and recently acquired companies.

/ Full-time equivalent employees at December 31, 2018

(Full-time equivalent employees of consolidated companies, excluding interns, work-study trainees, apprentices and temp agency workers)

	Africa, India, Middle East	Central America	North America	South America	Southeast Asia and Australia	China	Central Europe	Northern Europe	Southern Europe	Eastern Europe	Group total	GRI Indicators
2018 workforce	1,722	1,326	19,436	7,524	6,618	8,593	14,182	17,030	33,745	941	111,117	GRI 102-07 GRI 102-08
2017 workforce	1,599	1,155	20,642	7,399	6,580	8,469	13,544	13,143	34,336	940	107,807	
MFPM											*17,314*	

The breakdown by Region remained stable over the year. France accounted for 19% of the workforce, with more than 21,000 full-time equivalent employees nationwide (including Euromaster and Michelin Travel Partner).

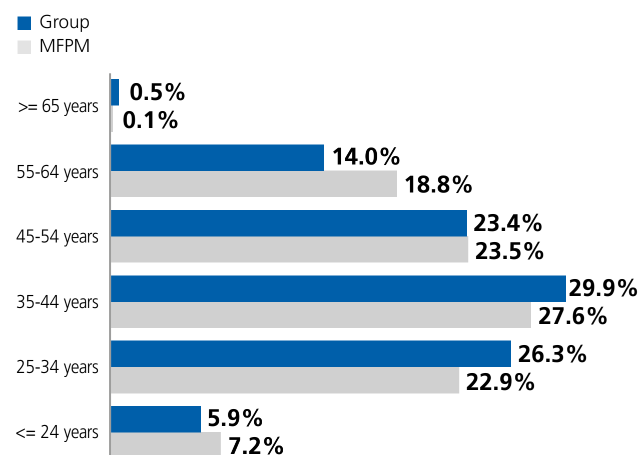
/ Contract employees and temp agency workers

In 2018, contract employees represented 4.7% of full-time equivalent employees (FTE) Group-wide.

The total number of contract employees and temp agency workers remains low, at much less than 8.5% of the aggregate workforce.

AGE PYRAMID

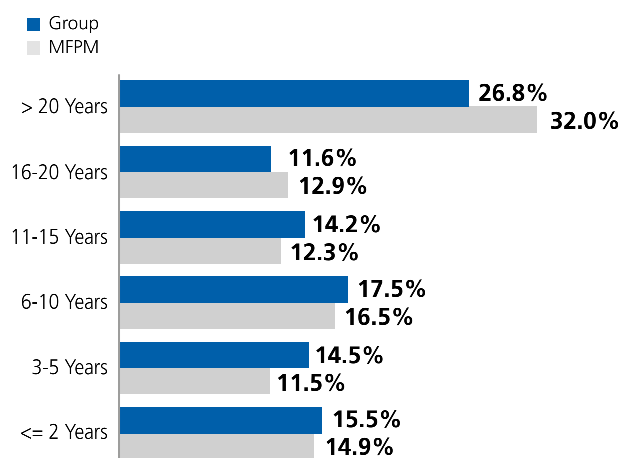
(Full-time equivalent employees of consolidated companies, excluding interns, work-study trainees, apprentices and temp agency workers)



Excluding the dealership networks, Tigar and recently acquired companies.

SENIORITY

(Full-time equivalent employees of consolidated companies, excluding interns, work-study trainees, apprentices and temp agency workers)

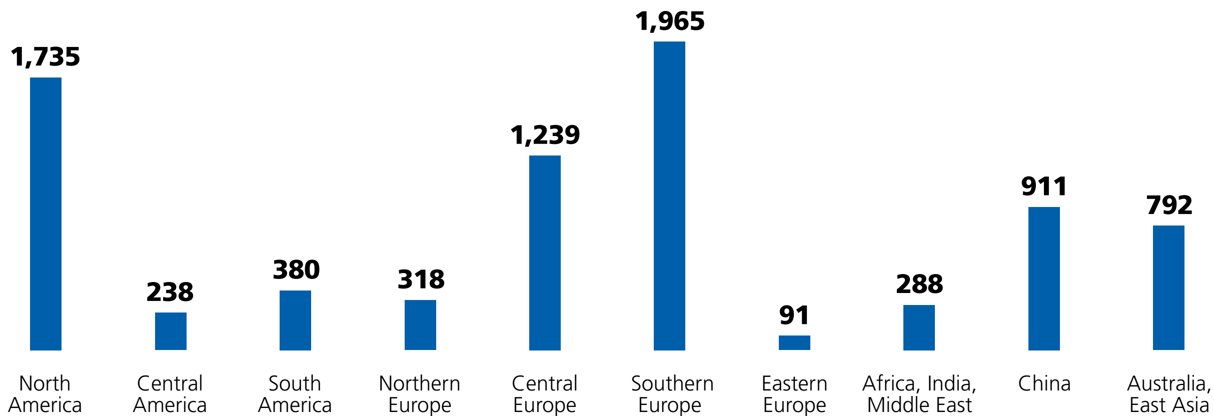


Excluding the dealership networks, Tigar and recently acquired companies.

Employee movements

Around the world, Michelin is enhancing its appeal among young people.

NEW HIRES IN 2018



New hires under permanent work contracts.
Excluding the dealership networks, Tigar and recently acquired companies.

A total of **7,957** people were hired in 2018, more than in 2017, with women accounting for 24% of the entrants. The number of new hires increased in every Region except the Americas, where they were unchanged for the year.

MFPM brought in 1,290 new people during the year, up from 1,144 in 2017. Of these, 56% 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 2018	Resignation	Dismissal/ termination by mutual agreement	Retirement	Death	Total	GRI Indicator
Group	3,378	2,624	2,484	97	**8,583**	GRI 401-1
MFPM	*254*	*233*	*1,092*	*23*	*1,602*	

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 (Europe and North America)*; (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

	2018	2017	2016	2015	2014	GRI Indicators
Group	6.8%	5.9%	5.2%	5.9%	5.5%	GRI 401-1
MFPM	*2.8%*	*2.5%*	*2.2%*	*2.0%*	*2.1%*	

Excluding retirements and excluding the dealership networks, Tigar and recently acquired companies.

6.4.2 WORKPLACE HEALTH, SAFETY AND WELL-BEING

In full alignment with its fundamental value of respect for people, Michelin is actively deploying a comprehensive range of health, safety and quality of worklife policies, as described in:

- the 2011 **Health and Safety Declaration;**
- the 2018 **Health, Safety and Quality of Worklife Policy,** the updated version of the Health Policy;
- the 2018 **Environment and Prevention General Policy Statement.**

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." For Michelin, these conditions include the physical and psychological well-being of employees, the quality of the working environment, and a healthy work-life balance.

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 Health, Safety and Quality of Worklife Policy defines the Group's foundations and vision, in alignment with its Sustainable Development and Mobility Ambitions for 2020.

The Environment and Prevention General Policy Statement specifies the short and medium-term objectives that will drive progress towards fulfilling our vision, while setting the guidelines that every unit must follow.

The Group's risk management procedures are also being applied to employee health, safety and well-being, as part of a disciplined continuous improvement process.

Group employees and temp agency workers face a very diverse array of risks and obligations, depending on whether they work in a production plant or an office, on the road or behind a desk (see 2.9.3 b). For example, shopfloor 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.

Office-based, nomad and sales personnel are exposed to:

- risks related to business travel (accidents and health risks);
- psychosocial risks.

These risks can have an impact on the health, well-being, and even the physical integrity of Michelin employees and other people who work in Group facilities.

To minimize these risks, Michelin has deployed a specific procedure to analyze, manage and attenuate health and safety risks for everyone in the organization. This process gets every person working on a Michelin site involved in programs addressing all of the related technical, organizational, behavioral and managerial issues.

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 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 the process stakeholders, the eight health and safety fundamentals were very well applied in the plants, with a score of 9.2 out of 10 in 2018. Moreover, these self-assessments are supported by sampling-based internal audits.

In this way, a full array of improvement drivers are being activated across the organization. **Mandatory training courses and programs are helping to instill a culture of vigilance, engagement and alertness in every employee, both for themselves and for others. Throughout, the emphasis is on encouraging employees to embrace and demonstrate this culture of safety in the workplace** (see 6.4.2 b).

Improvements are being guided by a large number of indicators. To meet each objective, working methods, rules and practices are defined under the supervision of Group managers and audited by the internal control department.

In recent years, a prioritized risk map has been created, based on data from standardized risk assessments conducted for every workstation.

These data are also used to set priorities in the annual or multi-year action plans, which are supported by programs to drive continuous improvement in existing designs, equipment and processes.

The key performance indicator is the Total Case Incident Rate (TCIR), which is part of the Group's six Ambitions for 2020.

6.4.2 a) Safeguarding employee health

According to the World Health Organization, "health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity. The enjoyment of the highest attainable standard of health is one of the fundamental rights of every human being."

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 practices among them.

/ Systematically monitoring employee health, to prevent and manage occupational illnesses

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 2018, the Committee continued its study of psychosocial risks and was consulted for an opinion on the Health, Safety and Quality of Worklife Policy after it was revised in 2017.

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 Regions and the large European countries, where the number of Group employees and national legislation warrant a local approach, health coordination committees are helping to align care systems and the deployment of the Health, Safety and Quality of Worklife recommendations.

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. The Group's definition of occupational illness depends on each host country's legislation.

A full 85% 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 Brazil**), to provide care and enable early diagnosis of disease;
- medical check-ups introduced in 2018 for all expatriate employees and their families, regardless of their home or host country, before and during expatriation, to prevent at-risk situations;
- 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.

/ 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 Regions. The sheets describe the potential hazards and conditions for safe use of products used at the workstation.

Group production facilities and 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.

/ 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 standardized solutions.

Every year, ergonomic issues across the business base **are addressed by a dedicated capital budget,** totaling €21.5 million in 2018.

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.

6.4.2 b) Assessing and preventing workplace safety and security 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 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 in 2018:

- 33,770 Progress Ideas were submitted by employees to address safety issues (55%) and working conditions (45%);
- 84% of the 87,500 employees who responded to the "Moving Forward Together" survey felt that "we never compromise safety to meet other targets "(costs, deadlines, etc.)."

/ Protecting employees during a crisis

Security surveillance has been heightened in response to the growing number of threats and tense situations potentially faced by Michelin employees, particularly when traveling abroad. A country risk map is regularly updated and posted on the corporate intranet.

Employee travelers are now proactively tracked, so that they can be contacted and assisted in case of incident. Business travel to high-risk countries is subject to review and prior authorization, with the issuance of appropriate data sheets and security recommendations.

Employees are forbidden to travel to extremely high-risk countries, such as Libya, Syria, Yemen, Iraq, Somalia and North Korea.

Specific guidelines and measures have also been introduced to safeguard expatriate employees and their families in high-risk countries, including pre-assignment training to raise awareness of in-country security precautions.

Every year, Group security services visit these high-risk countries to assess and verify, on-site, the consistency and proper application of the Group's guidelines and recommendations. There are two types of on-site audits. The first is a compliance audit to verify that the Group's security recommendations have been effectively understood and deployed. The second is an implementation audit to measure the degree and consistency with which the security precautions have been applied. Seven "personal security" compliance audits are currently being performed by regional managers in Brazil, South Africa, India, Mexico, Nigeria, Thailand and Turkey. An implementation audit by Group security services was planned in India in late 2018 but has been postponed until early 2019.

Due to the persistent threat from Islamist groups, Europe, and particularly France, Germany and the United Kingdom, is still considered a region at risk and alert levels remain high despite the decline in terrorist attacks in 2018.

In Brazil and Mexico, where the security situation has clearly worsened for more than a year, dedicated plans to improve protective measures and procedures have almost been completed. Given the Group's extensive business operations in these two countries, they have been the subject of priority attention. This is particularly the case for Mexico, where the new plant in the State of Guanajuato is nearing completion.

Air pollution in large Asian cities, particularly in India and China, remains a serious health concern, and measures have been taken to inform and protect employees.

Lastly, in 2018, a support unit comprising safety, security, health, environmental and IT security experts was formed to provide 24/7 operational and technical assistance to crisis management units.

/ Measuring and tracking occupational accidents

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.

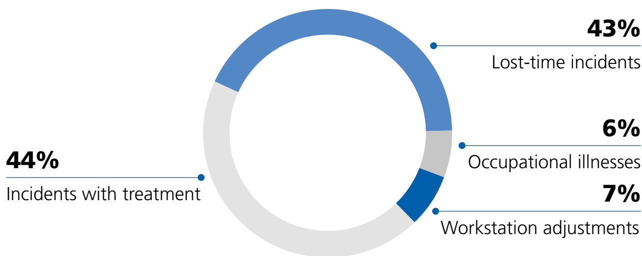
The system also records incidents involving temporary workers and contractor employees. Such incidents are then reviewed with the companies concerned to help them prepare improvement action plans.

In 2018, 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. Information, awareness-building and training programs continued to be conducted for the designated health and safety experts in every Region and time zone, while operating procedures for the TCIR experts network were upgraded to improve the reliability and global consistency of TCIR data.

The Michelin community was saddened during the year by two fatal work-related accidents, involving an employee on a maintenance project in Shanghai, China and an employee working on an aerial platform at the Vitoria plant in Spain. The Group was also affected by the fatal motorcycle accident of an employee in Thailand and the death of a sub-contractor employee in Mexico as part of a construction project.

The causes and circumstances of all these accidents were actively investigated by the authorities and Michelin, which took protective measures to improve everyone's safety. Continuously improving Michelin's health and safety performance remains, more than ever, one of the Group's top priorities.

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 1.94 in 2018 from 2.1 the year before. This was led by a sharp 8% improvement in the manufacturing operations, which represented 71% of all hours worked across the Group.

6.4.2 c) Well-being in the workplace: improving work-life balance

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.

The "Moving Forward Together" survey (see 6.4.4 a) continues to demonstrate that, in general, employees would primarily like to enjoy a better balance between their personal lives and work.

/ Adjusting office work schedules

Local initiatives to encourage telecommuting are still being promoted. 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 6.3.3).

/ 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.

/ Offering more flexible part-time options

Michelin continues to encourage part-time working, which plays an important role in improving quality of life and work-life balance, while 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, 2018

Group *MFPM*	**Women**	**Men**	**Total**
Production operators	6.0%	3.7%	4.0%
MFPM	*4.8%*	*1.9%*	*2.1%*
Administrative and technical staff and supervisors	7.0%	1.4%	3.1%
MFPM	*10.1%*	*1.3%*	*3.8%*
Managers	6.3%	0.9%	2.2%
MFPM	*11.3%*	*1.1%*	*3.5%*
GROUP TOTAL	**6.5%**	**2.9%**	**3.6%**
MFPM TOTAL	***9.6%***	***1.5%***	***3.0%***

Scope: Employees on payroll under any form of work contract, excluding temp. agency workers and excluding the dealership networks, Tigar and recently acquired companies.

Group-wide, the percentage of employees working part-time returned to 2016 levels, at 3.6% versus 4.4% in 2017. While the decline in part-time work was observed in every employee category, it was more pronounced at MFPM (to 3% from 5.2%), particularly in the "administrative and technical staff and supervisors" category (to 3.8% from 8.3%), where the percentage of women working part time declined to 10.1% from 16.9% in 2018.

/ Improvement plans 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.

These and other programs to enhance the quality of worklife are being incorporated, with employee input, into each facility's improvement action plans by on-site Health, Safety and Quality of Worklife Steering Committees.

/ Positive quality-of-worklife scores in the engagement survey

In 2018, 74% of the 87,500 people who participated in the Moving Forward Together survey were satisfied with their quality of worklife (73% in 2017). This overall result reflects how employees feel about their work-life balance and personal job fulfillment, their workplace environment and workstation safety issues. Work-life balance remains a priority for employees. A full 84% of employees feel safe at work, an excellent score that remained unchanged from 2017. The highest levels of satisfaction were reported in China, Mexico and Thailand.

/ Aligning psychosocial risk prevention programs 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.

Since 2018, some of the Group psychosocial risk prevention programs have been audited by the internal control department, to determine how well the corresponding resources have been deployed.

During the current period of corporate reorganization, employees at the facilities in Clermont-Ferrand, particularly the head office and the research center, have been able to attend personal or group support sessions provided by psychologists from a specialized firm working closely with the Personnel Department and the occupational medicine team.

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.

/ 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 2018
North America	2.2	0.1	1.6	3.9
Central America	0.5	0	0.4	0.9
South America	0.7	0	12.9	13.7%
Europe (including Russia)	3.1	0.2	1.5	4.8
MFPM	*2.2*	*0.3*	*1.5*	*4.0*
Africa/India/Middle East	0.5%	0.0%	0.5%	1.0%
China	1.6%	0.1%	0.6%	2.3%
Southeast Asia and Australia	1.2%	0.0%	0.0%	1.2%
TOTAL GROUP	**2.5%**	**0.1%**	**1.9%**	**4.5%**

In North America, the number of short-term absences rose by 0.6%, while long-term leave-taking declined by 0.3%.

Absenteeism declined overall in Europe during the year, primarily due to the 0.5% decrease in long-term leave-taking. Operations in France continued to significantly reduce their overall absenteeism rate, by 2.7% in 2018, thanks to a 1.3% improvement in short-term absences and a 1.1% decrease in long-term leave-taking.

6.4.3 EMPLOYABILITY AND EMPLOYEE DEVELOPMENT

As it actively transforms its Personnel function, Michelin is pursuing its goal of enabling every employee to take an active role in managing his or her career path and professional development.

As part of this process, the function's mission was redefined in 2016. It is now tasked with fostering an environment conducive to:

- the development of marketable skills, employee fulfillment and employee engagement;
- the performance of empowered, capable teams, which in turn contributes to the performance of the entire Group;
- the fulfillment of Michelin's social responsibility vision.

In 2017, three new practices – frequent feedback interviews, personnel reviews and pay round management – were introduced to empower the management chain, with the support of the Personnel Department.

In 2018, the entire employee and team management and development process was overhauled, based on a new skills management system that any employee can openly access, depending on his or her workstation and job. This new approach is having a major impact on the empowerment and engagement that employees and teams demonstrate as they drive the Group's performance, while also enhancing everyone's sense of fulfillment.

To support this transformation, in 2018 the Group distributed a set of six policies dedicated to the core Personnel Department processes of Hiring, Employee Development, Employee and Team Compensation, Diversity, Labor Relations, and Health, Safety and Quality of Worklife.

In each process, implementation of the intentions and related principles is managed and verified on the basis of dedicated indicators or yardsticks defined by the Corporate Personal Department.

Each policy is understandable and deployable only with reference to the other five. **The primary strategic indicator used to measure the outcomes is the annual employee engagement rate, as determined by the findings of the "Moving Forward Together" survey.** The rate has been managed in every Group unit since 2016, with the goal of reaching 85% in 2020. It stood at 80% in 2018, unchanged from 2017 due to the deployment of the new organization and all the other transformations underway across the Group.

In parallel with the revamp in 2018 of the employee management system and the related migration to the new inTouch HR information system, the new "Managing and Developing People and Skills" process was rolled out in every unit.

To support the Group's expansion, proactively manage its constantly evolving skills requirements and adjust to conditions in its local labor markets, the momentum generated by this new approach is being sustained by a strategic workforce planning process managed by the Regions under the supervision of the Corporate Executive Vice President, Personnel and the Corporate Executive Vice Presidents of the Business Lines.

Lastly, the Personnel Department's role is now focused on advising, supporting and ensuring the implementation of local enabling policies and procedures. Organizationally, this has led to the creation of two new positions, development partner and skills manager.

6.4.3 a) Employer appeal, promoting from within, team succession plans

The new hiring policy introduced in 2018 reaffirms the following vision:

"The Michelin Employer Brand is a factor of differentiation in hiring the people the Group needs, in addition to promotions and transfers from within the organization".

Nearly 8,000 people were hired under permanent contracts in 2018, each of whom attended an induction program that guided them through their first days on the job and gave them first-hand insights into Michelin's culture and history. The program is also designed to deepen both their knowledge of the Group's history and 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.

Michelin consistently prefers to promote from within. As of 2018, 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.

6.4.3 b) The new employee development system

A core component of the employee development policy, job mobility is now seen as a "differentiating factor needed to fulfill the Group's strategic vision. It is an indispensable lever for developing people, enriching their experience and improving their ability to take on broader responsibilities, for their own benefit and for the benefit of the Group." Offers of job mobility are based on potential reviews that assess behavior, results and skills.

The system deployed in 2018 ensures that employees are fully and transparently informed of the performance standards, development aspects and mobility opportunities for a given posting or job, in alignment with the needs of the Group's organizations and business lines and their own personal aspirations.

Team succession plans are now being managed by the team leader and certified by the Personnel Department, whose role is to advise, support and, if need be, serve as recourse of last resort for the employees and teams. To this end, keeping everyone aware of job vacancies is the cornerstone of the new Job Posting process, which is now starting to be deployed across the Group. It has also been integrated, along with the recruitment process, into the inTouch system.

In addition, a continuous individual skills development process has been introduced with three objectives:

- ensure that the person has the critical skills required for the job, thanks to certification by their manager;
- enable the person to improve their job performance, so as to increase their contribution to the performance of their team or unit;
- guide the person in their career development and offer them opportunities to move to a new posting, job or job family.

Throughout, the new process is underpinned by the slogan: **"Enhance your skills throughout your career."**

In practice, any manager or employee can use the new inTouch information system to directly access the description of:

- one of the 591 active jobs, redefined by each business line owner based on its purpose, expected key outcomes and required skills;
- one of the 48 behavioral skills and 356 job skills, each with five levels of competency, graded on the actions observable while the job is being performed.

For this purpose, the Group has acquired a "skills dictionary" from Canadian company HRSG, recognized for its expertise in this area. In this way, each employee can self-assess his or her proficiency in skills that are no longer exclusively defined by the Group, which is one of the key vectors of employability.

6.4.3 c) Assertive deployment of the continuous skills development process

For the new skills development process to work, units and employees have to be informed and advised about the talents and skills needed both immediately and over the next three to five years. This means being able to accurately foresee the emergence of new jobs and how they will inevitably evolve in response to the ever-faster transformation of our ecosystem. The growing speed of these changes is having a major impact on operating conditions in our businesses, increasing the need to encourage a behavioral shift to greater agility, responsiveness and cooperation.

Aware of these challenges, in 2018, Michelin upgraded its strategic workforce planning process, which consists of identifying the potential risks involving the Group's skills and workforce needs over the next five years and recommending solutions to address them. The planning process is managed by the Regions and covers the selected job families.

The audits performed in 2018 revealed the following challenges:

- skills management (number and level);
- the Group's appeal as an employer (hiring and retention);
- talent development;
- diversity (increasing the percentage of women in certain job families; and younger generation).

The ultimate goal of the SWP process is to have the right number of skills in the right place at the right time to enable Michelin to realize its ambitions in current and future markets.

6.4.3 d) Enhancing skills through training

To support this individual and centralized management, Michelin offers every employee access to a particularly broad training catalog. In 2018, the investment in employee growth and development remained strong, at **five million hours of training.** This is reflected in the **percentage of training hours** per total hours worked, which stood at **an estimated 3.1%** in 2018, compared with 3.2% in 2017.

In the same way, to deliver this average investment of **53 hours of training per person** on payroll, the Learning & Development function comprises 990 full-time professionals, nearly half of whom are dedicated to training production operators.

The My Learning@Michelin learning management system, 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 informed

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.

At the same time, the drive to digitize the training catalog continued during the year. Scheduled to be completed in 2019, this stand-alone project is getting all of the Group's job families involved in meeting the following goal:

"As of 2020, 30% of the skills development resources will be available to employees in digital formats, such as e-learning, distance learning, COOC and virtual reality."

The initial milestone of 9% was reached in 2017 and by the end of 2018, digital learning accounted for 19.2% of the catalog. Supported by the "@Learning solutions" team of experts formed in 2016, the Group has tested the Learning Content Management System (LCMS) from 360Learning, which makes it much easier and less expensive to develop a multimodal, multilingual training program that can be immediately offered to an extremely broad community of learners.

The impact of the faster digitization of the Group's training catalog may be illustrated by two real-world examples:

- the "Engage" program for sales forces in Europe, with a two-hour e-learning module designed and delivered in just one month. Number of people impacted: 1,400;
- the "EasyPPM" program for IT project managers worldwide, with the design and delivery in three months of six e-learning courses totaling eight hours to replace three days of classroom training. Number of people impacted: 2,700.

At the same time, a growing number of initiatives are being taken to meet new user needs by expanding the courses on offer. One significant example concerns the several hundred micro-modules deployed by the production monitors over a two-year period in the plants in Shenyang, China and Chennai, India. These One-Point Lessons (OPLs) responded, immediately, to the need to strengthen certain specific skills by using, as necessary, such highly advanced technologies as virtual reality and simulation.

6.4.3 e) A new division of roles to support the process

To meet the stated goal of enabling "every employee to take an active role in managing his or her career and professional development, with the support of line managers," the Personnel Department also had to be realigned. Rather than being directly in charge of an employee's job mobility, it now acts as an advisor, supporting the process of professional mobility and ensuring policy compliance.

As part of this change, in 2018, two new roles were defined at the local level:

- **the development partner,** who replaces the career manager as the on-site point of contact for a local team. His or her primary mission is to support managers in the development of their team members. In terms of risk management, he or she ensures that Group policies are effectively applied on-site, at the front line. Depending on the circumstances, he or she is qualified to examine any Personnel-related appeals or requests;
- **the skills manager,** who is an expert both in skills management and in his or her job family. He or she replaces the former job school training manager, supporting the development partners in ensuring that the new skills management system is being deployed and properly used by managers and employees.

Eventually, each team will be assigned a local development partner (PDP) and a network of local skills managers (LCM), who will all work together with team managers to cover the risk of a "skills gap."

At the Group level, the following organization is now in place:

- a pool of four development partners covering Research & Development, Manufacturing, Marketing & Sales and the Corporate Departments, who are in charge of managing the career development of high potentials or people in succession plans for critical or sensitive jobs;
- A community of 31 job skills managers, a position that combines the tasks previously performed by the skills development managers and job-specific training managers. Under the governance of the Corporate Personnel Department, they are responsible for anticipating and responding to changes in their job families and for upgrading and deploying the standards defined for jobs, skills and the related career development paths.

6.4.4 SOCIAL DIALOGUE

According to the materiality matrix, social dialogue is not a priority risk for the Group. However, **Michelin's identity and philosophy have always impelled the Group to engage in an assertive social dialogue process, which it sees as a driver of sustainable performance.** This is why the Duty of Care Plan and the risk mapping exercise cover the quality of social dialogue as an issue, even if the related risk, which mainly concerns employer appeal, skills and employee engagement, is not classified as major (see 6.4.3).

In 2015, Michelin issued its Labor Relations Policy, which recognizes the positive contribution of freedom of association, collective bargaining and staff representation independent of management, which are a source of proposals and ensures that employees' fundamental needs are taken into account in every host community. In the document, Michelin pledges to respect employees who agree to take on this responsibility and to include it in their potential reviews 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.

Compliance with the commitments in the Labor Relations Policy is also verified by an internal control process.

The positive state of employee relations in the Group is also measured by the employee engagement rate, as determined by the findings of the "Moving Forward Together" survey (see Introduction 6.4.3).

The Vigeo Eiris ESG ratings agency has awarded Michelin an A+ Corporate Rating and ranks it at the top of the 31 leading corporations assessed in the Automotive sector. The score of 68/100 awarded in 2018 recognizes the quality of Michelin's socially responsible management, based on the agency's environmental, social and governance (ESG) criteria.

6.4.4 a) An assertive social dialogue process

The Group is continuing to give new impetus to the social dialogue process, which is gradually being embedded in management practices at every level. In each unit, business issues are shared more and more spontaneously with employees or their representatives, to encourage everyone to identify avenues to improvement together.

/ Deploying the new labor relations policy throughout the managerial community

The notion of social dialogue, which implies, in particular, sharing key issues more broadly and deeply so as to encourage the entire workforce to participate in devising strategy, is gradually informing all of the Group's management practices. In 2018, all Michelin employees were informed about the principles and intentions of the Group's labor relations policy.

The current labor relations policy explicitly upholds freedom of association in every country, where allowed by law, and the right to organize, with more than 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."

The policy also reflects the wide diversity of legislation governing the social dialogue process in 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 comply 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.

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 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.

Communicating these principles is supporting more intensive dialogue with local management teams and greater informational outreach, which in turn is helping to gradually overcome cultural misgivings in some countries.

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.

One illustration in 2018 was the meeting organized at year-end between employee representatives and certain Group Executive Committee members, who openly and transparently discussed Michelin's competitive position and the strategic objectives being pursued to strengthen its ability to offer everyone a better way forward.

This created an environment that encouraged an extremely rich, constructive exchange of ideas.

/ An increasingly mature social dialogue process and workplace environment in every Region

Although in 2018 market conditions forced the Group to negotiate fluctuations in output, adjust certain capacity utilization targets or deploy new competitiveness drivers, 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.

Early in the year, the top-to-bottom reorganization of management structures described in the 2017 Registration Document, which impacted staffing levels and skills management in France and the United States, was successfully deployed thanks to the commitment and participation of all its stakeholders. Because its founding principles are deeply influenced by the spirit of empowerment, the new organization means that every employee gradually has to get used to new ways of working and to greater interaction with more people. In turn, this increases the need for more intense social dialogue, to enhance support for these changes and the accompanying transformation plan.

The quality of social dialogue was maintained in Brazil and further improved in Thailand, where the periodic negotiations held in mid-year were remarkably mature, with a firm commitment by all participants to arriving at an agreement.

In the United States, increasingly mature talks are being held at the Fort Wayne plant between management and the local and national representatives of the United Steel Workers (USW), with a clearly shared commitment to building greater trust by transparently sharing deeper information about the plant's challenges and how to address them together. These improvements in the social dialogue process in the United States, in addition to the initiatives already undertaken in 2017 (see the 2017 Registration Document), are expected to gradually attenuate the culturally ingrained hesitation of certain stakeholders.

In France, the FCI industrial competitiveness project continued apace in 2018, with (i) the completion of the transformation investments committed at the Roanne plant under the terms of the project and (ii) the required adjustments to output at the La Roche-sur-Yon plant in response to changing demand in Europe. In line with FCI principles, these adjustments were duly and transparently shared with local stakeholders.

This way of making a country organization more competitive by working together to identify new approaches continues to attract a great deal of interest from other companies, and Michelin is regularly contacted for feedback and the exchange of best practices.

While the principles of the Labor Relations Policy are the same across the Group, their implementation outside France is naturally influenced by each country's history, legislation and cultural heritage. While job mobility opportunities may enable certain managers to explore different social dialogue practices during their careers, it is more rare for employee representatives to experience other forms of union activity than in their home country. In this sense, every time that representatives from different countries have come together and discussed their different approaches, they have gained greater insight into the issues and enriched the social dialogue process (see the example of the Michelin European Works Council). In late 2018, the Group expressed its commitment to creating a global Works Council and requested that European Works Council members, management in the leading host regions and representatives of the IndustriALL Global Union all work together in 2019 to determine how to set up such an organization.

/ 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 sixth year in a row in 2018, 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%. By category, it was unchanged at 81% for managers, technicians, administrative employees and supervisors and up two points to 80% 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 2018 respondents said that they had been able to share and discuss their team's 2017 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.

/ Providing ample opportunity for information, dialogue and engagement

Us Tomorrow, a global survey of our mindsets and behaviors

In a world undergoing major transformation, in 2018 the Group asked all of its employees for input on Michelin's corporate vision, by participating in the global Us Tomorrow survey. Nearly 68,000 of them responded, in particular by participating in a quantitative survey and discussion groups with production operators, office employees and managers. The survey was designed to get a clearer picture of employee perceptions of the Group's current identity and find ways to look over the horizon and plan for the challenges ahead. The findings, which yielded valuable lessons about both individual and team behavior, led to the launch of three initial projects, led by working groups comprising employees from many different backgrounds and all of the Group's host Regions.

Expanded country intranet sites

The 2018 internal communication survey, conducted with a representative panel of employees from the Group's country organizations and units, confirmed that the intranet is the preferred means of communication for employees. The corporate intranet has now been closed and its contents migrated to the country intranets for simpler, more seamless and more local communication. Employees can now directly access corporate press releases on their country intranet pages. Lastly, a broad-based project is underway to make the network more user friendly and more accessible to every employee, wherever they work and whatever they do. This new generation intranet will be deployed in 2019.

6.4.4 b) 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 benefits expense in 2018 *(in € millions)*	**Production operators**	**Administrative employees and technicians**	**Managers**	**Provisions and provision reversals for pension obligations**	**Taxes, provisions and advances**
Group	6,036	2,350	2,177	1,069	9	431
MFPM	*1,436*	*387*	*457*	*464*	*3*	*125*

"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 benefits expense amounted to €6,036 million in 2018, of which €1,436 million in employer payroll taxes.

The total may be analyzed as follows:

(in € millions)	
Wages and salaries – Group	4,734
MFPM	*980*
Employer payroll taxes	1,085
MFPM	*361*
Benefit contributions, pensions, severance and retraining costs	210
MFPM	*95*
Share-based payments	7
MFPM	*-*
TOTAL	**6,036**
MFPM	***1,436***

/ 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. Compensation is 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 payout 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 2018:

Production workers	2.6%
Administrative employees, technicians and supervisors	2.8%
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 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 6.4.4 a).

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 6.4.2) 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, 2018, these obligations amounted to €2,098 million, of which €551 million for MFPM.

Total payments under defined benefit plans amounted to €328.5 million in 2018, of which €139.7 million in benefits paid directly to employees and €188.8 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, and is also open to other French companies.

/ Offering a variety of supplementary compensation

In France, the 2017-2019 discretionary profit-sharing agreement renegotiated with the trade unions is comprised of three components. The first is a financial component based on the operating income before non-recurring items of the French companies. The second is a component defined company by company with criteria closely aligned with each one's business. In the case of Manufacture Française des Pneumatiques Michelin, for example, there are two criteria:

- one concerns Progress Ideas, with targets for the percentage of employees submitting ideas and the number of ideas successfully implemented;
- the other concerns the "on-time delivery" customer service indicator.

Third, there are local criteria defined by 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.

On April 13, 2018, an amendment to the MFPM agreement was signed to adjust the target concerning the number of ideas successfully implemented in 2018 and 2019 to reflect the impact of the new organization in France over those years.

As a result, in 2018, nearly €67 million was paid out of 2017 net income to employees of the French companies (including €63 million for MFPM employees) in the form of discretionary profit-shares.

In France, the individual and/or group performance bonus program was extended to all production operators in late 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 2018 round, 52.34% of the 98,640 eligible employees in 43 countries invested in Michelin stock.

6.4.4 c) Transparency: information concerning 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** (employment protection plan completed)

   Of the 706 jobs eliminated, 380 people took phased retirement or other 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. Unplaced employees continued to receive individual counseling by an outside firm until May 31, 2018.

2. **Reorganization of the supply chain in France, as announced in 2015** (employment protection plan completed)

   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 four others found employment under contracts exceeding six months. One person left retraining leave without a solution.

3. **Reorganization of the Pneu Laurent business in France, as announced in 2015** (employment protection plan completed)

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 found jobs under permanent contracts and one set up his own company.

4. **Termination of the Truck tire retreading operations at the Combaude plant in Clermont-Ferrand, as announced in 2016** (employment protection plan completed)

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, seven found a new job under a permanent contract, two set up their own company and one left retraining leave without a solution.

5. **Reorganization of the Process Engineering operations in Clermont-Ferrand, as announced in 2016** (employment protection plan completed)

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) 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, all of the impacted people are in employment.

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 concerned a voluntary early-retirement plan, which, depending on take-up, was to be followed by a program of transfer opportunities to other MFPM facilities or other Group companies in France.

The period during which employees could initially volunteer for the early-retirement option ran from December 18, 2017 until March 31, 2018. In all, 970 people opted for early retirement and, as of January 1, 2019, 375 had retired and 195 had been furloughed ahead of retirement.

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, 406 solutions had been found, with 262 people transferring to other jobs with Michelin Italia, 25 taking an expatriate position, 43 people choosing early retirement and 76 leaving the company as part of a support program.

Among the 262 people inplaced with Michelin Italia, 30 have been declared redundant at the Cuneo plant but will be paid out of the plan until the end of 2020. A project is underway to identify more sustainable solutions.

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 employees concerned by the project, 28 were covered by the plan and authorized to work short-time hours under Italy's CIGS legislation. Among them, 26 have transferred to other workshops in the plant, two entered an outplacement support program and 20 received personal outplacement counseling by an outside firm.

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 2018, ten people had accepted a transfer to another Michelin facility in Italy. All the others had found solutions outside the Group, with support either from the Group or from an outplacement firm (until March 31, 2019).

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 full-time equivalent employees (FTEs) redundant. As of December 31, 2018, a total of 10 FTEs have been outplaced with support, 22.5 have transferred to other positions with the Group in Italy and 5.5 have transitioned to part-time working hours.

In Germany, the restructuring programs announced in prior years proceeded as planned, in line with the ACI project timetable.

1. Bamberg plant

The Bamberg plant reduced its FTE workforce in 2018 following a decline in capacity utilization and the downsizing of a production island from four to three shifts of 65 people. Of the redundancies, 19 FTEs accepted early separation contracts financed by the ACI project and the rest were covered by retirement attrition, shorter fixed-term contracts, temp agency workers and voluntary separations. Seventeen early separation contracts financed by the ACI project have already been signed for 2019.

2. Bad Kreuznach plant

The Bad Kreuznach plant reduced its FTE workforce in 2018 following the temporary shutdown of a 123-person production line. Of the redundancies, 65 FTEs accepted early separation contracts financed by the ACI project and the rest were covered by retirement attrition, shorter fixed-term contracts, temp agency workers and voluntary separations. Twenty-six early separation contracts financed by the ACI project have already been signed for 2019.

3. Trier plant

The Trier plant reduced its FTE workforce by eight people in 2018, of whom three FTEs accepted early separation contracts financed by the ACI project. The rest were covered by retirement attrition, shorter fixed-term contracts, temp agency workers and voluntary separations.

4. Karlsruhe plant

In September, the Karlsruhe plant announced that reducing its truck tire production line from four to three shifts would eliminate 72 jobs. In 2018, the FTE workforce was reduced by 32 people, of whom 12 FTEs accepted early separation contracts financed by the ACI project. The rest were covered by shorter fixed-term contracts, temp agency workers and voluntary separations.

Of the 40 remaining jobs, 28 early separation contracts financed by the ACI project have ready been signed for 2019 and 2020.

5. Homburg plant

The Homburg plant reduced its FTE workforce by 44 people in 2018, of whom 29 FTEs accepted early separation contracts financed by the ACI project. The rest were covered by retirement attrition, shorter fixed-term contracts, temp agency workers and voluntary separations. Four early separation contracts financed by the ACI project have already been signed for 2019.

6. New playing field

In response to the transformations in its operating environment, such as the growth in online sales and the increasing concentration of small dealers, the replacement passenger car tire retailing business had to adjust its EFT workforce by seven people in 2018. As of year-end, six had accepted separations by mutual agreement and one had been inplaced.

7. Veygoux

Of the 31 FTEs that signed termination agreements as part of the Veygoux project, 11 left the Group in 2018, 18 will leave in 2019 and the last two will leave in 2020 or 2021.

8. Platin

In response to the decline in the retread market since 2010 and the new classification of tire casings, the collection process had to be adjusted, leading to the loss of nine FTE positions. Of these, two people have left the company, five have signed termination agreements that will take effect in 2019 and one is still in negotiation.

In the United Kingdom, the closure of the Dundee plant by mid-2020 was announced in November 2018. The Group is still in talks with the unions and employee representatives.

The Ballymena plant closed on June 30, 2018. Of the 840 people working in the plant when the closure was announced, around 50 are still actively looking for a new job. Michelin Development is continuing to deploy its action plan to support the creation of new companies and jobs in the local labor markets.

In North America, there were no restructuring programs implemented in the manufacturing operations during the year. 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.

/ Collective bargaining agreements and their impact on working conditions and business performance

Since these issues do not represent a major risk, they are not discussed in this report.

6.4.5 SUMMARY TABLE OF 2018 EMPLOYEE DATA

	2018	2017	2016	2015	2014	GRI Indicators
Workforce at December 31 *(full-time equivalent employees of consolidated companies, excluding interns, apprentices, work-study trainees and temp agency workers)*	**111,117**	**107,807**	**105,654**	**105,798**	**106,696**	GRI 102-7
Employees on payroll at December 31 *(consolidated companies, under any form of work contract, excluding temp agency workers)*	**117,393**	**114,069**	**111,708**	**111,681**	**112,306**	GRI 102-7
Europe	70,599	66,598	65,859	65,885	65,569	
MFPM	*18,968*	*19,301*	*19,349*	*19,658*	*19,712*	
North America	21,541	22,649	22,841	22,598	22,741	
South America	8,166	7,999	6,475	6,544	6,752	
Asia (excluding India)	15,259	15,078	14,835	14,977	15,431	
Africa/India/Middle East	1,848	1,745	1,698	1,677	1,813	
Employees by gender* *(employees on payroll, under any form of work contract, excluding temp agency workers)*						GRI 102-08
Men	81.9%	82.5%	82.9%	83.2%	83.7%	
MFPM	*82.4%*	*82.9%*	*83.1%*	*83.5%*	*83.9%*	
Women	18.1%	17.5%	17.1%	16.8%	16.3%	
MFPM	*17.6%*	*17.1%*	*16.9%*	*16.5%*	*16.1%*	
Employees by category* *(full-time equivalent employees, excluding temp agency workers, as a %)*						GRI 102-08
Production operators	61.8%	62.2%	61.9%	62.1%	62.4%	
MFPM	*43.2%*	*44.8%*	*45.1%*	*46.9%*	*47.4%*	
Administrative and technical staff and supervisors	29.5%	29.4%	29.9%	30.0%	30.0%	
MFPM	*40.5%*	*39.4%*	*39.6%*	*38.6%*	*38.7%*	
Managers**	8.7%	8.4%	8.2%	7.9%	7.6%	
MFPM	*16.3%*	*15.8%*	*15.3%*	*14.4%*	*13.9%*	
Employees by age* *(full-time equivalent employees, as a %)*						
24 and under	5.9%	5.8%	5.3%	5.3%	5.5%	
MFPM	*7.2%*	*6.5%*	*5.7%*	*5.8%*	*5.3%*	
25-34	26.3%	26.3%	26.6%	27.2%	27.3%	
MFPM	*22.9%*	*22.6%*	*22.7%*	*22.8%*	*22.4%*	
35-44	29.9%	29.4%	29.1%	28.6%	27.9%	
MFPM	*27.6%*	*26.9%*	*26.2%*	*25.1%*	*24.5%*	
45-54	23.4%	23.0%	22.6%	22.3%	22.5%	
MFPM	*23.5%*	*21.4%*	*20.2%*	*20.2%*	*21.7%*	
55-64	14.0%	15.1%	15.9%	16.2%	16.5%	
MFPM	*18.8%*	*22.5%*	*25.1%*	*26.2%*	*26.0%*	
Over 65	0.5%	0.4%	0.5%	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	15.5%	15.2%	21.5%	18.7%	18.3%	
MFPM	*14.9%*	*13.9%*	*16.7%*	*14.4%*	*13.1%*	
3-5 years	14.5%	13.8%	14.4%	15.4%	14.1%	
MFPM	*11.5%*	*10.0%*	*13.0%*	*13.6%*	*12.3%*	
6-10 years	17.5%	17.9%	15.1%	14.8%	16.6%	
MFPM	*16.5%*	*16.7%*	*12.4%*	*12.1%*	*13.1%*	
11-15 years	14.28%	13.8%	13.6%	13.5%	13.1%	
MFPM	*12.3%*	*12.4%*	*13.5%*	*13.1%*	*13.1%*	
16-20 years	11.6%	13.1%	10.8%	11.6%	10.7%	
MFPM	*12.9%*	*13.1%*	*9.6%*	*9.5%*	*8.1%*	

	2018	2017	2016	2015	2014	GRI Indicators
More than 20 years	26.8%	26.1%	24.5%	25.9%	27.1%	
MFPM	*32.0%*	*33.8%*	*34.7%*	*37.4%*	*40.3%*	
Employee movements* *(permanent work contracts)*						
New hires	7,957	7,553	6,456	6,057	6,948	
MFPM	*1,290*	*1,144*	*871*	*750*	*606*	
Resignations	3,378	2,682	2,185	2,390	2,514	
MFPM	*254*	*160*	*129*	*100*	*119*	
Dismissals and terminations by mutual agreement	2,624	2,524	2,364	2,843	2,400	
MFPM	*233*	*262*	*244*	*250*	*255*	
Retirement	2,484	2,077	1,871	2,115	1,976	
MFPM	*1,092*	*842*	*794*	*710*	*827*	
Death	97	120	99	116	128	
MFPM	*23*	*29*	*26*	*27*	*30*	
Contract employees* *(excluding temp agency workers, in %)*	4.7%	5.2%	4.4%	4.4%	4.0%	
MFPM	6.1%	*6.2%*	*5.9%*	*5.9%*	*4.6%*	
Part-time employees*	3.6%	4.4%	3.6%	3.1%	2.8%	
Training hours* *(employees on payroll, under any form of work contract, excluding temp agency workers)*						
Percentage of training hours per total hours worked	3.1%	3.2%	3.3%	3.5%	4.1%	
MFPM	*2.4%*	*2.5%*	*2.0%*	*2.7%*	*3.0%*	
Percentage of employees who received training	97%	85%	93%	93%	96%	
Number of training hours per employee per year	53	54	56	59	70	GRI 404-1
Training hours *(excluding temp agency workers and the dealership networks)*	5,008,971	5,107,806	5,300,000	5,635,657	6,628,184	
MFPM	*773,948*	*835,966*	*795,956*	*923,174*	*951,707*	
Production operator absenteeism* *(excluding dealership networks and Russia)* **Europe**	4.5%	5.5%	5.3%	5.4%	5.3%	
Occupational accidents *(including the dealership networks and Tigar; excluding recently acquired companies, excluding temp agency workers)*						
Number of lost-time incidents, Group-wide	704	725	796	740	671	
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	
TCIR Michelin Group, excluding Euromaster, Tigar and recently acquired companies	1.3	1.5	1.6	1.7	1.7	GRI 403-2
TCIR, entire Group	1.9	2.1	2.5	2.7	2.8	
Number of Progress Ideas*	62,802	59,082	59,601	58,980	56,372	
Diversity* *(employees on payroll, under any form of work contract, excluding temp agency workers)*						GRI 405-1
Percentage of women in extended management[(1)]	26.8%	25.7%	24.8%	24.2%	23.5%	
MFPM	*27.6%*	*26.8%*	*26.1%*	*24.9%*	*24.3%*	
Percentage of women among top managers[(2)]	18.7%	18.1%	17.3%	16.4%	15.7%	
MFPM	*18.1%*	*18.3%*	*17.3%*	*15.7%*	*14.7%*	
Percentage of women among executives[(3)]	12.7%	11.6%	11.1%	9.9%	9.1%	
MFPM	*13.0%*	*12.7%*	*11.3%*	*10.2%*	*9.2%*	
Percentage of local top managers in growth-region countries*	75%	74%	72%	68%	65%	GRI 405-1 GRI 202-2
Percentage of management positions held by employees promoted or transferred from within*	76%	76%	76%	75%	73%	
Employee engagement rate*	80%	80%	80%	77%	74%	

* *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.*

6.5 SOCIAL RESPONSIBILITY

As a leading sustainable mobility enabler, Michelin is unequivocally committed to guaranteeing the safety and performance over time of its products and services, for customers and users alike. This is why it plays a key role in promoting road safety through a wide variety of initiatives worldwide. In addition, Michelin believes that its relationship with all its stakeholders, especially the communities near its facilities, are of paramount importance. As part of this holistic vision, the Group is getting suppliers involved in the community engagement process, requiring them to meet its own high standards and supporting them through outreach.

6.5.1 SAFETY AND PERFORMANCE OF PRODUCTS AND SERVICES

The Michelin Quality Approach

Since its founding, Michelin has always nurtured a powerful culture of responsibility for the safety of its customers and users. Enhancing the mobility of people and goods requires an uncompromising attitude towards the safety and quality of every product and service.

Every manager is expected to demonstrate this commitment in his or her area of responsibility, to ensure that products and services are safe, aligned with customer expectations, suitable for the intended use and compliant with applicable regulations. Michelin systematically assesses the health and safety impact of every product or service it brings to market.

A Michelin Quality Process is defined and 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 described in specifications that cover customer requirements and expressed needs, the potential risks arising from the particular conditions of use in a given region and all of the applicable standards and regulations.

To effectively anticipate and manage potential risks related to the use of Group products, their in-use performance is constantly monitored to detect even the slightest hint of malfunction and to swiftly implement the requisite corrective measures.

Michelin's priorities are highly customer-driven. One of its four priority initiatives is focusing resources and capabilities on improving and maintaining customer satisfaction. This is being objectively measured by the Net Promoter Score (NPS), which enables teams to identify issues and sources of customer dissatisfaction and to take remedial action to address them (see 1.1.9).

/ 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;
- 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;

(1) Tire Industry Project: 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. These particles are referred to as "tire and road wear particles", or TRWP.

- 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 117. 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 a 20% reduction in the region's total energy consumption between now and 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 grip.

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. 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.

Following a review procedure that began in 2016, a new version of the regulation was proposed by the European Commission in May 2018. Among other upgrades, it would improve consumer awareness by having the "3PMSF snow" and "ice" icons displayed on the label and technical information registered on a publicly accessible database. Label information may be extended in the future to other performance parameters, such as the rolling resistance of retreaded tires or tire abrasion, as soon as suitable testing methods are available. As of December 2018, the proposal was being discussed in the assigned European Parliament committees.

In 2018, the Group did not incur any fines or penalties for non-compliance with regulations and/or voluntary codes concerning product and service information and labeling.

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 6.6.2 d). This approach would encourage greater transparency by suppliers and more competition on technical issues.

Passenger and freight 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, scheduled to 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 is certified by approval authorities and regularly measured during the production conformity testing process.

A proposal to extend the regulation and the VECTO simulation tool to buses, coaches and heavy vans has been in discussion since late 2018.

European authorities are now working on defining minimum performance levels for the carbon emissions determined on the basis of the 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. On the other hand, a tire's wet grip declines as it wears, which is why Michelin is examining the technical feasibility of introducing a minimum wet grip performance standard 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 and product design processes.

/ Michelin supports the standardized use of RFID chips to track tires

Embedding a unique RFID tag into every tire will ultimately enable the entire industry to track its products across their life cycles, from manufacture to recycling, thereby improving the management of their environmental impact and the safety risks due to manufacturing defects. Moreover, RFID chips can transmit a variety of tire data that could play a critical role in developing new sustainable mobility solutions based on connected tires. These solutions improve road safety by recommending, for example, safer, more energy-efficient driving practices for users and fleet managers or alternative routes for highway infrastructure managers. They also make it possible to influence vehicle behavior depending on weather and road conditions (snow, ice, heat, etc.).

For all these reasons, Michelin is actively encouraging the ISO standardization of RFID-based tire identification systems, by sharing its expertise in this area with other tiremakers. It is also supporting the introduction of standardized access to digital tire data, in order to promote the development of new services that will help to make mobility more sustainable.

/ An active private-sector stakeholder in road safety partnerships

While the number of worldwide traffic fatalities continued to rise in 2018 to a historic high of 1.35 million (World Health Organization: Global Status Report on Road Safety 2018), 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 2018. In the United States, the "Beyond the Driving Test 2" program to encourage teens to regularly check their tires was successfully deployed in partnership with the FIA and Van Shoes, with more than 1.5 billion views on social media. In China, students from more than 200 universities across the country participated in the "Safety, We Act Together" campaign, which seeks to improve road safety by leveraging the creativity of the younger generation and getting it involved in practical initiatives. The #trendydrivers campaign in Spain used music to share the 10 Golden Rules recommended by the FIA.

During the year, the Michelin Foundation continued to deploy road safety initiatives in France, South Africa and Brazil.

Through the United Nations Road Safety Trust Fund (UNRSTF), it also supports road safety programs in various UN member states that are helping to lower the number of road traffic deaths and injuries.

At the same time, the Michelin Foundation joined forces with the Total Foundation to roll out the "VIA 21: Bring Road Safety Education to a New Generation" program in their joint host communities worldwide. The new partnership has three main objectives:

- design innovative education programs addressing road safety issues for 10-18 year-olds around the world;
- create a digital platform to deliver the learning materials in a variety of languages;
- facilitate the creation of local partnerships with ministries of education and education-related non-governmental organizations (NGOs).

For a reasonable investment, the program will be able to reach more than 100,000 young people, while forging a wider range of partnerships with the private sector to support road safety education around the world. A pilot study and digital platform have been deployed in a total of 18 schools in three cities each in France, India and Kenya.

6.5.2 RESPONSIBLE PROCUREMENT

The primary conduit for expressing Michelin's social responsibility commitments to suppliers is the Purchasing Department. Its mission is to guarantee the availability of products and services the Group needs by selecting suppliers who meet our technical and cost requirements, as well as our expectations concerning environmental and social issues. The Department helps to improve the competitiveness of the operating units, while embodying the core values presented in the Michelin Performance and Responsibility Charter and the Group's Code of Ethics. Today, these aspects are closely associated with the concept of duty of care.

The Purchasing Department is structured around four procurement sections: raw materials, natural rubber, industrial inputs and services. **At €13.1 billion, purchases represented close to 60% of consolidated net sales for the year.**

The Group has around 50,000 suppliers located on every continent around the world, while the Purchasing Department has some 700 employees based across the geographic regions where the Group operates. The responsible purchasing process is managed in each purchasing category and each Region, with the support of a global network.

Following its CSR audit by EcoVadis, in January 2018 Michelin was awarded an overall score of 78/100, up from 2017, and a score of 80/100 in Responsible Procurement, **ranking it among the top 1% of suppliers rated in the manufacture of rubber products category.**

In 2013, as part of its six Ambitions for 2020 (Section 1.1.9), **the Group defined two objectives as concerns its suppliers: (i) "assess the sustainable development performance of the top 400 suppliers, and (ii) "provide encouragement and support so that 70% of them are confirmed as compliant with Michelin standards." In 2018, 709 suppliers were reviewed and 72% were in compliance with Group standards.**

6.5.2 a) Supporting responsible purchasing

In this way, Michelin is demonstrating its social and environmental responsibility in its supplier relationships. 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 procedures and practices. **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 14 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 (see 6.8.5 a).

In addition, 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.

Lastly, Michelin operates globally, but it consistently strives to source locally, as well as from sheltered work centers and social enterprises, in addition to the major international suppliers who meet its exacting requirements and embrace the principles of sustainable development.

/ Growing professionalism

Considerable resources have been deployed to enhance the professionalism of the procurement teams and to make purchasing processes more efficient. In particular, the training program for purchasing teams comprises a dedicated Sustainable Procurement module that is mandatory for buyers and encouraged for technical specifiers and key internal partners. In all, it has been completed by **559 people** worldwide since 2011.

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 rolled out in November 2017, with deployment continuing in 2018 across 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. Since late 2017, the module has been completed by a total of 2,904 people.

In addition, procurement ethics modules specific to North America were used by more than 60 people in the Purchasing Department in 2018.

The responsible procurement process is managed through a global network, in each purchasing category and each Region.

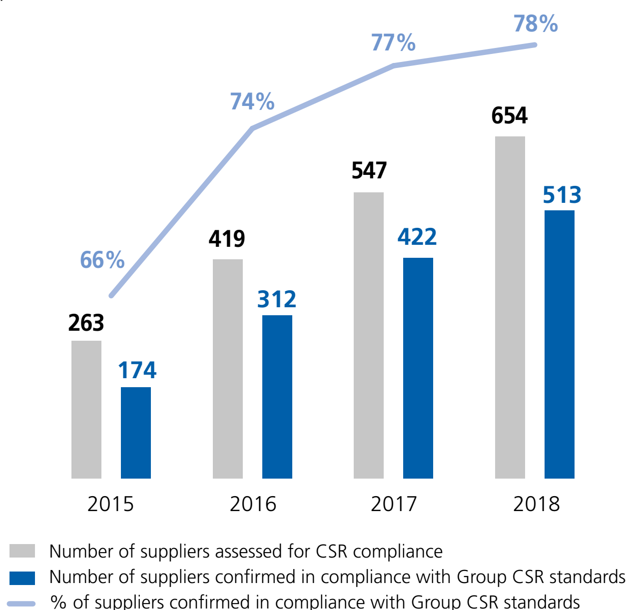
6.5.2 b) Addressing social responsibility and environmental issues in purchasing policy

/ 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 CSR standards. Since 2012, a total of 859 suppliers have submitted desktop reviews of their performance conducted by CSR rating agency EcoVadis. Suppliers who do not meet the mark are required to implement an action plan that is monitored by Michelin's 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.

In 2018, out of a panel of 709 targeted suppliers (including more than 100 newcomers), **654** (92%) **successfully submitted a CSR review** and **513 of them** (78% of respondents and 72% of the panel) **were found to be in compliance with Michelin standards.** By category, compliance among the reviewed suppliers stood at 77% for environmental issues, 80% for fair working conditions, 64% for business ethics and 49% for the supply chain.

By year-end, suppliers representing more than 56% 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.

In addition, the ESQF supplier quality system audit procedure includes questions concerning environmental stewardship, health & safety and human rights. In some cases, the procedure uses a questionnaire with additional questions about CSR issues, which was piloted in 2018 and will be deployed as appropriate in 2019.

/ Category management

Raw materials procurement

Nearly 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 the 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.

In 2018, Michelin joined the CDP's Supply Chain Program and engaged 67 of its raw materials suppliers to participate in the initiative to analyze and measure their greenhouse gas emissions (see "Duty of Care Plan").

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.

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 World Wildlife Fund (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 reviews of their social responsibility and environmental performance since 2013, and by 2018, audited suppliers accounted for around **85% 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.

Deployment of the app gained momentum in 2018, and by year-end, it covered 25% of our purchased natural rubber volumes, compared to 11% in 2017. The gains are transparently reported on the Michelin Purchasing website (https://purchasing.michelin.com/en/responsible-managment-natural-rubber-supply-chain/). The app is currently available in Indonesia, Thailand, Côte d'Ivoire, Ghana, Nigeria and Brazil.

Mapping the natural rubber supply chain promises to be a long-term exercise that will be both ambitious and challenging.

Since 2015, Michelin has partnered with the WWF (see "Duty of Care Plan", 6.8.5 b) 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 enabling manufacturers to pledge to uphold and promote the principles of sustainable natural rubber. Impelled by the Tire Industry Project (TIP), which brings together 11 tire manufacturers under the auspices of World Business Council for Sustainable Development (WBCSD), the resulting **Global Platform for Sustainable Natural Rubber** (GPSNR) was launched on October 25, 2018 in Singapore. As an independent platform, it is designed to lead improvements in the socio-economic and environmental performance of the entire natural rubber industry. Its launch was attended by stakeholders from across the value chain, including natural rubber suppliers and processors, tiremakers, automakers and NGOs.

The GPSNR is primarily tasked with:

- harmonizing standards to improve respect for human rights;
- preventing land grabbing;
- protecting biodiversity and water resources;
- improving agricultural yields;
- increasing the transparency and traceability of the supply chain.

The platform's inaugural General Assembly is scheduled to be held in Singapore in March 2019.

At the same time, Michelin is continuing to consult regularly with the leading civil society organizations involved in these issues.

Purchases of production inputs and services

In addition to the CSR desktop reviews conducted with EcoVadis, in 2018, the Group began mapping the CSR risks in its purchasing families. The mapping exercise ranked the purchasing categories according to their CSR risks in five areas: the Environment, Human Rights, Business Ethics, Health & Safety and Supply Chain Management. Then, using the Verisk Maplecroft database, Michelin identified suppliers in countries with high environmental and human rights risks.

The exercise has helped to prioritize the CSR performance review process as applied to suppliers of manufacturing inputs and services.

In addition, significant progress was made in addressing CSR issues in supply chain purchases, with, for example, the introduction of an application that more accurately measures the greenhouse gas impact of our transportation purchases.

/ 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 label recognizes French companies that have demonstrated the ability to foster balanced, sustainable relations with their suppliers. 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

In 2017, Michelin's sustainable procurement dynamic was honored at the *Décision Achats* Awards ceremony in Paris.

EcoVadis award for "Best Supplier CSR Performance Improvement"

At the international Sustain conference in May 2017, EcoVadis awarded Michelin top honors in the "Best Supplier CSR Performance Improvement" category.

Invoice Settlement Award

The same year, at the fourth annual Invoice Settlement Conference at the French Ministry of the Economy's offices in Paris, Michelin was presented with the Invoice Settlement Award in the large corporations category. The Invoice Settlement awards are designed to celebrate companies that are deploying new processes and initiatives to meet invoice payment deadlines.

It also recognizes the Group's ongoing commitment to sustainable development, and in particular the continuous improvements being driven with its suppliers.

6.5.2 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 2018 and not at all in 2017, the mediator intervenes only when suppliers have failed to resolve an issue with their usual contacts. In 2018, he quickly resolved the issue raised by the supplier.

6.5.3 STAKEHOLDER DIALOGUE

Michelin has long nurtured broad-based dialogue with all its stakeholders, with regular, formalized meetings organized every year by the appropriate Group departments and led by one or several engagement managers for each category, including customers, investors, employee representatives, suppliers, public authorities, local communities, international organizations and, since 2014, NGOs.

Within the Group, the Investor Relations, Purchasing, NGO Relations, Public Affairs, Employee Relations and Personnel Departments, as well as plant communication managers, are responsible for understanding and responding constructively to the expectations of their stakeholders. This means that every year, hundreds of meetings are held with these various stakeholders, at both the corporate and local levels.

By "stakeholders," Michelin means the people or groups of people who are impacted by its business or who may impact it in return, so that corporate strategy reflects their needs and expectations. Building trustworthy relationships with stakeholders is not a risk, but rather a useful opportunity for the Group to improve its ability to plan and challenge its social responsibility commitments.

At the corporate level, a dedicated Stakeholders Committee meets with the Executive Committee for a full day at least once a year. In 2018, the meeting was attended by ten of the 12 Executive Committee members (83%), compared with 11 or 91% in 2017.

/ Engaging local officials

Since 2014, Michelin has ensured that every stakeholder category, in every host community, is taken into consideration. A brochure presenting the Group's **stakeholder dialogue guidelines** urges every plant, country or Region manager to identify and meet with local stakeholders. It also includes a methodology for identifying and classifying stakeholder categories, along with possible procedures for fostering dialogue with each one. The brochure has been distributed in all of the Regions, whose chief executives have been trained in its use. The Group's Sustainable Development correspondents network is regularly informed of the outcomes of the dialogue process, and best practices are shared several times a year.

A number of local stakeholder meetings were held during the year. In France, Michelin participated in the meeting of French Automotive Industry Platform (PFA) stakeholders, which was held in October 2018 to discuss forward-looking jobs and skills in the automobile industry. On July 6, 2018, for the second year in a row, Michelin UK organized a meeting in Stoke-on-Trent with country management and seven local stakeholders, representing companies, associations, schools and the university, local authorities and the Chamber of Commerce. This year, the stakeholders again encouraged Michelin to lead more high-profile initiatives in cooperation with members of the community. Following these discussions, Stoke-on-Trent plant management worked with community businesses and a local charity on an ambitious project to hold a charity dinner, prepared by two Michelin-starred chefs. In October, the event was attended by 140 people, who donated four times the usual amount raised for local charities. Twenty-two people from the Michelin Stoke plant volunteered to help organize the dinner, which was considered a huge success both for the local community and the Michelin-starred chefs and for Michelin UK employees.

In the United States, where stakeholder meetings were organized in 2015 and November 2017, several initiatives were deployed in 2018 in response to comments from the local community. To meet the need to improve young people's technical skills, Michelin introduced an apprenticeship program for high school students looking for a career in manufacturing. Participants work part-time at the Greenville, SC plant while pursuing their studies in a related academic program. To encourage sustainable mobility, Michelin is sharing its expertise concerning mobility issues in the Greenville region with Ten at the Top, a local organization that brings together associations, elected officials, businesses and community leaders to discuss key regional challenges and opportunities.

Michelin was also a major force behind the emergence of the Global Platform for Sustainable Natural Rubber, a multi-stakeholder platform that was launched on October 25, 2018 with the support of tire manufacturers, natural rubber suppliers and processors, automakers and NGOs.

Lastly, Michelin is the main co-organizer of the Movin'On global sustainable mobility summit, which brought together 5,000 people in Montreal over three consecutive days in June 2018 to discuss the future of safe, efficient, clean and affordable mobility (see 6.6.2 g).

/ A corporate committee

In 2016, Michelin also set up a **Corporate Stakeholders Committee,** which meets with the Executive Committee for a full day at least once a year. Its 12 members were selected so as to represent (i) core stakeholder categories, such as suppliers, investors, unions and customers; (ii) the Group's host regions, with members from four continents; and (iii) organizations involved in the various employee, social and environmental aspects of sustainable development, such as the WWF and the Global Compact. In 2018, a philosopher joined the committee. After each meeting, a report is drafted to present stakeholder recommendations, some of which are then selected by the Group for further discussion or incorporation into action plans. Following the December 2017 meeting, Michelin organized a workshop on the sustainable mobility narrative, which was held at Movin'On in May 2018, expanded its advocacy for the "performance over time" approach and joined with cities to promote sustainable mobility (involvement in the Transport Decarbonisation Alliance). In addition, the sustainable procurement workshop spurred the Group to add environmental and social questions to tenders and supplier audits in 2018.

The Committee held two meetings in 2018. The first, in Montreal at the Movin'On sustainable mobility summit in May, offered members an opportunity to express their opinion about Michelin's sustainable mobility narrative and to discuss ways of sharing some of the best practices developed in the Group. Examples of the latter include the sustainable natural rubber initiatives and the fight against planned obsolescence by promoting tires whose performance remains the same over time.

Then, on October 18, 2018, the Committee held its full-day annual plenary meeting in Lyon, which was attended by twelve of the thirteen Executive Committee members, including Jean-Dominique Senard, Managing Chairman, and Florent Menegaux, Managing General Partner. The evening before, members had been invited to a presentation of Michelin's commitment to foster the development of automotive hydrogen applications by bringing together such key stakeholders as (i) the Auvergne-Rhône-Alpes Regional Council, which is partnering with Michelin to deploy the Zero Emission Valley project that will eventually involve 20 charging stations and 1,000 vehicles; (ii) Michelin subsidiary Imeca, which is process engineering part of the project's hydrogen fuel cells; and (iii) Symbio, a Michelin incubated startup that supplies hydrogen fuel cells for electric vehicles.

During the annual meeting, top management was informed of the Committee's views on the Group's sustainability strategy, human rights action plan, biodiversity commitments and digital strategy. Members were also shown the new version of the Group's scorecard, which had been revised in line with the Committee's May 2017 recommendations. A wide range of recommendations were expressed and noted, including (i) assessing the environmental and social performance of the companies newly acquired in 2018; (ii) measuring the environmental and social impact of the Group's digitalization; and (iii) including living wage issues in the human rights process. These suggestions were summarized in a report sent to outside stakeholders and Michelin senior executives, and an agenda of issues was defined for 2019.

6.5.4 SOCIAL COMMITMENTS TO SUPPORTING SUSTAINABLE DEVELOPMENT

Michelin is deeply involved in developing and promoting its host countries, by respecting the expectations and interests of its local and neighboring communities. This commitment is manifested in job creation initiatives, training programs, a significant proportion of local sourcing, the payment of local income and other taxes, support for the preservation of each community's natural and cultural heritage, and financial support for projects led by NGOs and associations.

These actions significantly enhance Michelin's impact in all its locations, thereby contributing to initiatives undertaken to prevent diminished attractiveness as an employer.

To coordinate these objectives more effectively, the Group has organized three major worldwide action programs: Local Community Outreach, Michelin Development and the Michelin Foundation.

Over the past three years, the working hours spent by employees on community outreach projects has exceeded the annual target of 30,000 days, and stood at 34,800 days in 2018. Lastly, a total of 1,822 local jobs were created with Michelin Development's support during the year, with a target of 2,000 in 2020.

6.5.4 a) 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, 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 2018 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 28 years, Michelin Development has helped to create more than 36,000 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 **25,000 jobs in France.** Formerly known as SIDE, it operated as a subsidiary before being merged into MFPM in 2015.

Most of Michelin Development's activities in France involve spontaneous support for local jobs. In 2018, it signed 183 agreements that committed Michelin to supporting 1,352 jobs in local companies, backed by around €4.5 million in loans and subsidies granted during the year.

In 2018, a little over 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, where the agreement deployed in response to the partial closure of the plant in 2014 was completed in 2018, with all of its objectives met or exceeded. The revitalization agreements implemented in the Beauvais, Lyon and Metz labor markets (see 6.4.4 c) following the reorganization of supply chain operations in Europe are all scheduled for completion in 2019. Lastly, in Clermont-Ferrand, the closure of the Combaude retreading unit and the restructuring of the process engineering operations in 2016 were covered by an agreement that met its objectives in the closing days of 2018.

During the year, the supported SMEs and SOHOs created jobs in a very wide variety of sectors, including (i) the sale of mobile food waste methanation units in the Bordeaux region; (ii) the design and production of truck bodywork components in the Vendée region; (iii) a manufacturing skills training center in the Touraine region that focuses on preparing job-seekers for high-demand positions in the region; (iv) also in Touraine, a serious game to support the deployment of a CSR process in a company; (v) a cybersecurity company in Vannes; and (vi) the revitalization and upscaling of an occupational clothing manufacturer in the Lorraine.

/ 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 helped to create a total of 393 jobs in 2018.

Michelin Development's operations in Spain are managed by *Fundación Michelin España Portugal,* which supported the creation of 161 jobs in 28 companies in 2018. Since 2004, Michelin Development has committed more than €7 million locally, enabling the creation of more than 3,850 jobs in 600 companies based in labor markets around the Group's Spanish plants.

In Italy, by focusing its programs on innovative startups and SMEs, Michelin Development helped to create 110 jobs in 2018, bringing the total number created with the unit's support to more than 2,300 since 2005. Outplacement of the Fossano plant employees was completed in a positive workplace environment.

In the United Kingdom, initiatives deployed in Ballymena to broaden the program's scope of application continued to deliver benefits, creating more than a hundred jobs in 2018 and providing advice and expertise to a large number of companies. Despite extensive promotion, the Stoke-on-Trent program only created 21 jobs, as the uncertainties surrounding Brexit significantly dampened investor interest. In all, nearly 2,900 jobs have been created in the UK with Michelin Development's backing since 2002.

Since 2006, **Michelin Development North America** has invested more than $14 million in 204 small local businesses under four community engagement programs that have spurred the creation of nearly 1,952 jobs. In 2018, the program underway in Nova Scotia granted 19 loans and free-of-charge access to small business expertise to a variety of local companies, including software developers, auto repair shops, industrial supply companies, landscaping companies and healthcare providers.

6.5.4 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 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 2018, 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. This target was exceeded for the first time in 2016, attesting to the program's effective deployment in every host community. **In 2018,** in the same scope of reporting, more than 34,800 days were dedicated to personal and company-sanctioned volunteer work. Operations in North America contributed the most volunteer days, followed by Europe.

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 2018, more than €7.6 million was donated to or invested in 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 6.5.4 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 improving the local environment in general, 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, with an emphasis on road safety given the extensive use of two-wheeled vehicles, and outreach to the neediest in society;
- 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 2018, particularly those aimed at children (see section 6.5.1).

6.5.4 c) Demonstrating the Group's culture and values through 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 €100,000 or more. Chaired by Jean-Dominique Senard, it includes four Executive Committee members, an employee representative and three outside experts. Projects valued at between €5,001 and €99,999 are validated by the Selection Committee, which is comprised of seven members representative 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 113 projects financed by the Foundation in 2018 came to more than €16.5 million.

Among the year's beneficiaries were:

- the **Movin'On** sustainable mobility summit in Canada, where 5,000 participants from 60 countries met to undertake new initiatives to address the global challenges of clean, safe, affordable mobility and to make the mobility of tomorrow a reality;
- the ***Maison de la Vie,*** co-built with the **Siel Bleu** non-profit organization, which offers short stays and support for people with cancer in remission, who often feel alone and misunderstood as they move forward on the road to recovery;
- the **Extraordinary Factory** exhibit at the *Grand Palais* museum complex in Paris, whose goal was to enhance the image of manufacturing among young people and the general public. It was seen by more than 40,500 visitors and 13 government ministers, and enjoyed extensive media coverage with more than 200 articles;
- the ***Académie de l'eau,*** which the Foundation assisted in launching an international campaign for the creation of an "International Study Group on Chemical Pollution of the Environment" (GIEP-Chimie). Led by supranational institutions, the Study Group will produce a periodical digest of international knowledge on chemical pollution of the environment;
- the **Palace of Versailles** and **ESSEC Business School,** which the Foundation supported in presenting the world's first digital visit to the Palace, projected in one of the largest shopping malls in Singapore. The event offered Asian audiences unfamiliar with Versailles an immersive tour that virtually visited the Palace's iconic rooms and relived key moments in its history.

6.5.4 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 6.6.1 c).

The cooperation agreement signed in 2015 with the WWF to promote sustainable natural rubber around the world was renewed for another four years in 2018. This commitment was further demonstrated when Michelin, as part of the Tire Industry Project (see 6.5.1) and under the auspices of the World Business Council for Sustainable Development (WBCSD), helped to create a multi-stakeholder platform to encourage best practices across the natural rubber value chain. The resulting Global Platform for Sustainable Natural Rubber (GPSNR) was launched in Singapore on October 25, 2018. In addition to the WWF, several other NGOs actively participated in setting up the platform, including Birdlife International, the International Federation of Human Rights Leagues, the Forest Stewardship Council, Global Witness, Mighty Earth, the Rainforest Alliance and the Forest Trust.

In Indonesia, reforestation programs on the islands of Sumatra and Borneo continued to be developed with WWF France and WWF Indonesia as part of a joint venture with Indonesian partner Barito Pacific. Other environmental projects are being planned elsewhere in the world, including Brazil (with WWF Brazil) and China (with WWF China).

6.6 ENVIRONMENTAL STEWARDSHIP

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 the Michelin Performance and Responsibility Charter: A Better Way Forward document. In exercising its social responsibility, Michelin has in recent years assessed and addressed the environmental impact of its operations across the entire life cycle of its products, from the extraction and processing of raw materials to product use and on to end-of-life recycling and reuse.

The main risks arising from the tire manufacturing process concern the use of energy and water resources, soil, water and air pollution, greenhouse gas emissions and waste management. An environmental management system is in place to target risks more precisely and to define effective prevention measures.

In response to the major challenges posed by climate change, Michelin has set objectives and deployed initiatives to attenuate the risks related to the carbon footprint of its manufacturing operations, supply chain, products and services. This commitment is manifested in the programs undertaken to decarbonize the production facilities and optimize their energy use, the policies in place to support a more sustainable supply chain and the integration of product and service life cycle analyses into research and development programs. In addition, the Group is actively engaged in the circular economy through the "4R Strategy," which is designed to address the challenges of resource depletion and end-of-life product management by activating four levers: Reduce, Reuse, Recycle and Renew.

To lead these processes and detect even the least likely risk factors, two multidisciplinary operational committees have been formed, the Carbon Strategy Committee and the Circular Economy Operational Committee.

Since January 2018, their findings have been leveraged by the Environmental Governance Committee to validate objectives and action plans and to define the priorities and resources needed to support the energy transition and reduce the environmental footprint in line with the Group's commitments. The governance process is coordinated by the Development and Sustainable Mobility Committee (see 1.1.8 d).

Potential environmental risks that could have a significant impact on the Group's business and its surrounding ecosystems have been identified in the Group risk map so as to minimize their occurrence and impact (see 2.9.3). This environment risk prevention and management process has been strengthened by the Duty of Care Plan (see 6.8.2).

The following section presents the outcomes of the environmental policies deployed across the Group. It does not cover 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 and energy use, CO_2 and volatile organic compound emissions and waste production).

6.6.1 RESPONSIBLE, SUSTAINABLE OPERATIONS

Michelin manages risk factors in its product manufacturing processes by leading a continuous improvement dynamic based primarily on an environmental management system (EMS) and on performance improvement targets measured with a Group-wide indicator, the Michelin Environmental Footprint (MEF), as described below.

In 2018, a **General Policy Note** re-specified the fundamentals of managing Environmental and Prevention risks and described the standard methods and tools used to assess risks at existing facilities and in new projects, along with the targets and 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 Environment and Prevention General Policy Note was supplemented by a dedicated **Environmental Guidebook,** which specifies the Group's environmental policies, describes the medium and long-term objectives and identifies the main action levers to fulfill them. Applicable by every unit in every manufacturing, research, supply chain and office facility around the world, these policies express the Group's dedication to safeguarding the environment at every stage in the tire life cycle and, more broadly, its sustainable development vision.

To drive faster progress, four MEF programs (Volatile Organic Compounds, Waste, Energy/CO_2 and Water) were created in 2017, each with two objectives:

- ensure that the MEF 2020 target is met, 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.

These programs are overseen by the Environmental Governance Committee, which validates their objectives, priorities and requisite resources. The Committee is led by a member of the Group Executive Committee, the Executive Vice President, Manufacturing. Its members include the Executive Vice Presidents of R&D, Purchasing, Brands and Public Affairs, Development and Sustainable Mobility, Safety and the Environment, as well as the President of the High Tech Materials Business Line.

At the same time, **the Group has developed prevention systems to manage the risks of soil contamination and to protect sensitive ecosystems around its facilities.** In June 2018, the Group reaffirmed its voluntary commitment to addressing biodiversity in its sustainable development strategy by pledging to support the act4nature initiative organized by French association *Entreprises pour l'Environnement* (EpE).

The Group's environmental policies reflect the "setting the industry standard for responsible manufacturing" Ambition for 2020, which will be fulfilled by reducing the environmental impact of our facilities, as measured by the Michelin Environmental Footprint (MEF), by 50% compared with 2005 (see 1.1.9).

6.6.1 a) Guaranteeing compliance with environmental management fundamentals

/ An EMS backed by a network of specialists

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 risk 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 the Technology Center sites having a material impact on the environment) rose to 96% in 2018 from 92% in 2017, led by the certification of the Hat Yai plant in Thailand that came on stream in 2014. 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 networked organization is in place, comprising around 100 specialists based in every host country plant and each of the Operating Units. Its manager reports to the Environmental Governance Committee.

In 2018, the EMS upgrades performed since 2016 to ensure compliance with the ISO 14001:2015 version enabled all of the previously certified plants to renew their certification under the new standard. This confirmed the effectiveness of the process initiated in 2017 on a certain number of sites and the effectiveness of the upgrades.

/ Training and informing employees about environmental stewardship

Dedicated training courses to support EMS deployment have raised environmental awareness among all of the nearly 80,000 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 2018, €38.6 million, or 35% less than in 2017, 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.

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 costs, waste management and similar expenses) and "exclusively environmental" (*i.e.*, excluding the environmental aspects of capital expenditure projects).

Budget allocation is analyzed in the following table.

Group	Total expenditure		
(in € thousands)	2018	2017	2016
Air pollution prevention	6,326	17,704	9,522
Surface water pollution prevention	3,465	2,819	3,045
Soil and subsurface water pollution prevention	2,835	2,122	9,346
Waste reduction and recycling	2,521	5,179	6,609
Sustainable use of water resources	2,982	2,210	2,265
Sustainable use of energy resources	12,634	24,704	15,018
Reduction of greenhouse gas emissions	6,878	1,652	2,341
Other	973	2,956	3,709
TOTAL	**38,613**	**59,347**	**51,856**

/ Provisions and guarantees for environmental risks

As of December 31, 2018, total consolidated provisions for environmental risk amounted to €8.15 million, of which 100% covered site assessment and remediation issues.

6.6.1 b) 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)

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.*

Each of the six basic components is expressed in units per tonne of finished product.

Methodological note

The formula for calculating the MEF is as follows. By definition, the Group MEF was base 100 in 2005.

$$MEF = \frac{\text{Reporting year energy use (GJ/t)} \times 15}{\text{Group energy use 2005 (GJ/t)}} + \frac{\text{Reporting year water use } (m^3/t) \times 15}{\text{Group water use 2005 } (m^3/t)} + \frac{\text{Reporting year VOC emissions (kg/t)} \times 25}{\text{Group VOC emissions 2005 (kg/t)}} + \frac{\text{Reporting year } CO_2 \text{ emissions (t/t)} \times 15}{\text{Group } CO_2 \text{ emissions 2005 (t/t)}} + \frac{\text{Reporting year waste generated (kg/t)} \times 15}{\text{Group waste generated 2005 (kg/t)}} + \frac{\text{Reporting year waste landfilled (kg/t)} \times 15}{\text{Group waste landfilled 2005 (kg/t)}}$$

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 2018, the scope of MEF reporting covered 75 production plants, natural rubber processing facilities and Technology Centers having a material impact on the environment. Data are reported 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.

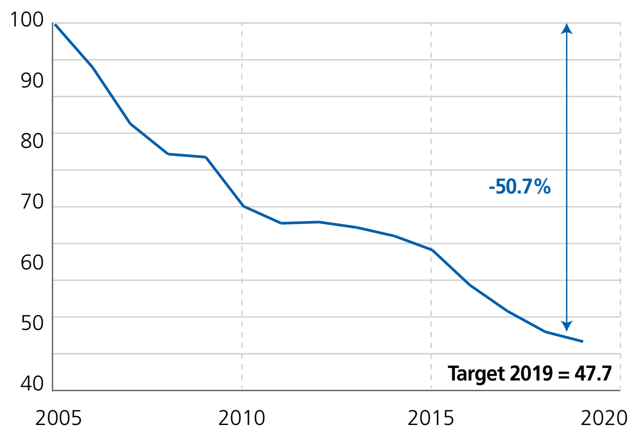
As an exception to this rule, the plants in Manaus and São Paulo were not included in the 2017 and 2018 scope of reporting, but have now been incorporated since January 2019.

Progress to date: the 2020 objective has been met

To fulfill the ambition of "setting the industry standard for responsible manufacturing" (see 1.1.9), the target set in early 2016 was 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 finished product, 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 finished product tonnage 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 2018, environmental performance, as measured by the MEF, improved by more than 50.7%. As a result, the 2020 target has already been met, and new medium and long-term targets are now being defined. The MEF target for 2019 is 47.7.

The 2018 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	2017	2018	2020 target	% change vs. 2005	% change *vs.* 2017
MEF	-50%	100	70	52.7	49.3	50	-50.7%	-6.5%
Energy consumption in GJ/t of finished product (FP)	-38%	17.4	14.4	12.11	12.06	10.8	-30.7%	-0.4%

Performance by MEF component – Group	Unit	2010	2017	2018	2018 target	2019 target
Energy consumption	GJ/t FP	14.4	12.11	12.06	12.10	11.45
Water consumption	m³/t FP	11.8	8.60	8.09	8.06	7.70
VOC emissions	kg/t FP	2.89	2.07	1.77	1.97	1.79
CO_2 emissions	t/t FP	1.28	0.89	0.88	0.89	0.83
Waste generated	kg/t FP	109.5	102.2	98.7	100.50	97.00
Waste landfilled	kg/t FP	10.2	4.20	2.9	3.35	2.50
MEF		**70**	**52.7**	**49.3**	**51.0**	**47.7**

MEF ratios and absolute values – Group	2018 ratio	Change *vs.* 2010	Unit	2018 absolute value	Change *vs.* 2010	Unit	GRI indicators*
Energy consumption	12.06	-16%	GJ/t FP	41,376	(4,207)	x10³ GJ	GRI 302-1 GRI 302-3 GRI 302-4
Water consumption	8.09	-31%	m³/t FP	27,736	(9,586)	x10³ m³	GRI 303-1
VOC emissions	1.77	-39%	GJ/t FP	6,056	(3,099)	t	GRI 305-7
CO_2 emissions	0.88	-31%	GJ/t FP	3,002	(1,065)	x10³ t	GRI 305-1 GRI 305-2 GRI 305-4 GRI 305-5
Waste generated	98.70	-10%	kg/t FP	338,575	(9,886)	t	GRI 306-2
Waste landfilled	2.93	-71%	kg/t FP	10,067	(22,494)	t	
MEF	**49.3**	**-29.6%**					

* *Consolidated Set of GRI Sustainability Reporting Standards 2016, Global Reporting Initiative, 2016.*

SUMMARY TABLE OF ENVIRONMENTAL DATA FOR THE GROUP

Consolidated environmental data	2018	2017	% change vs. 2017	2010	GRI Indicators
Water consumption *(m^3/t FP)*	8.09	8.60	-6.0%	11.8	
Energy consumption *(GJ/t FP)*	12.06	12.11	-0.4%	14.4	
Michelin point sources	6.20	6.27	-1.2%	8.0	
Steam purchased, net	0.97	0.97	0.3%	1.2	GRI 302-3
Electricity purchased, net	4.89	4.87	0.4%	5.2	GRI 302-4
CO_2 emissions *(t/t FP)*	0.875	0.89	-1.3%	1.28	
of which:					
direct emissions from Michelin point sources (Scope 1*)	0.43	0.44	-1.6%	0.58	
indirect emissions, steam generation (Scope 2*)	0.05	0.04	10.4%	0.12	GRI 305-4
indirect emissions, electricity generation (Scope 2)	0.40	0.41	-3.6%	0.58	GRI 305-5
Total Michelin direct and indirect emissions avoided *(tonnes of CO_2)*	33,000	44,750	-26.3%	24,000	GRI 305-5
Sulfur dioxide emissions *(kg/t FP)*	0.41	0.38	7.8%	0.96	GRI 305-7
Nitrogen dioxide emissions *(kg/t FP)*	0.50	0.37	34.0%	0.83	GRI 305-7
VOC emissions *(kg/t FP)*	1.77	2.07	-14.7%	2.89	GRI 305-7
Waste generated *(kg/t FP)*	98.7	102.2	-3.4%	109.5	
Waste landfilled *(kg/t FP)*	2.93	4.20	-30.1%	10.2	
Hazardous waste generated *(kg/t FP)*	7.90	7.55	4.7%		GRI 306-2
Number and total surface area of facilities located less than one kilometer from a protected area	28 facilities totaling 6,600 ha	27 facilities totaling 6,400 ha	_		GRI 304-1
In 2018, the Michelin Group did not incur any significant fines or non-monetary sanctions for non-compliance with environmental legislation and/or regulations.					GRI 307-1

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

The MEF stood at 49.3 in 2018, representing a 6.5% reduction compared to 2017 and exceeding the target for the year (51).

Five MEF components improved year-on-year, with just energy consumption remaining stable, even as output remained unchanged over the period. The three components showing the strongest gains were waste landfilled, volatile organic compound emissions and water consumption.

- **Waste landfilled** saw the greatest improvement over the year, with a more than 30% decrease per tonne of finished product. Today, nearly 97% of all waste is recovered or reused, with 59 of the 75 facilities recovering more than 95%, and 26 facilities reporting zero waste landfilled during the year. The total volume of **waste generated** per tonne of finished product declined by 3.4% year-on-year.
- Thanks to sustained initiatives to reduce withdrawals, **water** consumption declined per tonne of finished product by 6% over the year.
- **CO_2** emissions declined by 1.3% for the same amount of energy used, thanks to the unchanged energy mix, with 15% renewables, and the decline in national emissions factors in the Group's host countries.
- **VOC emissions** per tonne of tires produced declined by 14.7%, led by the optimization of application systems to minimize solvent use and by technological innovations.

Compared with 2010, when output was slightly less, the MEF has been reduced by nearly 30%, with improvements in every component. Energy consumption is down by 16%, CO_2 emissions by 31%, water consumption by 31%, VOC emissions by 39%, waste generated by 10% and waste landfilled by 71%.

These improvements are described in more detail below.

/ Reducing energy use and greenhouse gas emissions

Total CO_2 emissions from the Group's production plants amounted to 0.875 tonnes per tonne of finished product in 2018, a reduction of 31% compared with 2010 and of 1.3% compared with 2017. In absolute value, they declined by 25% over the period, to three million tonnes from four million in 2010.

These improvements were the result of a two-pronged strategy designed to: (i) reduce energy use and (ii) shift to a less carbon-intensive energy mix. The first objective is being pursued through a Manufacturing Department process, while the second is being met by activating both **structural levers,** to upgrade energy supply **infrastructure** to use less carbon-intensive energies, and **market levers** to **purchase** less carbon-intensive energies. To drive further progress, an internal carbon price is used in analyzing return on investment in capital projects (see 6.6.2).

Improving energy efficiency

The Group's energy consumption stood at 12.06 GJ per tonne of finished product in 2018, down by just 0.4% year-on-year but representing a more than 16% reduction since 2010. The 2020 target of a 25% reduction in energy consumption since 2010 has been maintained.

Energy use has been diligently managed for more than ten years. In 2018, the energy performance improvement approach was restructured to make it more effective and a review was performed as part of the Lean Green Belt certification process.

The review revealed a number of weaknesses in the approach. After upgrading the energy audit procedure and training the Plant Energy Performance Leaders, the Group is now working on a set of technical handbooks for Leaders and maintenance technicians. In 2018, the Lighting Handbook was updated and a new handbook on electric motor management was prepared to support the development of a multi-year sustainability plan and to identify opportunities for improving the motor base.

Lastly, the Technical program was expanded and now includes 19 initiatives that the plants can deploy to improve their energy performance.

Three examples launched in 2018 include:

1. a free cooling process that enables building air conditioning systems at Shenyang, China plant to run from December to March without using almost any power;
2. the installation of heat pumps in the air cooler system to recover heat for reuse in plant buildings. This benefits the environment by reducing water consumption, CO_2 emissions and heat generation. At the Ladoux Technology Center in France, a recently commissioned 0.9 MW heat pump is now covering 20% of the site's building heating needs. Two other units under study at French plants are expected to come on stream in 2019;
3. the "changing employee behavior" program, which will be deployed in every Region in 2019 after a highly successful run in Asia.

The energy efficiency improvement program was supported by €13.4 million in capital expenditure in 2018.

Driving the Group's energy transition

Increasing the use of renewable energies

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.

Today, 17 Group facilities use renewable energy solutions.

Facility	Technology	Tonnes of CO_2 emissions avoided in 2018[1]
Bassens, France	Purchase of heat generated by a waste incinerator	6,000 t (direct CO_2)
Cholet, France	Biomass-fired boiler	2,500 t (direct CO_2)
Bourges, France	Biomass-fired boiler	6,500 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	2,000 t (direct CO_2)
Waterville, Canada	Solar wall	70 t (direct CO_2)
Dundee, United Kingdom	Wind turbines	2,500 t (direct CO_2)
Germany, seven facilities	Photovoltaic panels	12,000 t (power sold back to the grid)
Valladolid, Spain	Photovoltaic panels	1,000 t (power sold back to the grid)
Le Puy, France	Photovoltaic panels	150 t (power sold back to the grid)
Nongkae, Thailand	Photovoltaic panels	70 t (direct CO_2)

(1) Based on emissions factors for the substituted energies published by the International Energy Agency in "CO_2 Emissions from Fuel Combustion", 2016 edition.

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.

At the Le Puy-en-Velay plant in France, rooftop solar power panels with an aggregate capacity of 3 MWp were installed in 2011 over three hectares, or three quarters of the roof's surface. The output of all these installations, which totaled 33,000 MWh in 2018, is sold back to the national grids, helping to reduce the host 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.

At the Bourges and Cholet plants in France, two biomass-fired heating plants rated 5 and 10 MW respectively came on stream in 2010.

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 33,000 tonnes-equivalent of CO_2 in 2018, of which nearly 20,000 tonnes directly reduced the Group's total carbon emissions. This was less than in 2017, due to the major works carried out on the Bassens and Cholet installations.

In 2018, a plant equipped with wind turbines closed in Ballymena, Northern Ireland, a project was completed in Thailand and five others were ongoing:

- in Nongkae, Thailand, photovoltaic panels with peak capacity of 0.88 MWp were installed on the parking lot shade roofs and began generating their first MWh in November. While relatively small, the project is the Group's first solar farm whose power will be directly used on-site. On a full-year basis, it is expected to generate around 1,000 MWh a year;
- IMECA, the French subsidiary that designs and integrates special tiremaking machinery, has mounted photovoltaic panels on its plant grounds, which began generating their first kWh in December. The installation is expected to generate around 75 MWh a year, or 10% of the plant's power needs, while avoiding the emission of five tonnes of CO_2 a year. While relatively small, the project is the Group's first PV installation in France whose power will be directly used on-site, and the second worldwide after the Nongkae, Thailand unit;
- in Avallon, France, a project to install PV panels on a retreadable casings storage building has been approved by the French Energy Regulatory Commission. The 3.85 MWp facility is expected to produce 4,000 MWh per year, which will be sold back to the French grid;
- the plant in Chennai, India, is planning to install rooftop panels rated 4.2 MWp and capable of generating an estimated 5,500 MWh a year for on-site use;
- in Golbey, France, the project to purchase steam generated by burning waste from a nearby paper mill continues apace, with the goal of meeting all of the plant's heating needs by 2020;
- also in France, the Troyes plant expects to begin purchasing heat and power from a household waste-fired combined heat and power (CHP) facility in 2021, covering around 15% of its needs.

Purchasing electricity from certified renewable sources

The 2016 study conducted in every host region around the world revealed that a mature supply of green electricity exists only in Europe, either in the form of direct purchase contracts or 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. In 2017, green electricity was purchased in all eight countries.

In 2018, as in 2017, electricity guaranteed from renewable sources represented nearly 1,590,000 MWh or 34% of all the power used by the Group in the region. Without these purchases, which avoided the emission of 135,000 tonnes of CO_2, the Group's carbon emissions would have been 11% higher in 2018.

In all, 15% of the electricity used by the Group in 2018 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 emits over 25% less carbon dioxide when burned.

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. Since the upgrade, natural gas has replaced more than 220,000 MWh of fuel oil-fired power generation every year, helping to avoid the release of 17,000 tonnes of CO_2.

Eliminating coal

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. Since 2016, this has avoided the emission of around 14,000 tonnes of CO_2 a year.

Today, four of the Group's 70 manufacturing facilities are still equipped with coal-fired boilers, in Olsztyn (Poland), Louisville KY (United States), Bassens (France) and Pirot (Serbia), while another, in Shenyang, China, purchases steam from a coal-fired plant. In 2018, the Environmental Governance Committee (see 1.1.8 d) approved the goal of eliminating coal as an energy source by 2030. Studies to assess the feasibility of replacing coal with natural gas, biomass or other primary energy source are already underway at four of the five plants. The Olsztyn facility is currently taking the first step towards phasing out coal by installing a new gas boiler, which is expected to supply nearly 20% of its heating needs as from 2020.

Carbon quota systems

In European Union countries, direct carbon emissions from the 20 Group facilities that operated boilers with over 20 MW capacity in 2018 are subject to allowances issued under the EU's Emissions Trading Scheme (ETS). These allowances continued to decline in 2018 under the impact of the cross-sectorial correction factor, but the Group's sustained improvements in energy efficiency and the energy mix kept emissions under control. Emissions from most of the plants are still covered by the credits accumulated between 2008 and 2016. Since 2017, the Group has started purchasing quotas on the market, which are covering the returns from the plants exceeding their quotas.

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 2016-2019 period. Over the 2013-2018 period, emissions from the two plants concerned were covered by the allowances.

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.

/ Reducing harmful air emissions

A decline in VOC emissions

Volatile organic compound emissions declined by 14.7% year-on-year in 2018 to 1.77 kg per tonne of finished product.

The improvement is being driven in three ways:

- Each plant follows **good manufacturing practices** in optimizing the use of solvents. For example, the minimum amount that can be used for a given product is determined by testing and the applicator is adjusted accordingly. Quantities are regularly tracked to keep use to a minimum.
- In 2018, **new process, materials and product solutions** to remove VOCs at certain interfaces continued to be deployed. In particular, the VOC-based solvent is being replaced with a water-based solvent or a thin rubbery adhesive.
- Research and development teams are **designing lower VOC use into new product specifications,** so as to minimize the impact on VOC emissions.

These three improvement drivers were expressed and documented by the VOC Program (see 6.6.1.b), which pursued the initiatives underway since 2017 to deploy best practices, identify innovations and explore ways of further reducing solvent use in the future.

In all, VOC emissions per tonne of finished product have been reduced by 39% since 2010.

Nitrogen oxide (NOx) and sulfur oxide (SOx) emissions

In general, reported data concern nitrogen oxide and sulfur oxide emissions from the Group's heating plants that can vary widely from year to year, because they are calculated based on the periodic (often quarterly) measurement of emission concentrations. In addition, given that purchased steam is not included in the calculation, reported data depend on the mix between generated and purchased steam.

In 2018, NOx emissions amounted to 0.50 kg per tonne of finished product, versus 0.62 kg in 2015 and 0.83 kg in 2010.

SOx emissions came to 0.41 kg per tonne of finished product, versus 0.54 kg in 2015 and 0.96 kg in 2010.

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. The elimination of coal-fired boilers in all of the production facilities by 2030 will drive a further significant reduction in these emissions.

/ Reducing and managing waste

Michelin's Waste Management Policies are based on three principles: reducing the amount of waste produced (in particular through reuse), recovering and reusing all of the waste produced and recovering at least 70% of waste materials by developing innovative outsourced recycling solutions. These policies are seamlessly aligned with a circular economy approach (see 6.6.3 "Social commitments to supporting the circular economy").

At 98.7 kg, the gross amount of waste generated per tonne of finished product declined by 3.4% year-on-year in 2018, and fell below the 100 kg mark for the first time since 2005. The volume of waste landfilled also decreased, by 30.1% to 2.9 kg per tonne of finished product from 4.2 kg in 2017. Since 2005, the volume of waste generated per tonne of finished product has been reduced by around 29%, to 99 kg from 140 kg, and the volume of waste landfilled has fallen by more than 91% to 2.9 kg from 33 kg.

Today, 97% of all waste is recovered or reused as materials or fuel, with 59 of the 75 facilities recovering more than 95%.

Around 8% of total waste generated in 2018 was classified as hazardous under each country legislation.

The decline in waste generated was primarily attributable to (i) growing employee awareness of waste management issues; (ii) the review of end-of-waste criteria; and (iii) 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.

Although combating food waste is not an issue in its business operations, Michelin still feels that it is a challenge for society and seeks to raise awareness among employees, particularly through its foodservice providers.

/ Reducing water withdrawals and effluent discharge

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 2018, a total of 8.09 cubic meters was withdrawn per tonne of finished product, down 6% compared with 2017. 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 32.2%, or nine million cubic meters less in 2018 than in 2013. All of the Regions have seen improvement.

Progress has been impelled by the new method of assessing water issues introduced in 2016, which has enabled on-site specialists in every production facility to:

- measure business continuity, community reputation and other risks;
- identify the impacts related to the quantity of water withdrawn and each facility's potential water stress;
- assess the quality of water withdrawn and discharged;
- calculate the related operating costs.

Regionalized water footprinting, which helps to effectively prioritize the plants, was improved in 2018 by integrating data on water availability (AWARE; CIRAIG) and the sensitivity of aquatic environments (with a proprietary application). This is making it possible to deploy appropriate risk mitigation measures and to identify opportunities for improvement locally. Based on sustainability principles, particularly the ISO 14046 and ISO 14044 and ISO 14001:2015 standards, the method is now being used in around 30% of the production facilities with the support of a corporate team of water experts. Made up of environmental, maintenance and engineering specialists, the team also provides support in designing new industrial projects, using value stream mapping (VSM) techniques, while identifying opportunities and sharing best practices (70 practices available as of late 2018). It is backed by a more than 80-person in-house expert community 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 comprising seven other international manufacturers.

The launch of the Water Program (see 6.6.1 b), 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 to improvements beyond 2020. This new roadmap is now being deployed by 25 departments representing the leading internal and external stakeholders, all working as a team. Thanks to these multi-disciplinary efforts, 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 6.6.1 b). In 2018, the added value was evidenced by an initial digital demonstrator that was trialed at the Olsztyn plant in Poland with the support of a specialized service provider.

The program's outcomes may be seen in the following achievements reported in 2018.

Technical upgrades enabling a year-on-year performance gain in cubic meters per tonne of finished product:

- Campo Grande, Brazil: a 7% improvement from the installation of a reverse osmosis system to reuse cooling tower effluent;
- Vitoria, Spain: a 17% improvement after closing open cooling circuits, reusing process water, automating cooling tower management, managing water flows and adding meters;
- Chennai, India: a 36% improvement following cooling tower optimization and a reduction in household water pressure;
- Cuneo, Italy: a 16% improvement after changing the compressor model and deploying a site-wide water program;
- Nongkae, Thailand: a 6% improvement thanks to the installation of a reverse osmosis system to reuse extrusion process water.

These projects were all supported by initiatives to build awareness, manage the process and promote the outcomes:

- integration of water issues into the plant's strategic plan, tracked by daily performance management indicators and the executive teams, at the plants in Chennai (India), Valladolid (Spain) and Resende (Brazil);
- awareness and training campaigns in all of the Thai facilities and on the Clermont-Ferrand site in France;
- internal improvements in the calculation of actual water use-related gains and costs, announced to employees via the program's communication plan. These upgrades were also integrated into the three-year value stream mapping (VSM) exercise.

In 2018, Michelin was rated "B" by the CDP.[1]

Discharges to 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 and second, to optimize the sharing of identified pathways to progress.
- In 2018, a thorough review of our water treatment contracts in Europe helped to drive faster improvement and foster innovation.

(1) A London-based international non-profit that is helping to accelerate the transition to sustainable economies. In particular, CDP asks several thousand companies around the world to disclose data on their environmental performance via an annual questionnaire, whose answers are analyzed and shared with the organization's 800 or so institutional investor members.

/ Preventing 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 building; 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 usage risks and to manage them with state-of-the-art 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 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 2018, bringing the total to 59 over the past three years.

Another highlight of 2018 was the definition of indicators to measure CSS risks and opportunities. The 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. The indicators were incorporated into the framework agreements during the year, with performance tracked every six months.

In addition to regulatory compliance, the three key performance indicators exceeded acceptable levels at year-end, as follows (based on 126 cases reported over the last four years, so as to have a meaningful, representative sample):

- Management of health and environmental risks (defined by outside providers): 92%;
- Management of safety risks (protecting the health of investigators or remediation workers; no lost-time incidents): 100%;
- Management of risks of delays due to capacity increases, extension works or disposal: 99%.

Lastly, to improve knowledge and practices both inside and outside the organization, Michelin has co-led the CSS Industry Club in association with other manufacturers since 2015.

/ 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.

6.6.1 c) Preserving biodiversity

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. A wide variety of studies have shown that ecosystems are in danger and would be even more threatened were it not for the initiatives already undertaken to preserve them.

To participate in these joint efforts, Michelin is committed to designing products that are more ecosystem-friendly, protecting the local ecosystems near each of its plants or offices and encouraging the use of sustainable practices in rubber farming.

/ Formalized commitments as part of act4nature

In July 2018, French association *Entreprises pour l'Environnement* (EpE) organized **act4nature** to express the commitment of its members to protecting biodiversity and the natural environment.

For the first time, more than 60 business leaders – from every industry and half of them from companies in the benchmark CAC 40 stock index – signed a charter of ten shared commitments, along with separate undertakings for each member company. Michelin's commitments cover five areas:

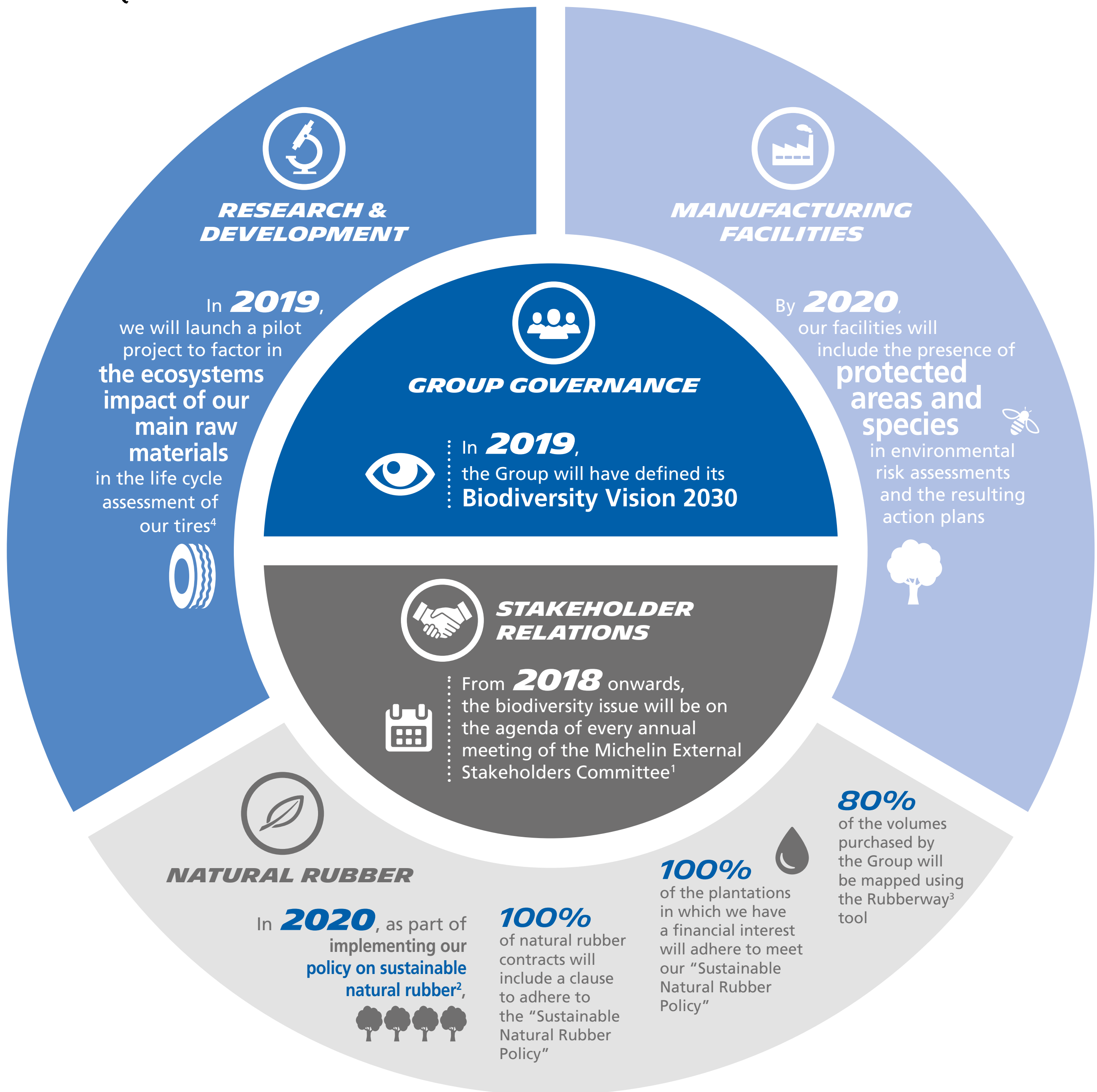
- Corporate governance;
- Stakeholder relations;
- Research and development;
- Natural rubber;
- Production facilities.

Stakeholder dialogue is discussed in section 6.5.3 above.

For more information on Michelin's programs to support biodiversity in natural rubber producing regions, see 6.5.2 b) and 6.5.4 d) above.

For information on tire life cycle assessments, see 6.6.3 a) below.

All of the commitments may be found on www.act4nature.com/.



(1) The stakeholder committee is made up of representatives of NGOs, including the WWF, universities, international institutions, trade unions, customers and suppliers
(2) The "Sustainable Natural Rubber Policy" stipulates the conditions in which natural rubber is produced and marketed. It specifies both environmental factors (zero deforestation, protection of areas of High Conservation Value (HCV), areas of High Carbon Stock (HCS) and peatlands) and social and human rights-related factors (working conditions and the prior free and informed consent of the populations concerned).
For more information, visit https://purchasing.michelin.com/fr/gestion-responsable-de-filiere-heveicole/
(3) Online questionnaire for the various stakeholders involved in the upstream natural rubber supply chain. It is designed for 4 types of respondents: small-scale growers, plantations over 45 ha, intermediaries and natural rubber processing plants.
(4) Number of life cycle assessment carried out that factor in these impacts / total number of LCAs performed.

/ Preserving biodiversity around Group manufacturing and research facilities

Systematically identifying nearby protected areas

In 2013, the Group's production plants and research facilities conducted an initial survey to **identify nearby areas classified as protected** under supranational, national or local legislation. In 2018, the facilities performed the systematic update recommended every five years, which showed a total of 196 protected areas within a radius of five kilometers of each one. These findings are now being integrated into each facility's environmental risk analysis, as a criterion for assessing the sensitivity of the natural environment (according to the standard Group method). In line with that method, facilities identifying significant environmental issues are expected to deploy remedial action plans.

When the updated data was analyzed with regard to the GRI 304-1[(1)] indicator, it showed that 28 facilities in eight countries, representing a total surface area of 6,600 hectares, are located less than a kilometer from one or more protected areas.

Local initiatives designed to address local issues

Michelin is assertively attenuating the impact of its operations on biodiversity with initiatives to protect fragile environments, particularly in Almeria (Spain), Bahia (Brazil), Ladoux (France) and Louisville (United States).

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.

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.

In addition, the Natura'Ladoux non-profit organization, which was founded in 2016 and has 45 members, is leading a wide range of local preservation programs, for example, to vary mowing patterns to protect orchids, build nest boxes and bird tables for passerines and perform site development studies. It also organizes activities to raise employee awareness of the site's biodiversity and ecosystem, including birdsong recognition classes and observation walks. Sightings by Natura'Ladoux members have identified 60 bird species on the site, up to 37 of which can be seen or heard during the annual walk around the test tracks.

Supporting the Michelin Ecological Reserve in Bahia, Brazil

Created in 2007, the 3,000-hectare Michelin Ecological Reserve (REM) in Bahia Brazil is today 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 275 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-breasted 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 2018, another 350 hectares were added to the reserve, making the Pacange River valley the only valley in the region to be totally free of any farming or agrochemicals. The additional land, which was previously part of the Michelin rubber tree plantation, will be restored by planting native trees and vines from the Reserve's nursery, which is currently home to 142 species that will soon be ready for planting. Each restoration will be based on at least 100 different native species, so as to encourage the sustainable return of fauna to the replanted forests.

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 annual replanting campaigns and the site now attracts birds, foxes, deer and other wild animals. The project, which began in 2007, 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.

(1) GRI 304-1: Operational sites owned, leased or managed in or adjacent to protected areas or areas of high biodiversity value outside protected areas.

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.

6.6.2 ENERGY TRANSITION AND DECARBONIZATION

Combating climate change

Climate change poses a multitude of risks, which have to be addressed by concerted action by all of society, including public authorities, businesses and consumers. **The Michelin Group identified the following main risk factors:** (i) extreme weather events, which could have a potential impact on business continuity and employee safety; (ii) energy transition costs in the Group's business operations; (iii) changes in the mobility market for people and goods; and (iv) reputational risks as a responsible company.

Aware of magnitude of these challenges, Michelin is helping to fight against climate change by deploying programs defined in 2015 and structured to meet four priority objectives:

- reduce the amount of energy used by a tire per kilometer by 20% by 2030 compared to 2010;
- reduce the carbon emissions of the Group's manufacturing operations by 50% in absolute value in 2050 compared to 2010;
- capitalize on its expertise and culture of innovation to develop long-range electric vehicles and on its products and services to enable new forms of mobility for people and goods;
- support the introduction of a global carbon pricing system.

Since bringing the MICHELIN Energy™ tire to market in 1992, the Group has continuously innovated to improve fuel efficiency with each new generation of its tires. This performance is critical because in normal conditions of use, tires account for a significant proportion of a vehicle's fuel consumption, which is estimated at one-fifth for passenger cars and one-third for trucks. The future is being prepared in several research programs underway with a variety of outside partners to develop breakthrough technologies that will define the performance of the next generations of tires.

In 2005, Michelin began to record 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. **To craft a CO_2 emissions reduction roadmap, in 2018 Michelin signed a commitment letter with the Science Based Targets initiative, agreeing to define shorter-term reduction targets for a tire's production phase (Scopes 1 and 2) and in-use phase (Scope 3). The commitment is designed to ensure that the above-mentioned 2030 and 2050 objectives are consistent with the below 2°C global warming scenario.**

In addition to improving the performance of its tires and production plants, Michelin is shrinking its carbon footprint by partnering with its transportation suppliers, offering carbon-efficient vehicle fleet services, and promoting hydrogen fuel cell-based mobility solutions.

At the same time, 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 Movin'on LAB collaborative platform.**

This vision is being supported by an internal carbon pricing application 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 2018, independent environmental non-profit CDP ranked Michelin among the most forward-looking companies in the areas of transparency and combating climate change. The Group's inclusion in the CDP Climate Change A list was a reflection of its strategy, its reduction in CO_2 emissions and its long-term commitment to further reducing its carbon footprint (cf. www.cdp.net/en/responses). Preparing the answers to the CDP Climate Change questionnaire in 2018 helped the Group to determine how well it was implementing the recommendations issued on June 29, 2017 by the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (cf. www.fsb-tcfd.org/publications).

The main performance indicators are as follows (cf. 1.1.9):

- **Michelin Total Performance and the total improvement in the rolling resistance of Passenger car/Light truck and truck tires** compared with 2010, which is part of the "innovate to widen our lead in product and service performance" Ambition for 2020;
- **Responsible logistics:** CO_2 emissions per tonne of tires sold outside the Group, which is part of the "setting the industry standard for responsible manufacturing" Ambition for 2020.

6.6.2 a) Reducing the carbon footprint of production operations

Carbon emissions from all of the manufacturing operations, per tonne of finished product, were 31% lower in 2018 than in 2010. These gains in manufacturing performance more than offset the impact of growth on emissions, helping to drive a reduction in Scope 1 and 2 emissions to three million tonnes from around four million in 2010. The improvement was the product of two strategic initiatives: improving energy efficiency and using less carbon-intensive energies (cf. 6.6.1 b).

6.6.2 b) Building a sustainable supply chain

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.

Initiatives are gradually being rolled out both inside and outside the organization:

- **Optimizing overland distances depending on transport mode:**
  - Michelin is continuing to expand its plant-to-customer direct delivery capabilities. In Europe, 10% of Group shipments are still delivered directly from the plant rather than to the customer's usual distribution hub. This is also the case for truck tire casings and retreads, whose route planning system has been adjusted so that, when loads are large enough, they are shipped directly to trucking company distribution hubs rather than going through a Group distribution center first.
  - Opened in 2017, the new warehouse in northern Vietnam resulted in a 95% reduction in the number of 1,500-km North-South overland trips in 2018.
- **Increasing load factors.** Optimizing load capacities, in accordance with local legislation, helps to reduce empty miles and backhaul costs.
  - A change in information system parameters, for example, increased load factors by 3% in containers outbound Thailand to the rest of the world.
  - In South America, the wider use of compactors on all of the outbound containers from Brazil has increased export loads by 10-15% per shipment.
  - In Europe, the increasing deployment of the last-minute extra load process for shipments among Michelin plants is optimizing load factors and inter-plant flows by using fewer trucks. In this way, more than 25% of loads are optimized by the operator during the loading process.
- **Encouraging the use of alternative energy sources:**
  - **Expanding the natural gas truck fleet.** One of the ways to reduce carbon emissions, noise, particulate emissions and other environmental impacts of the Group's supply chain operations is to encourage the use of trucks powered by some form of natural gas:
    - In Europe, Michelin has selected trucking companies whose fleets include natural gas vehicles, for example, to haul containers from the port of Le Havre to the Cholet plant, or on the route between Valladolid, Spain and Clermont-Ferrand.
    - In Thailand, as well, inter-plant shipments are carried by trucks running on natural gas.
  - **Promote the use of hydrogen fuel cells in logistics.** The new warehouse in South Carolina is equipped with 50 forklifts powered by hydrogen fuel cells, whose use has significantly reduced the facility's power consumption, eliminated the risks associated with conventional batteries and optimized the building's layout by removing the battery charging stations.
- **Leading the way together in sustainable logistics:**

  Another way to reduce the environmental impact of the supply chain is to share ideas and projects with other industry stakeholders, as an engaged member of such associations as France's *Écologie Logistique* and ASLOG. Active participation in these organizations is driving significant progress in identifying courses of action, while laying the foundations for collaborative work on innovative issues supporting the sustainable mobility of goods and decarbonized transportation.
- **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 changes in modes of transportation. 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.
  - Shipments between Canada and Mexico travel by rail across the United States, which reduces the environmental footprint of the logistics chain between the two countries and partially addresses the problems in hiring truck drivers in North America.
  - In Europe, a variety of initiatives have been taken:
    - containers are carried by train whenever possible. Natural rubber, for example, is shipped by rail to the Montceau plant from the ports of entry;
    - the Cuneo plant in Italy is regularly served by inbound and outbound trains from across the continent;
    - 95% of shipments between the North Sea ports and the Landau logistics hub in Germany are carried by barge;
    - across the Group, the use of air freight is kept to a strict minimum. In 2018, for example, Europe-China rail links were organized for the first time as an alternative to last-minute air shipments.
- **Developing partnerships with trucking companies concerned about their energy efficiency.**

  In 2018, Michelin set up two trucking company forums, in Europe and North America, to demonstrate its commitment to sustainable logistics and to sharing best practices. Short, medium and long-term drivers to attenuate environmental impacts and foster sustainable supplier relationships have been identified. Michelin believes that, over the long term, these partnerships add significant value both to its own and to each partner's business.

  In Europe, a commercial software application now makes it possible to accurately track the environmental performance of trucking companies accounting for more than 50% of the tonne-kilometers carried in the region. Since the resulting data reflects the truckers' real-world performance, the environmental impact of supply chain operations can be measured with greater precision. In the same way, the data help to track the various initiatives introduced to support sustainable mobility (truck equipment, driver training, etc.).

6.6.2 c) 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 incorporating an internal carbon price of €50 per tonne of CO_2 into its 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 integrated into a project consolidation application developed in 2016 as part of the new energy efficiency improvement program (see 6.6.1).

As a result, 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.

6.6.2 d) Reducing the carbon footprint of our products

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. For the past five years, Michelin has calculated its annual Scope 3 indirect GHG emissions from activities in both the upstream and downstream value chain in accordance with the guidelines issued in "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (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).

Based on the 2016 data disclosed on the CDP Climate Change 2018 questionnaire, Scope 3 emissions came to around 140 million tonnes of CO_2, of which some 124 million was attributable to Michelin tires in use. The second largest source of Scope 3 emissions is purchased raw materials, which accounted for around 9 million tonnes. Lastly, Michelin services generated less than an estimated 1% of Scope 3 emissions.[1]

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 (see www.cdp.net/en/responses). Because the margin of uncertainty for the various Scope 3 components remains high, at between 10% and 30%, the Group has chosen to measure them every three years and, in the intervening period, to deepen its understanding of the carbon footprint of the most energy-intensive raw materials.

6.6.2 e) Actively 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 and maintain tires in ways that optimize their energy efficiency and other performance features; or (ii) the provision of a service alone 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. These solutions are then marketed and supported close to customers in the different Regions, enabling them to optimize fleet management, improve margins and reduce their carbon footprint. Today, MICHELIN® services 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;
- still others improve employee motivation, such as the MyRoad-Challenge, a fun game that rewards good driving practices.

(1) GRI 305-3: Other indirect (Scope 3) GHG emissions.

6.6.2 f) 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 manufacturer deeply engaged in the energy transition, in 2014 Michelin acquired an equity interest in Symbio, a new generation OEM that designs hydrogen fuel cell modules for use in a variety of electric mobility solutions (vans, buses, trucks, ships) and supports them with a suite of digital services (vehicle repairs, remote fleet management, etc.). Michelin subsidiary IMECA is assisting Symbio in process engineering its fuel-cell systems.

With IMECA, the Group's manufacturing operations are involved in the "Start2Prod powered by Michelin" brand, which supports start-ups and SMEs in process engineering their innovations, particularly in automotive hydrogen applications. One example is Pragma Industries, which asked Start2Prod to build 100 pre-series hydrogen-powered bicycles and to design the business model for mass producing the bike and its battery. Michelin also supplies the hydrogen module for Safra's Businova bus, whose initial models will be deployed in the Artois-Gohelle community in Northern France in 2019.

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)[(1)], Michelin is a member of (i) Hydrogen Europe, an umbrella organization for European manufacturers, researchers and national associations, which Michelin also chairs; (ii) the French Association for Hydrogen and Fuel Cells (*Association Française pour l'Hydrogène et les Piles à Combustible* – AFHYPAC); (iii) AVERE, a non-profit 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. Backed by Michelin and Engie, France's Auvergne-Rhône-Alpes region has decided to launch the highly ambitious Zero Emission Valley project, which will simultaneously step up the deployment of 1,000 zero-emission, fuel-cell powered vehicles and the construction of 20 hydrogen stations across the region, to drive the faster development of the hydrogen mobility market. As part of the project, Michelin has invested in the Hympulsion SAS start-up, which plans to deploy 20 hydrogen filling stations over the next three years, including 14 capable of producing hydrogen by water electrolysis.

6.6.2 g) Leading the way together in sustainable mobility

In 2018, Michelin continued to step up its commitment to sustainable mobility in the international arena, in particular as part of Paris Process on Mobility and Climate (PPMC), the coalition of non-government transportation stakeholders formed during the COP 21 conference. PPMC is also the impetus behind the Global Macro-Roadmap (GMR) presented at COP 23, whose eight priority components are designed to guide effective implementation of the Paris Agreement across the worldwide mobility sector:

- In 2018, PPMC focused on promoting the GMR process and adjusting it to regional contexts, in particular through the publication of a "European Manifesto" in the spring and the participation of non-government climate change stakeholders in the Climate Chance Summit-Africa event in Abidjan in June.
- PPMC was also invited by the World Bank to participate in the Sustainable Mobility for All (SuM4All) initiative, which encourages national governments to implement country-specific policies to support sustainable, carbon-free mobility.
- In France, PPMC was asked to lead one of the theme workshops at the *Assises de la Mobilité* public forum, as part of the preliminary dialogue on the draft framework law on mobility that will be submitted to the French parliament in 2019.
- Lastly, as at every COP since 2015, at the COP 24 in Katowice PPMC acted as the transportation industry's voice, providing input to the Talanoa facilitative dialogue initiated at COP 23 to build consensus among Paris Agreement Parties and the non-Party stakeholders working with them.

The Michelin Group was also involved, on its own behalf, in two major global initiatives in 2018:

- Michelin is one of the founding members of the Transport Decarbonisation Alliance (TDA), announced as part of the commitments of the **One Planet Summit** in Paris in December 2017 and officially launched at the 2018 International Transport Forum (ITF) in Leipzig. The TDA represents a unique coalition of the "3Cs" (Countries, Cities/Regions and Companies) that are spearheading the systemic transformation of mobility into a "net zero emissions" system before 2050, ahead of the Paris Agreement timetable. The alliance currently has 20 members, spanning six countries, seven cities/regions and eight companies (including Michelin). It is both a forum for member dialogue and a showcase for the collaboration among the 3Cs, demonstrating the pathways to decarbonizing transportation. Its founding document – "Decarbonising Transport by 2050: A TDA Manifesto on how to reach net zero emission mobility through uniting Countries, Cities/Regions and Companies" – was officially presented at COP 24 in December 2018. It proposes a shared vision shaped by four strategic priorities in which the 3Cs each have a role to play. Alliance members are now actively engaging in "communities of interest," modeled after the ones in the Movin'On Lab (see below), **with Michelin's assertive involvement,** so as to foster co-innovation among national and local public stakeholders and companies in a shared commitment to devising actionable decarbonization solutions.

(1) A public-private partnership with the European Commission.

- Michelin has joined the Steering Committee of the World Bank's ambitious **SuM4All** initiative, which advocates a comprehensive vision of sustainable mobility that is at once carbon-free, safe, effective and accessible to all. In this way, the World Bank and UN-affiliated organizations have recognized Michelin's unifying role in representing the world of business in SuM4All, which is primarily a consortium of government agencies and NGOs.

/ The Movin'On Summit: taking sustainable mobility from ambition to action

Following on from the Michelin Challenge Bibendum, the oldest and largest global forum dedicated to sustainable mobility and its challenges, the Movin'On Summit is an annual get-together for companies, public organizations, municipal authorities and civil society. For three days, several thousand participants meet to inspire, share and explore innovative ideas to make the mobility of tomorrow a reality. In Montreal, in June 2017 and June 2018, 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.

In 2018, more than ten major advances towards cleaner, safer mobility were announced during the event, including WWF's launch of a new tool to assist transportation companies in setting greenhouse gas (GHG) emissions targets in line with the reductions needed to meet the goals of the Paris climate agreement. A toolkit developed by the WWF, PPMC, the ITF, the IDDRI and the WBCSD[(1)] was presented, tested and offered to cities, countries, companies and other transport decarbonization stakeholders. Discussions and dialogue are continuing through the digital ecosystem created around these communities at www.movinonconnect.com.

/ Movin'On LAB

At the heart of the ecosystem approach to sustainable mobility innovation that nurtures the Movin'On summit is the Movin'On LAB, a "think and do tank" that brings together leading stakeholders involved in sustainable mobility issues. They are helping to foster a continuous process of innovation and international collaboration within communities of interest where they can forge and validate a shared vision, develop their strategies as part of the ecosystem, and test innovative mobility solutions. The annual Movin'On Summit enables these leading contributors to compare their ideas and solutions with the international mobility community in order to move it towards a sustainable future.

During the 2018 Movin'On Summit, an open sustainable mobility innovation network was set up between Movin'On LAB and its leading stakeholders and its Quebec partners in the field of mobility (INNOVEE, IVEO, PROPULSION, Jalon, PROMPT), supported by the Quebec Ministry of Economy, Science and Innovation (MESI) and the City of Montreal.

6.6.2 h) 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. In 2017, Michelin also invested in the new Livelihoods 2 carbon fund, raising the Group's total stake in the two funds to €3.7 million.

In 2018, four projects generated 59,429 carbon credits for the Group, corresponding to 59,429 tonnes of avoided CO_2. Three of them have installed several tens of thousands of energy-efficient cookstoves in village homes in Burkina Faso, Kenya and Peru, which eliminate toxic smoke and the time-consuming task of collecting wood, while cutting GHG emissions in half. The fourth project audited in 2018 restored a 4,500-hectare mangrove forest in India, which will store CO_2, increase marine wildlife and provide additional income for local fishermen.

In 2018, Michelin used its carbon credits to offset the carbon footprint of its Movin'On sustainable mobility summit held in Montreal in June, whose emissions were calculated at 3,995 tonnes of CO_2 by EcoAct, and the carbon emissions from the Michelin stand at the Paris Auto Show, which totaled 98 tonnes.

6.6.2 i) Adapting to the impact of climate change

In line with recommendations issued by the Group's risk managers, business continuity plans in the event of extreme weather events have been reviewed in the various host countries. These events currently concern only a few facilities, which have all implemented prevention plans to ensure business continuity and employee safety. In addition to the risks of extreme weather events, the Group's vulnerability to energy supply was also reviewed. The Group believes that climate change would only have a moderate impact on its operations, due to the location of its plants and the distribution of its business base.

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, Michelin's 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 and development programs to optimize the quantity of natural rubber used per thousands of kilometers traveled.

(1) IDDRI: Institut du Développement Durable et des Relations Internationales; WBCSD: World Business Council for Sustainable Development.

6.6.2 j) Responding to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures

The Group's detailed information reported in response to the recommendations issued on June 29, 2017 by the Task Force on Climate-related Financial Disclosures may be found in its answers to the CDP Climate Change 2018 questionnaire (see www.cdp.net/en/responses). A summary of these disclosures is presented below[(1)]:

Governance	
Roles, responsibilities and control	The Sustainable Development and Mobility Committee (see 1.1.8 d) is tasked with setting strategic objectives, approving priority initiatives, and validating and tracking indicators addressing a full range of issues, including climate change and the energy transition. (See the materiality matrix). It is supported by the Corporate Stakeholders Committee (see 6.5.3). Ahead of any decisions made by the Sustainable Development and Mobility Committee, climate-related issues are extensively reviewed by Environmental Governance and Sustainable Mobility Governance committees, which are each chaired by a Group Executive Committee member and empowered to make decisions on the Executive Committee's behalf (see 1.1.8 d). Each one also includes two other Executive Committee members, as well as representatives of the departments concerned. They are both supported by working groups of experts who contribute a wide array of multidisciplinary skills.
Strategy	
Time horizons	**Short-term (0 to 5 years)** Manage operational risks and opportunities requiring analyses of the external environment and decisions on, for example, energy efficiency projects, purchases of renewable energy, the management of carbon quotas under emissions trading systems and the development of new solutions and partnerships. **Medium-term (5 to 15 years)** Manage strategic risks and opportunities requiring decisions on manufacturing facilities (type of energy, energy utilities, deployment of new technologies and/or processes), research and development priorities (environmental footprint of future tire generations, new powertrains) and innovation guidelines for sustainable mobility services. **Long-term (15 to 30 years)** Designing a carbon-free transport roadmap and aligning the Group's operations.
Main risks and opportunities	**Risks** ▶ Manufacturing operations: damage to production capacity and threats to employee safety from increasingly frequent and severe extreme weather events; the higher cost of introducing or deploying new practices/processes/technologies to reduce the Group's carbon footprint; uncertainty about the reliability of renewable energy markets and related costs. ▶ Market: weaker demand for Group products and services due to major underlying shifts in social behavior and consumer preferences. ▶ Reputation: a reduction in brand value due to concerns or increased criticism from external stakeholders. **Opportunities** ▶ Market: develop low-carbon mobility products and services suitable for use in adverse weather conditions. ▶ Sourcing: improve reliability across the natural rubber supply chain with an industry-wide commitment to sustainable production (see 6.5.2 b and 6.5.4 d).
Strategy	
Climate scenarios used	To set its carbon emission reduction targets for 2030 and 2050 (see 6.6.2), Michelin used the 2°C scenario described in the International Energy Agency's Mobility Model. This scenario is now being used as well to prepare short-term emission reduction targets as part of the Science Based Targets initiative. For strategic planning purposes, the Group has devised a series of scenarios based on a variety of political, technological, economic and social assumptions. Each one assumes an increase in the global mean surface temperature of between 1.5° and 4°C before the end of the century. Together, they will help the Group's business units to forecast the corresponding impact on their markets.
Risks and opportunities	
Identifying, assessing and managing risks and opportunities	Operational risks are identified, assessed and managed in the corporate risk management process (see 2.9). Climate change is a risk in itself, due to rising temperatures, floods, extreme weather events and other threats. It also gives rise to indirect risks, such as volatile energy costs and financial losses due to production shutdowns, supply chain disruptions, regulatory non-compliance and media attacks. Emerging risks are identified and reviewed by working groups of experts overseen by the Environmental Governance and Sustainable Mobility Governance Committees. Examples of identified risks include changes in CO_2 quota systems and carbon taxes, technological and social trends in low-carbon mobility systems, carbon strategies deployed by peers, customers, competitors and other companies, and the availability and pricing of renewable energies. These risks are managed by the Departments concerned, or else reported to the appropriate Governance Committee. Opportunities are identified and managed cross-functionally, in the two Governance Committees (e.g. the eliminating coal strategy), the business units (e.g. the development of the CrossClimate tire), or the Corporate Innovation Board (e.g. development of automotive hydrogen applications). To support the business units, the Corporate Development, Advanced Research and Sustainable Development and Mobility Departments provide energy transition data and analyses from outside sources.
Metrics and targets	
Greenhouse gas emissions	Scope 1 and 2 CO_2 emissions: 6.6.1 b) Material sources of Scope 3 emissions: 6.6.2
Reduction targets	Scopes 1 and 2: 1.1.9 and 6.6.1 b) Scope 3/in-use phase 1.1.9 and 6.6.2
Spending	Committed in 2018 to support the energy transition: 6.6.1 a)

(1) *This information has been structured according the framework recommended for energy and transportation companies in "Climate-related financial reporting: Operational framework for a constructive dialogue between investors and companies," issued in July 2018 by the MEDEF French business network, the French Insurance Federation and the French Asset Management Association.*

6.6.3 SOCIAL COMMITMENTS TO SUPPORTING THE CIRCULAR ECONOMY

While tires comprise a certain amount of natural material, such as natural rubber, they also include synthetic materials, such as petroleum derivatives, metals and chemicals, which currently prevent them from being biodegradable.

To gain greater insight into a tire's environmental impact, Michelin's R&D perform life-cycle assessments, whose findings are used to address the impact of each component, from design and production to end-of-life recycling. This process is an integral part of the Group's holistic approach to the circular economy, known as the "4R Strategy: Reduce, Reuse, Recycle and Renew," which will be described below.

In 2017, a Circular Economy Operational Committee was set up, comprising a multidisciplinary team led by the Sustainable Development Department. It also includes representatives from the R & D, High-Tech Materials, Standards and Regulations, Public Affairs, Brands and External Relations, Purchasing, Services and Solutions, Environment and Prevention Departments and from the Business Lines. The Committee meets once a month to define and control deployment of the strategy, identify risks and opportunities, lead the initiatives and track changes in legislation and compliance. Its activities and outcomes are validated by the Environmental Governance Committee.

Michelin's engagement in the circular economy is reflected in two commitments:

- **By 2020, contribute to the development of a circular economy by increasing the percentage of sustainable materials [(1)] in its tires to 30%.**
- **In 30 years time, produce tires comprising up to 80% sustainable materials [(1)], of which 30% recycled materials.**

The performance indicator for these commitments is the Average Sustainable Materials Rate in the Group's tires (see section 1.1.9).

6.6.3 a) Eco-design

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.

To learn more about a tire's potential environmental impacts, so that better tires can be engineered to attenuate them, Michelin has steadily enhanced its LCA capabilities over the past four years, and extended their use to new categories and ranges of tires. In addition, 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 (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 and planetary limits. Michelin has also worked with other tiremakers in the Tire Industry Project (TIP) (see section 6.5.1) 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, harmonized assessments.

Since 2017, Michelin has been a member of ScoreLCA, a French association that conducts research commissioned by its 12 active members and partners. Like those pursued by the ILC Chair, its research programs are helping to enhance the methodological skills used by the Group's LCA expertise unit.

Michelin's goal is to increase the energy efficiency of tires while simultaneously improving their other performance factors (safety, rolling noise and durability) and reducing the amount of raw materials used in their production.

Reducing a tire's rolling resistance helps to improve a vehicle's fuel efficiency, which in turn reduces both carbon emissions during use and ambient air pollutants, such as NOx and SO_2. Lower rolling resistance also increases the range of electric vehicles. Introduced in 2018, Michelin's highly energy-efficient MICHELIN Primacy 4 Passenger car tire, the sixth generation of the MICHELIN Energy™ tire invented in 1992, significantly reduces the amount of fuel consumed. In turn, this further lowers carbon emissions by 2.5 g/km for an average European car compared with the 2012 generation. This performance has been widely recognized by the market, as attested by the certifications of MICHELIN Primacy 4 tires as new car original equipment. Michelin is also committed to enabling consumers to use their tires as safely and as long as possible.

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 2018 with the market launch 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. Brought to market in January 2016, the MICHELIN X® LINE™ ENERGY™ tires for large-volume trucks are the first set of big rig tires to be rated A in energy efficiency, on any axle, under EU tire-labeling rules. In addition, the MICHELIN X® MULTI™ ENERGY™ tire for regional truckers,

(1) *Sustainable materials are materials from recycled or renewable sources.*

launched in 2017-2018, has reaffirmed the Group's commitment to offering innovative solutions that both improve performance and protect the environment. 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 (see 6.6.2 e).

These product examples attest to Michelin's commitment to offering tire buyers guaranteed superior performance over time and, therefore, longer lasting tires.

/ 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 machinery to run on low-pressure tires, which limits compaction and maximizes 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, 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 Teleflow – 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.

In November 2018, Michelin introduced the Zen@Terra system in six European countries in cooperation with user ambassadors, who demonstrate how the solution makes it easier for users to access Michelin's technological performance.

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.

6.6.3 b) The circular economy

Michelin's approach to innovation, development and bringing products and services to market fits seamlessly into a circular economy.

Michelin is a member:

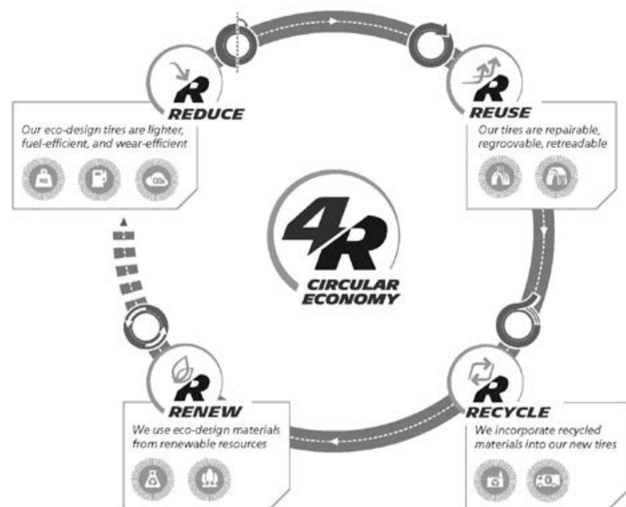
- Since 2014, of the Ellen MacArthur Foundation's Circular Economy 100, which is dedicated to developing capabilities, removing barriers or driving joint circular economy initiatives, and identifying favorable conditions for its emergence.
- Since 2017, of the Factor10 program and, more specifically the automotive industry working group led by the WBCSD, which seeks to centralize critical knowledge, develop collaborative solutions and act 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, worldwide 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 rolling out four initiatives simultaneously to ensure that resources are used more wisely. This is what is known as the Michelin 4R strategy: Reduce, Reuse, Recycle and Renew.



(1) OECD-FAO Agricultural Outlook 2013-2022, June 5, 2015.
(2) US Department of Agriculture.
(3) Announced on November 12, 2017 at a press conference during the AGRITECHNICA trade show.

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 1.1.2 and 1.1.9).

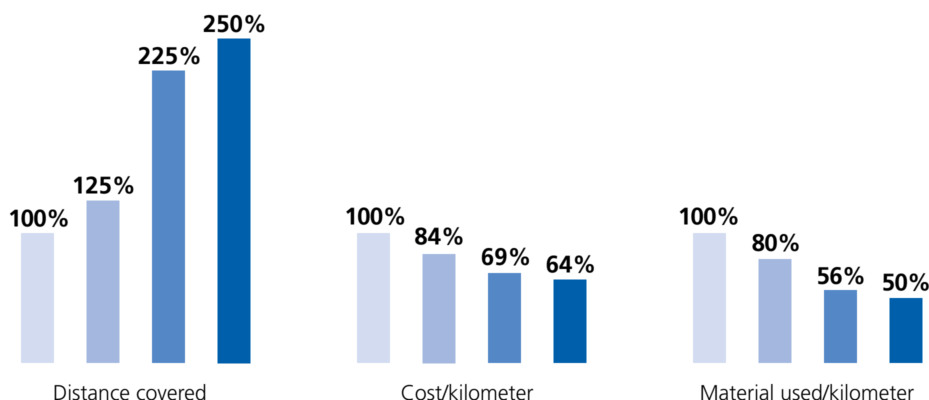
But Michelin does not just set objectives for new tires, it is also committed to delivering performance over time by extensively testing worn tires, so as to demonstrate that tires can and should deliver very high performance until the tread wear indicators appear. Based on European data, recommending 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.

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 or pre-cure retreaded 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.



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

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, and began to develop technological synergies.

To supply micronized powder for its own tire and non-tire applications, the Group has built and commissioned a new micropowder plant in Spain (10 kt/year) and launched a plan to upgrade Lehigh's production lines in the United States (30 kt/year).

Manufacturing waste

For more than ten years now, Michelin has been recycling and reusing all of its tire manufacturing waste.

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 in many countries, 69% of tires sold by Michelin and other tire makers were recycled at end-of-life in authorized facilities in compliance with local legislation. In 2018, 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 30% of its inputs, Michelin is moving to the next level with two major new projects:

- BioButterfly, in partnership with Axens and IFPEN, is developing a bio-butadiene production process using ethanol derived from biomass. Development got underway in late 2015, with the goal of starting up a pilot plant by 2020;
- since 2017, Michelin has been a member of 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 6.5.2 b).

6.7 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED NON-FINANCIAL INFORMATION STATEMENT INCLUDED IN THE MANAGEMENT REPORT

For the year ended December 31, 2018

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 readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditor of Compagnie Générale des Établissements Michelin, appointed as an independent third party and accredited by COFRAC under number 3-1060 (whose scope is available at www.cofrac.fr), we hereby report to you on the consolidated non-financial statement for the year ended December 31, 2018 (hereinafter the "Statement"), included in the management report pursuant to the legal and regulatory provisions of articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (Code de commerce).

The entity's responsibility

Pursuant to legal and regulatory requirements, the Management Board is responsible for preparing the Statement, including a presentation of the business model, a description of the principal non-financial risks, a presentation of the policies implemented considering risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and which are available on request from the entity's head office.

Independence and quality control

Our independence is defined by the provisions of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics *(Code de déontologie)* of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional guidance and applicable legal and regulatory requirements.

Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the provisions of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225-105 I, 3 and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on:

- the entity's compliance with other applicable legal and regulatory provisions, in particular the French duty of care law and anti-corruption and tax evasion legislation;
- the compliance of products and services with the applicable regulations.

Nature and scope of our work

The work described below was performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional guidance of the French Institute of Statutory Auditors ("CNCC") applicable to such engagements, as well as with ISAE 3000. – *Assurance engagements other than audits or reviews of historical financial information.*

Our procedures allowed us to assess the compliance of the Statement with regulatory provisions and the fairness of the Information:

- we obtained an understanding of all the consolidated entities' activities, the description of the social and environmental risks associated with their activities and the impact of these activities on compliance with human rights and anti-corruption and tax evasion legislation, as well as the resulting policies and their outcomes;
- we assessed the suitability of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 225-102-1 III , as well as information regarding compliance with human rights and anti-corruption and tax evasion legislation;

- we verified that the Statement includes an explanation for the absence of the information required under article L. 225-102-1 III, 2;
- we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as its their policies, measures and the outcomes thereof, including key performance indicators;
- we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under article R. 225-105 II;
- we assessed the process used to identify and confirm the principal risks;
- we asked what internal control and risk management procedures the entity has put in place;
- we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;
- we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with article L. 233-16 within the limitations set out in the "Methodology of CSR reporting";
- we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative outcomes that we considered to be the most important, which is presented in annexes, we implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
  - substantive tests, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities : Clermont-Ferrand (France), Columbia et Fort Wayne (United States), Montbonnot-Saint-Martin (France), Phra Pradaeng (Thailand), Pirot (Serbia), Rayong (Thailand), Resende (Brazil), Troyes (France), Valladolid (Spain), Victoria (Romania), Vitoria (Spain), Zalau (Romania), and covers between 20% and 100% of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important (presented in annexes);
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is 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.

Means and resources

Our work was carried out by a team of 6 people between September 2018 and February 2019 and took a total of 15 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted about 15 interviews with the people responsible for preparing the Statement, representing the administration and finance, risk management, human resources, health and safety, environmental and purchasing departments.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, February 15, 2019

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Jean-Christophe Georghiou	Sylvain Lambert
Partner	Sustainable Development Partner

Appendix: List of the information we considered most important

Key performance indicators and other quantitative results:

- *Total Case Incident Rate;*
- Employee engagement rate from "Moving Forward Together" survey;
- Employee participation rate from "Moving Forward Together" survey;
- MEF and its components (energy, water, volatile organic compound, CO2, waste);
- Percent improvement in the composite performance indicator compared with 2010;
- Percentage of renewable or recycled tire materials in the tires Michelin produces;
- Share of each type of ethic alerts;
- Percentage of women managers and supervisors (level of individual responsibility of A to N, according to the Hay method used by the Group);
- Percentage of disabled employees;
- Gender wage gap;
- Percentage of targeted customer groups delivering Net Promoter Scores in line with the Group's objective;
- Number of suppliers assessed by EcoVadis;
- Percentage of the 400 suppliers assessed by EcoVadis that are confirmed as compliant;
- Proportion of local top managers in the growth regions;
- Number of days that employees dedicate to local community involvement;
- Number of jobs created with the help of Michelin Development.

Qualitative information (actions and results):

- CDP ratings and assertions linked to CDP;
- Respect of Human Rights;
- Employee engagement;
- "Strategic Workforce Planning" approach;
- Responsible Supplier Relationships Label.

6.8 DUTY OF CARE PLAN

6.8.1 INTRODUCTION

For the second year in a row, Michelin has prepared a Duty of Care Plan in compliance with Act 2017-399 of March 27, 2017. It describes all of the risks incurred by the Group and its main subcontractors as regards the environment, health & safety and human rights, along with the measures taken to prevent and mitigate them. For Michelin, the plan is a means to consolidate and strengthen its proactive approach to deploying risk prevention and management processes in these three areas, as well as an opportunity to deepen its due diligence with subcontractors as part of a continuous improvement process.

The Duty of Care Plan is fully aligned with the Group's values and its commitment to conducting its business responsibly with regard to all its stakeholders. Michelin's corporate governance system includes a Development and Sustainable Mobility Committee, comprising every member of the Group Executive Committee as well as the Heads of the Legal Affairs, Purchasing, and Development and Sustainable Mobility Departments. It coordinates four governance committees, dedicated to the Environment, Human Rights, Safety and Sustainable Mobility, as well as the Ethics Committee.

The plan expands on the information and initiatives already embedded in the Group's policies, which underpin its sustainable development commitment. These include the Michelin Performance and Responsibility Charter, the Code of Ethics, the Purchasing Principles, the Health Policy, the Environment and Prevention General Policy Note, the Employee Relations Policy and the Diversity and Workplace Equality Policy. It presents the relevant information disclosed by the Group in its Registration Document, Statement of Non-Financial Performance and other annual reports.

The Group has defined standards of compliance that meet and often exceed prevailing standards and legislation 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. With respect to international environmental and human rights standards, the Group has pledged to support the UN Global Compact and upholds the UN Guiding Principles on Business and Human Rights, the fundamental conventions of the International Labour Organization and the OECD Guidelines for Multinational Enterprises. These international standards also inform the Duty of Care Plan.

The plan is tracked and updated through a dedicated process, which was coordinated in 2018 by a Development and Sustainable Mobility Department working group comprising representatives from the Internal Control, Risk Management, Environment and Prevention, Purchasing, Legal Affairs and Employee Relations Departments. Each one provided input to expand and update the plan with the support of the Development and Sustainable Mobility Department.

In this second plan, human rights, in particular, were analyzed in more detail than in the first plan. Improved understanding of this issue meant that the related risks to the Group and the measures in place to mitigate them could be described more accurately. The plan's human rights section was also submitted to the Corporate Stakeholders Committee during a meeting on October 18, 2018, which was attended by the Assistant General Secretary of the IndustriAll Global Union and several members of the Group Executive Committee. The suggestions for improvement expressed during the meeting led the working group to review and address certain issues in more depth in the new plan.

While the management of most human rights risks, as well as supplier CSR risks, is described in ample detail below, health, safety and environmental risk management processes are simply summarized to avoid repeating the same information presented in the Statement of Non-Financial Performance. It is therefore important to note the many references to the Statement in the following sections, which are considered to be an integral part of the plan.

6.8.2 ENVIRONMENTAL RISKS *(see the detailed presentation in 6.6.1 above)*

Michelin is committed to acting as a leading enabler of sustainable development and mobility. This naturally entails properly identifying and effectively managing the environmental risks inherent in its business.

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 the amount of waste landfilled.

Climate risks *(see 6.6.2 j and particularly the Task Force on Climate-related Financial Disclosures table)*

Michelin is fully aware of the issues related to greenhouse gas emissions, which is why in 2015 it set the goal of reducing (i) the carbon emissions from its manufacturing operations by 50% in 2050 and (ii) the amount of energy used by a tire per kilometer by 20% compared to 2010.

To sustain the steady reduction in CO_2 emissions from the manufacturing operations, the Group is increasingly shifting to a less carbon-intensive energy mix. According to MEF data, total CO_2 emissions amounted to 0.88 tonnes per tonne of finished product in 2018, a reduction of 31% compared with 2010 and of 1.3% compared with 2017 (see 6.6.1 b).

More than 90% of a tire's environmental impact occurs during use, when its rolling resistance causes 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.

Air, soil and water pollution risks

Michelin has diligently measured the issues and risks arising from releases into the soil, with a particular focus on volatile organic compounds (VOCs). VOC emissions declined by 14.7% year-on-year in 2018, to 1.77 kg per tonne of finished product, for a total reduction of 39% since 2010. Through the SMEP, Michelin is also working to prevent the risk of chronic or accidental soil spills by implementing dedicated Group-wide recommendations (see 6.6.1 b).

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 (see 6.5.1)

Resource depletion risks

The Group is helping to prevent the depletion of natural resources in several ways. First, it limits the amount of water, energy and raw materials required to manufacture its tires. Second, it markets tires capable of delivering the same high performance over time. Thirdly, it is increasing the proportion of renewable materials in its tires and the percentage of its tires that are recycled.

Year after year, the Group is steadily reducing the amount of energy and water required to make a tire. A new method of assessing water issues was introduced in 2016, based in particular on ISO 14046 and 14001:2015 standards. The Group is deploying, plant by plant, appropriate measures to reduce its water use, for example, by installing closed loops and reducing leakage.

In addition, the Environmental Management System is designed to minimize the amount of waste generated, with the goal of reaching the point where all of it is recovered and reused (i.e. none of it is landfilled or incinerated without heat recovery). The Group supports the development of a circular economy model, in which recovering waste for recycling or reuse becomes a source of added value. The Group is committed to managing its waste responsibly from production to end-treatment, regardless of the outsourced solution.

Combating resource depletion also means designing longer lasting products that optimize raw materials use. For example, Michelin markets Passenger car tires whose wet grip performance remains the same throughout the life of the tire instead of declining with wear, so that they do not have to be replaced as often. In 2017 and 2018, customer presentations, media relations campaigns and outreach to public authorities were conducted in Europe, China and the United States, advocating that wet grip tests should be conducted on worn tires, and not just on new tires, as is currently the case. In Truck tires, materials use is maximized by retreading, which replaces the worn tread while keeping the same casing, thereby avoiding the use of more raw materials to make an entirely new tire.

Michelin has long paid attention to the recovery and reuse of its end-of-life tires. In 2018, 69% of the tires sold by the tire industry were ultimately recovered and recycled by authorized or certified facilities in compliance with local legislation. The Group intends to take this recovery and reuse process to the next level. In June 2018, it expressed its commitment that thirty years from now, its tires will be made using 80% sustainable materials. It has also decided to work closely with the entire tire recycling industry to ensure that by the end of that period all end-of-life tires are recovered and reused. One step towards meeting that objective was taken in 2017 with the acquisition of Lehigh Technologies, a high-tech polymer manufacturer that reuses scrap tires to make micronized rubber powders. Michelin is also a member of organizations that are developing sustainable solutions to make end-of-life tires part of the circular economy, such as the Tire Industry Project (TIP), under the auspices of the World Business Council for Sustainable Development (WBCSD), the European Tyre and Rubber Manufacturers Association (ETRMA) and other regional organizations (see 6.6.3 b).

6.8.3 HEALTH AND SAFETY RISKS *(see the detailed presentation in 6.4.2 above)*

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.

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 country, and in the Health, Safety and Quality of Worklife Policy, which was updated in 2018. 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 has been 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. It offers corporate management insights concerning the Group's health issues and, when requested, an outside opinion on its health and safety practices.

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 prevention 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. Michelin's objective of reducing the TCIR to below 2 in 2020 was met in 2018 with a TCIR of 1.9 versus 2.54 in 2016 and 2.14 in 2017.

Musculoskeletal (MSK) disorders

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 2018, these outlays amounted to €21.5 million. Ergonomics improvement plans are being deployed in every plant and facility.

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.

(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 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 2018, 74% of the 87,000 people who responded to the Moving Forward Together engagement survey were satisfied with their quality of worklife.

6.8.4 HUMAN RIGHTS RISKS

6.8.4 a) Governance and indicators

Aware of the new human challenges posed by economic globalization, Michelin recognizes the United Nations Guiding Principles on Business and Human Rights. Since 2010, it has pledged to support the Global Compact, a United Nations-led initiative that encourages businesses to deploy sustainable and socially responsible policies. In April 2018, the Human Rights Manager at Global Compact France provided training in this issue to all of the Group's Development and Sustainable Mobility correspondents around the world. 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 any potential form 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.

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 and provides operational guidelines on the proper behavior and practices to ensure that human rights are upheld by every employee around the world. The Corporate Ethics Committee meets twice a year at Group level and similar committees have been set up in each Region.

Since 2018, human rights risks have been managed at the highest level by a Corporate Human Rights Governance Committee that meets twice a year and is chaired by a member of the Executive Committee. The Committee oversees human rights improvement initiatives and tracks four indicators:

		2016	2017	2018
Health and safety	Total Case Incident Rate (TCIR)	2.54	2.14	1.9
Discrimination	% of women in management positions	24.61%	25.57%	26.8%
Workplace sentiment	Employee engagement rate	80%	80%	80%
Suppliers	% of suppliers found to be in compliance with Group standards for fair working conditions during desktop reviews of their CSR performance.	74% (of the 419 suppliers audited)	78% (of the 547 suppliers audited)	80% (of the 654 suppliers audited)

The Human Rights Committee is supported by an operational working group comprising representatives from the corporate Development and Sustainable Mobility, Purchasing, Internal Control, Audit & Risk Management, Employee Relations, Public Affairs, Legal Affairs and Diversity Departments. Meeting every two months, it prepares an annual action plan to move Michelin forward in a continuous improvement process. It also makes presentations to Group Executive Committee members to raise their awareness of these issues.

In 2016, a survey designed to identify and assess the Group's human rights risks, based on the Danish Institute for Human Rights questionnaire, was conducted in the Personnel, Purchasing, Safety, Legal Affairs and Environment and Prevention Departments. It showed that the vast majority of the Group's human rights-related risks have already been identified, at least in part, in the existing risk map and are therefore addressed by the prevention and mitigation procedures led by the corporate internal control teams.

This corporate human rights risk assessment process is supported by local reviews, with on-site audits performed in a number of host countries. Since 2014, six human rights impact studies have been conducted in six different countries, including four by an independent third party. These countries were selected based on rankings published by Verisk Maplecroft, which analyzes and classifies human rights risks for companies in countries around the world. Local audits, which improve the Group's understanding of each country's cultural background and operating environment, are followed by the deployment of mitigation and prevention measures, led by regional management.

In 2018, a review of the six action plans carried out following the country audits in India, Indonesia, Mexico, Thailand, Brazil and Romania found that the post-assessment recommendations were effectively implemented at the local level, with a large number of mitigation initiatives undertaken in each country.

To enhance its expertise and capitalize on best practices, in 2017, Michelin joined the Businesses for Human Rights (EDH) association, which comprises 17 French companies involved in these issues. The Group is also a member of the Global Deal initiative, which promotes best practices in the areas of social dialogue and decent work around the world. In 2018, Michelin provided funding to the Human Resources Without Borders (RHSF) association, which helps companies to improve working conditions in their supply chains.

6.8.4 b) Risks and prevention measures

/ 1. Risks mapped by the Group

Harassment and discrimination *(see the detailed presentation in 6.3.3 b)*

Michelin is highly 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. Anti-discrimination policies are structured around four priority issues – gender, disabilities, age and cultures – while also addressing emerging expectations such as religion in the workplace. They are led by the Corporate Vice President, Development and Sustainable Mobility, whose remit and objectives are approved by the Human Rights Governance Committee. An international diversity network brings together diversity managers from each of the Group's host countries and/or regions. 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.

Michelin is supporting gender equality in the workplace by making all positions accessible to women and ensuring strict gender wage parity. The percentage of women in the consolidated workforce is steadily rising, reflecting the impact of women-friendly hiring policies, workstation designs and career paths. The percentage of women in management positions has also increased year after year, to stand at 26.8% in 2018, compared to the goal of 30% by 2020. Michelin applies a policy of non-discrimination and equal pay for equivalent profiles and positions. Since 2011, the gender wage gap has steadily narrowed year after year, to 2.58% in 2018 from 2.8% in 2017.

To encourage cultural diversity, Michelin has also set the target of having 80% local managers in each host country by 2020. This percentage was already 75% in 2018, up from 68% in 2015. Lastly, a wide range of initiatives are underway to hire and retain disabled employees, in particular by improving workstation ergonomics.

Labor relations/freedom of association *(see the detailed presentation in 6.4.4)*

In 2015, Michelin issued its Labor Relations Policy, which recognizes the positive contribution of freedom of association, collective bargaining and staff representation independent of management, which are a source of proposals and ensures that employees' fundamental needs are taken into account in every host community. In it, Michelin pledges to respect employees who agree to take on this responsibility and to include it in their potential reviews 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, the social dialogue process has noticeably improved in recent years in Thailand, Brazil and several other host countries, and has matured in the United States, particularly at the Fort Wayne, IN plant. In addition, every manager receives training in the legal aspects of labor relations. Compliance with the commitments in the Labor Relations Policy is also verified by an internal control process.

The positive state of employee relations is also expressed by the employee engagement rate, as measured each year in the annual "Moving Forward Together" survey of employees across the Group. In 2018, for the third year in a row, the employment engagement rate remained at a high 80%, compared with the targeted 85% in 2020.

Employee health and safety *(see 6.8.3 "Health and Safety Risks" above and 6.4.2 above)*

Michelin's assertive health and safety policies are designed to ensure that employees remain healthy and safe on the job and in the workplace. The identified risks, such as industrial accidents or musculoskeletal disorders, are addressed by the dedicated prevention and mitigation measures described in this plan. For example, capital expenditure to improve workstation ergonomics, which totaled €21.5 million in 2018, is helping to prevent musculoskeletal disorders. As stakeholders in this process, employees submitted 33,770 Progress Ideas in 2018, in a shared commitment to improving safety and working conditions. The Human Rights Committee tracks a number of employee health and safety indicators, including the Total Case Incident Rate (TCIR), the lost-time incident severity rate (LTISR) and the percentage of high-exertion workstations (G10 stations). Compliance with employee health and safety commitments is also audited as part of an internal control process.

Product safety *(see the detailed presentation in 6.5.1 above)*

To safeguard the health of its customers, Michelin maps all of the risks involved in using its products and has deployed the appropriate prevention and mitigation measures, which are audited by the internal control teams. Tire safety (grip, braking distance on all types of pavement, etc.) is a major criterion in the Group's product performance promise, known as Michelin Total Performance, which it is committed to improving by 10% between 2010 and 2020.

In addition to supporting intrinsic safety while behind the wheel, Michelin is helping to assess the health impact of tire use as part of the collaborative initiatives led by the Tire Industry Project, which brings together the leading tiremakers in the WBCSD. For instance, a study has been conducted on the impact of wear particles dispersed during tire use. Michelin is also a stakeholder in a wide range of programs that promote road safety, both worldwide and in its plants' host communities.

Protecting employee privacy and personal data

Michelin pays special attention to protecting the right to privacy and the personal data of its employees. The Group is in compliance with the European Union's General Data Protection Regulation (EU) 2016/679. In addition, it has issued guidelines that apply these European standards to the transfer of employees' personal data across the global organization. The protection of employee personal data and privacy is audited by an internal control process.

Corruption *(see the detailed presentation in 6.3.1)*

Michelin is well aware of the negative impact of corruption on human rights and has taken a number of preventive measures, such as issuing an Anti-Corruption Code of Practice to employees and providing training for Group managers. Reported cases of corruption are quickly and diligently handled by the corporate Legal Affairs and Safety Departments, and appropriate sanctions are taken as warranted. The prevention and mitigation of corruption risks are also covered by the Group's internal control process.

/ 2. Other risks

Risks that are not addressed in the Group's risk mapping exercise are identified and tracked as emerging risks by the cross-functional human rights working group. Among them are the following:

- child labor, particularly in the supply chain;
- forced labor, particularly in the supply chain;
- potential negative impacts on local communities around Michelin facilities;
- a living wage.

The operational impact of these risks is systematically analyzed during the human rights impact studies conducted in the host countries, which are followed by recommendations and action plans.

Child labor

Michelin is committed to complying with the International Labour Organisation (ILO) conventions concerning the abolition of child labor. To more accurately identify the Group units that run the risk of employing minors, in 2017, the human rights working group reviewed the legal working age in each of the 18 countries where Michelin has production plants.

At the same time, the human rights impact studies conducted in six countries systematically analyzed the potential risks of child labor. Based on their findings to date, there is a very little risk of children being employed in Michelin-managed operations.

Specific measures are also in place for sub-contractors. All of their contracts include a copy of the Purchasing Principles, which enjoin them to uphold the fundamental conventions of the ILO and, in particular, not to employ minors.

After suppliers operating in countries where there is a high risk of child labor were identified, an analysis showed that 93% of the Group's raw materials spend in those countries is already covered by desktop reviews of the suppliers' CSR performance, including in the area of human rights.

The risks of child labor in the natural rubber supply chain are addressed in the Group's Rubberway mobile app (see 6.8.5 b below), which asks farmers and other stakeholders if they use child labor and if so, under what circumstances (occasional help, after school, full time, etc.). The app, whose ongoing deployment to thousands of farmers in six producing countries began in 2017, will ultimately support the mapping of regions at risk and the implementation of appropriate preventive measures.

Forced labor

The human rights impact studies conducted in six countries also systematically analyzed the potential risks of forced labor. Based on their findings to date, the risk of people being forcibly employed in Michelin-managed operations is very slight. In Thailand, where legislation allows a significant amount of overtime, monitoring and authorization procedures are in place to limit the number of overtime hours per employee.

While forced labor at sub-contractors has not yet been analyzed in detail, the Group gained new insight into this issue during meetings with Global Compact France, the Businesses for Human Rights non-profit organization and the Human Resources Without Borders NGO.

Impact on local communities

The human rights impact studies conducted in six countries identified the negative effects that the Group's operations could potentially have on nearby communities. Their findings are enabling the Group to proactively manage the risks that could impact these communities' environmental rights (avoiding pollution, preserving biodiversity, etc.), their economic and social rights (right to development, access to land etc.) and their cultural rights (preserving their cultural heritage, etc.). In Thailand, for example, the country study identified a moderate environmental risk for communities near one facility, stemming from VOC emissions and harmful effluent discharges into local rivers. In addition to responding with its standard water protection and VOC abatement procedures, the Group prepared a local action plan to cut plant emissions and set up a complaint hotline for the neighboring communities.

The ethical behavior of security guards protecting Group facilities is also carefully monitored. Around 80% of our security guards in Europe and North America have received sensitivity training in human rights issues they may face on the job.

In addition, new plant construction projects include local community impact studies, covering such areas as access to land and respect for the community's cultural heritage. Independent studies of this type have been performed in India, Indonesia and Mexico, resulting in recommendations that were followed by the Group. In Mexico, for example, before ground was broken on a new tire plant, the study found a risk concerning land rights in the local community. The Group then determined that it had the legal right to acquire the land and made sure that the project was beneficial to local economic development. In particular, it helped to finance the renovation of local public infrastructure and the creation of a vocational school.

A living wage

To enable all employees to earn a decent living, Michelin's compensation policies cover a wide variety of supplementary income sources, including bonuses and discretionary and non-discretionary profit sharing systems. The Group also protects employees from the financial consequences of an accident or illness and, in many countries, offers opportunities to save for retirement.

Following a study conducted in 2014 on employee purchasing power in eight European countries, action plans were implemented in Romania, Poland and Hungary. In Romania, for example, all employees received medical benefits and meal vouchers, while a commuting allowance is scheduled for introduction in 2019. In Poland, pension funds were increased and no-interest home loans were granted.

6.8.5 SUPPLIER RISKS

6.8.5 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 some 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 ILO conventions, particularly those with regard to 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.

The Purchasing Principles are a foundation for the trusting relationships nurtured among Michelin, its purchasing teams and its suppliers around the world.

Following their translation into Romanian and Hungarian in 2018, the Principles may now be downloaded in any one of 14 languages from https://purchasing.michelin.com/Espace-documents. They are attached to every Michelin supplier contract, while the standard purchasing contract also includes a specific clause prohibiting child labor and forced labor.

/ The supplier quality system audit procedure (ESQF)

To support supplier compliance with the Purchasing Principles, Michelin has introduced a supplier quality system audit procedure (ESQF), in particular 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;

b. compliance with environmental standards;

c. compliance with health & safety standards;

d. respect for human rights;

e. the supply chain.

In 2018, several questions were added to the ESQF audit form to support a more thorough review of the suppliers' employee relations and their social and environmental performance. After a successful pilot project in 2018, the new form will be deployed in 2019 along with the standard version.

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 performance

Since 2012, Michelin has assessed its key suppliers' CSR performance through desktop reviews conducted by the EcoVadis rating agency, which measure how they stand in 21 CSR indicators covering the environment, labor relations & human rights, business ethics and responsible procurement.

In 2018, of the 654 key suppliers who were successfully reviewed, 78% were in compliance with Group standards (see 6.5.2 b for more information).

Under-performers are enjoined to deploy a CSR performance improvement plan. They are then systematically re-assessed and, if there is no progress, their contracts may be terminated.

/ CSR self-assessments and CSR criteria

In 2018, a CSR self-assessment questionnaire was prepared and issued to front-line Purchasing Department teams, who may ask suppliers to complete it whenever they deem it necessary, either during the tender phase or while the contract is in effect. The questions measure the maturity of a supplier's CSR practices, which can be used as a selection criterion if warranted. The questionnaire is used for suppliers whose CSR performance is not assessed by the authorized rating agency.

At the same time, a list of CSR criteria has been prepared for use in drafting tender documents, if buyers and other internal partners feel that they are relevant.

The self-assessment questionnaire and CSR criteria are described in detail in the "Guide to the Social and Environmental Responsibility Criteria and Supplier CSR Self-Assessments", published in 2018.

6.8.5 b) Category management

/ Raw materials procurement

Analysis by country of origin

Although 90% of its raw materials spend is covered by desktop CSR reviews, Michelin has verified that these reviews were actually performed for suppliers operating in countries at risk. Using Verisk Maplecroft data ranking countries based on their risks, the verification exercise demonstrated that the 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 human rights abuses;
- 93% of Michelin's spending in countries that pose a high or medium risk with regards to child labor.

The exercise also identified ten new suppliers who were asked to submit desktop CSR reviews in 2018.

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. In 2018, a study was conducted to determine whether certain suppliers of manufacturing inputs used in products sold by the Group had to submit a Conflict Minerals Reporting Template.

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 it is in compliance with REACH.

The CDP initiative (formerly the Carbon Disclosure Project): CDP Climate Change and CDP Supply Chain

The CDP provides a comprehensive system for measuring and disclosing environmental information, which helps to assess both the performance and the transparency of a company's climate change strategies. In 2018, Michelin joined the CDP's Supply Chain Program and engaged 67 of its raw materials suppliers to participate in it by measuring the greenhouse gas emissions related to the products we purchase and reporting them on the CDP platform. During the year, 85% of suppliers reported data to the platform. This process plays a critical role in driving effective action across the production chain, while encouraging the deployment of best practices to reduce greenhouse gas emissions.

/ 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 worldwide, six million are smallholders who produce 85% of the world's output on small farms generally covering less than four hectares.

Sustainable 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. This policy 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 EcoVadis desktop reviews. In 2018, the vast majority of our natural rubber suppliers, accounting for more than 85% of our sourced natural rubber volumes, submitted desktop reviews;
- **the upstream supply chain,** with the Rubberway® CSR mapping application.

  In 2018, 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 late 2018, 25% of the Group's sourced natural rubber volumes had been mapped, compared with the goal of 80% by 2020.

/ Production inputs

In 2017 and 2018, the Group mapped the CSR risks in its purchasing categories, with a focus on five areas: the environment, human rights, business ethics, health & safety and supply chain management. Then, using the Verisk Maplecroft database, suppliers in countries with high environmental and human rights risks were identified.

Based on the findings, 34 additional suppliers were requested to submit CSR desktop reviews via the EcoVadis platform.

The mapping exercise will be regularly updated to support future decisions concerning the CSR performance assessment process as applied to suppliers of manufacturing inputs.

/ Services procurement

In 2017 and 2018, CSR risks in the services procurement chain were mapped, so as to identify the purchasing categories incurring environmental and human rights risks,

Afterwards, it was decided to perform desktop reviews for 41 additional suppliers, in particular of logistics services.

The regularly updated mapping exercise will support future decisions concerning the CSR performance assessment process as applied to suppliers of services.

6.8.5 c) An assertive sustainable purchasing process

The Group's assertive commitment to sustainable procurement is reflected in the performance improvement initiatives led year after year and the continuous training buyers receive in CSR issues.

Since 2014, 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, Michelin encourages emulation among suppliers, by honoring some of them with Michelin Supplier Awards based on CSR performance and three other criteria. In 2018, five suppliers received Awards at the ceremony in October.

6.8.6 EARLY WARNING AND REPORT COMPILATION MECHANISMS

An early warning and report compilation mechanism allows employees to anonymously and confidentially 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. Since 2011, an ethics hotline can be used by any Group employee anywhere in the world, as well as by employees of Sascar, Levorin and the Michelin dealership subsidiaries (Euromaster in Europe, TCI in the United States),

The early warning system is constantly being upgraded to facilitate access and to encourage its use by external stakeholders and suppliers. Since 2018, worldwide management of the hotline has been gradually transferred to a single outside service provider, which is already operating in China, Southeast Asia, North America and Central America. Lines in the rest of the world will be transitioned in 2019.

Campaigns to inform stakeholders about the ethics hotline and its usage procedures are being deployed region by region, starting with China and Southeast Asia in 2018 before being rolled out in the other operating regions in 2019.

When violations are reported by employees, they are analyzed and investigated internally by the Security Department, in the Regions and at Group level. The findings are then shared during the meetings of the Corporate Ethics Committee and the regional 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. In 2018, a total of 1,009 reports were processed by the hotline, down 16% from 2017.

In addition, since 2012, suppliers can email or use the purchasing.michelin.com website to contact the customer-supplier relations mediator, who handles 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.

Lastly, the Environment and Prevention Department has set up a procedure for communicating with the production plants, so that they can deal locally with requests or complaints from residents and other external stakeholders concerning the Group's adverse environmental impacts.

7

CONSOLIDATED FINANCIAL STATEMENTS

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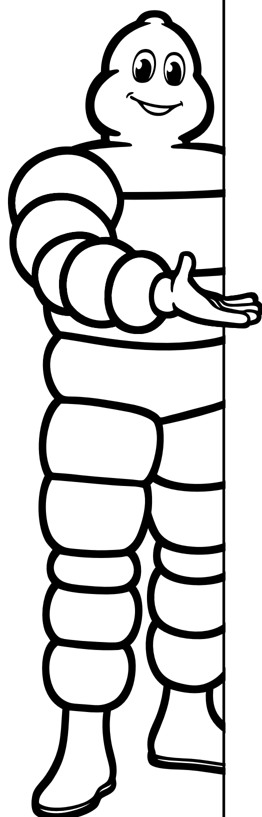

7.1 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

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CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2018	Year ended December 31, 2017
Sales	5	22,028	21,960
Cost of sales		(14,912)	(14,815)
Gross income		**7,116**	**7,145**
Sales and marketing expenses		(1,862)	(1,861)
Research and development expenses		(648)	(641)
General and administrative expenses		(1,826)	(1,866)
Segment other income and expenses	8	(5)	(35)
Segment operating income	5	**2,775**	**2,742**
Other operating income and expenses	9	(225)	(111)
Operating income/(loss)		**2,550**	**2,631**
Cost of net debt	10	(200)	(176)
Other financial income and expenses	10	16	-
Net interest on employee benefit obligations	27.1	(90)	(115)
Share of profit/(loss) from associates		(46)	14
Income/(loss) before taxes		**2,230**	**2,354**
Income tax	11	(570)	(661)
NET INCOME/(LOSS)		**1,660**	**1,693**
▶ Attributable to the shareholders of the Company		1,677	1,700
▶ Attributable to the non-controlling interests		(17)	(7)
Earnings per share *(in €)*	12		
▶ Basic		9.30	9.39
▶ Diluted		9.25	9.34

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, 2018	Year ended December 31, 2017
Net income/(loss)		**1,660**	**1,693**
Post-employment benefits	27.1	71	266
Tax effect – Post-employment benefits	18	(101)	(135)
Equity investments – change in fair value		-	
Tax effect – equity investments – change in fair value		-	
Other items of comprehensive income that will not be reclassified to income statement		**(30)**	**131**
Equity investments – change in fair values	15.1	-	10
Tax effect – equity investments – change in fair values	18	-	3
Equity investments – (gain)/loss recognized in income statement		-	-
Currency translation differences		(57)	(532)
Other		(11)	(1)
Other items of comprehensive income that may be reclassified to income statement		**(68)**	**(520)**
Other comprehensive income		**(98)**	**(389)**
COMPREHENSIVE INCOME		**1,562**	**1,304**
▶ Attributable to the shareholders of the Company		1,577	1,315
▶ Attributable to the non-controlling interests		(15)	(11)

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in € million)	Note	December 31, 2018	December 31, 2017
Goodwill	13	2,667	1,092
Intangible assets	13	1,828	785
Property, plant and equipment (PP&E)	14	11,379	10,883
Non-current financial assets and other assets	15	691	479
Investments in associates	17	938	356
Deferred tax assets	18	740	890
Non-current assets		**18,243**	**14,485**
Inventories	19	4,447	4,508
Trade receivables	20	3,307	3,084
Current financial assets	21	314	285
Other current assets	22	1,037	1,132
Cash and cash equivalents	23	2,100	1,773
Current assets		11,205	**10,782**
TOTAL ASSETS		**29,448**	**25,267**
Share capital	24	360	359
Share premiums	24	2,923	2,942
Reserves	25	8,862	7,925
Non-controlling interests		22	35
Equity		**12,167**	**11,261**
Non-current financial liabilities	26	5,020	2,366
Employee benefit obligations	27.1	3,850	3,969
Provisions and other non-current liabilities	29	1,315	1,676
Deferred tax liabilities	18	326	113
Non-current liabilities		**10,511**	**8,124**
Current financial liabilities	26	1,134	493
Trade payables		2,506	2,501
Trade payables under factoring contracts	3.26	440	503
Other current liabilities	30	2,690	2,385
Current liabilities		**6,770**	**5,882**
TOTAL EQUITY AND LIABILITIES		**29,448**	**25,267**

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, 2017	**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**
Net income/(loss)	-	-	1,677	(17)	**1,660**
Other comprehensive income	-	-	(100)	2	**(98)**
Comprehensive income	**-**	**-**	**1,577**	**(15)**	**1,562**
Issuance of shares	2	56	-	-	**58**
Purchase of shares	-	-	(75)	-	**(75)**
Cancellation of shares	(1)	(74)	75	-	**-**
Dividends and other allocations	-	-	(647)	(1)	**(648)**
Share-based payments – cost of services rendered	-	-	7	-	**7**
Other	-	(1)	-	3	**2**
AT DECEMBER 31, 2018	**360**	**2,923**	**8,862**	**22**	**12,167**

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, 2018	Year ended December 31, 2017
Net income		1,660	1,693
Adjustments			
▶ Cost of net debt	10	200	176
▶ Other financial income and expenses	10	(16)	-
▶ Net interest on benefits	27.1	90	115
▶ Income tax	11	570	661
▶ Amortization, depreciation and impairment of intangible assets and PP&E	6	1,344	1,345
▶ Other operating income and expenses	9	225	111
▶ Share of loss/(profit) from associates		46	(14)
Segment EBITDA	3.7.2	**4,119**	**4,087**
Other operating income and expenses (cash) and change in provisions	31	(413)	(346)
Cost of net debt and other financial income and expenses paid	31	(182)	(373)
Income tax paid	18.2	(497)	(563)
Change in working capital, net of impairments	31	(196)	(64)
Cash flows from operating activities		**2,831**	**2,741**
Purchases of intangible assets and PP&E	31	(1,716)	(1,668)
Proceeds from sale of intangible assets and PP&E		100	65
Equity investments in consolidated companies, net of cash acquired		(3,166)	(396)
Disposals of equity investments in consolidated companies, net of cash sold		161	28
Purchases of unconsolidated equity investments		(18)	(91)
Proceeds from sale of unconsolidated equity investments		29	5
Cash flows from other financial assets	31	(224)	(3)
Cash flows from investing activities		**(4,834)**	**(2,060)**
Proceeds from issuances of shares	24	58	17
Purchase of shares	24	(75)	(101)
Dividends paid to the shareholders of the Company	24	(637)	(584)
Cash flows from financial liabilities	31	3,020	(68)
Other cash flows from financing activities		(38)	17
Cash flows from financing activities		**2,328**	**(719)**
Effect of changes in exchange rates		**2**	**(15)**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**327**	**(53)**
Cash and cash equivalents at January 1		**1,773**	**1,826**
Cash and cash equivalents at December 31	23	**2,100**	**1,773**

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 8, 2019.

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 unconsolidated equity investments 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.

2.3 New standards, amendments and interpretations to existing standards effective from January 1, 2018 in the European Union

/ 2.3.1 IFRS 9 "Financial Instruments"

The standard IFRS 9 has been adopted since January 2018. This standard, retrospectively applied, has been adopted without the restatement of comparative information in accordance with the transitory method indicated in paragraph 7 of IFRS 9. The reclassifications and adjustments related to the new rules concerning impairment loss are presented in equity at January 1, 2018.

2.3.1.1 Impact of the transition for the Group

The adjustments booked for each line of the consolidated statement of financial position are shown below. The lines that have not been impacted by the adoption of IFRS 9 are not shown.

(in € million)	December 31, 2017 as published	IFRS 9	January 1, 2018 restated
Non-Current assets			
Financial assets and other non-current assets	479	5	484
Current assets			
Trade receivables	3,084	(4)	3,080
Current financial assets	285	-	285
Cash and cash equivalent	1,773	-	1,773
Equity	**11,261**	**1**	**11,262**

Financial assets and other non-current assets

The Group has chosen to use for some of its investments in equity shares, the irrevocable option to measure those investments at fair value through other comprehensive income as these investments are held with a strategic goal and are not expected to be sold in the short or medium term. If the investments are disposed, the realized gain or loss remains in equity and does not impact the income statement.

The exception of booking at cost is no longer allowed. For this reason, the measurement at fair value of some unconsolidated equity investments that were measured at cost had an impact of +€5 million at January 1, 2018.

Trade receivables

The Group applies the simplified approach in order to determine the expected credit loss of trade receivables. The model uses a matrix of the probabilities of default established by each company of the Group based on historical write-offs, customer payment behavior and expected losses.

Following the adoption of the expected credit loss model, an increase in the allowance for doubtful trade receivables has been recognized for an amount of €4 million at January 1, 2018.

Cash and cash equivalent

Cash and cash equivalents include cash in hand, on 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 penalties are also classified as treasury and treasury equivalents. The Group decided to measure the term deposits at amortized cost.

The money market funds "OPCVM" are measured at fair value through income statement.

Cash and cash equivalents at amortized cost are subject to the new impairment model based on expected credit losses.

Hedging instruments

Derivative instruments qualified as hedge accounting at December 31, 2017 are eligible for hedge accounting under IFRS 9.The risk management policy and the hedging documentation are in line with the requirements of IFRS 9 and hedging relationships are treated in a continuous way. The application of the cost of hedging on the hedge relationships has no significant impact.

/ 2.3.2 IFRS 15 "Revenue from Contracts with Customers"

IFRS 15, "Revenue from Contracts with Customers", published in May 2014 and adopted by the European Union in September 22, 2016, together with the amendment "Clarifications to IFRS 15" are effective for annual periods beginning on January 1, 2018. Their scope covers all contracts with customers, with the exception of leases, insurance contracts and financial instruments which are covered by other standards.

The accounting policies and critical judgements deriving from the application of IFRS 15 are described in note 3.8 "Revenue recognition".

Impact of the transition

IFRS 15 is applied retrospectively with the cumulative effect of initially applying the Standard recognized as an adjustment to the opening balance of retained earnings.

The analysis carried out, with regard to the new standard, of all contractual relationships with customers has led to the conclusion that the application of IFRS 15 does not have a significant impact on the amount of revenue recognized by the Group and on the timing of its recognition. As a consequence, the Group assessed that the implementation of IFRS 15 does not result in any change to the presentation of its consolidated financial statements and have no impact on equity at January 1, 2018.

The breakdown of revenue from ordinary activities used within the Group to assess the performance is presented, by operating segment, in note 5 "Segment reporting".

/ 2.3.3 IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

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. Its prospective adoption did not have any significant impact on the Group's consolidated financial statements.

2.4 Newly published standards, amendments and interpretations to existing standards that are not yet effective

/ 2.4.1 IFRS 16 "Leases"

IFRS 16 "Leases", published in January 2016, endorsed by the European Union in November 2017, 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.

Significant changes to the lessee's accounting model are introduced as the current distinction between operating and finance leases is removed. The lessee must recognize an asset, corresponding to the right of use, and a liability corresponding to the lease commitment.

With regard to the transition options, the Group will implement the standard from its mandatory adoption date of January 1, 2019 and apply the simplified transition approach without restating comparative amounts for the year prior to first adoption. In addition, the Group is going to adopt the exceptions provided for short-term leases, including contracts with a term of less than twelve months after the application date and those relating to low-value assets.

The Group launched a project in 2016 to assess the impacts of this standard and manage all aspects of the transition. In particular, the Group implemented a tool in which lease contracts, their relevant characteristics and key assumptions (like maturity and discount rate) are stored in order to compute the amounts that will need to be accounted for in relation to the amortization of the right-of-use asset, the financial expense and the remaining liability.

Most of the lease contracts are operating leases where the Group is the lessee. Leased assets are mainly real estate assets (Points of sale for the Group's integrated distribution network, sales or administrative offices), cars and forklifts.

Key assumptions that the Group is applying for implementing the standard are as follows:

- Terms: For each contract, the Group reviewed the renewal and the early termination options within the term of the arrangement and determined, after taking into account all the relevant facts and circumstances, what would be the date at which the Group reasonably expects the contract to be terminated. For certain categories of leased assets, (mainly vehicles), the Group assesses that there is no reasonably certain extension option, consequently the duration selected coincides with the first term of the lease contract. For real estate lease arrangements, the Group defines the reasonable end date of the contracts, while taking into account the renewal and early termination options stated in the agreements, in line with the asset's expected period of use. Thereby for contracts with residual term of more than ten years, the first enforceable exit option is chosen unless specific information leads to define a longer period.
- Discount rates: The Group determined discount rates reflecting each subsidiary's specific credit risk, the currency of the contract and the weighted average maturity of the reimbursement of the lease liability. For the transition, the incremental borrowing rate used is the rate applicable to the residual term of the contracts.

Based on the contracts analyzed, the Group assesses that the impact on the amount of the liability representing the future lease payments, as well as the value of the right-of-use of assets will be, on January 1, 2019, in the range between €750 and €850 million (excluding the impact, not yet assessed, related to the Group CAMSO).

/ 2.4.2 IFRIC 23 "Uncertainty over Income Tax Treatments"

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 was adopted by the European Union in October 2018 and is applicable for financial years beginning on January 1, 2019 and subject to retrospective application, with or without comparative information restatement for the first year of application. The Group does not expect the application of the interpretation as from January 1, 2019 to have any significant impact.

There are no other new standards, updates and interpretations published but not yet effective and that would be expected to have a material impact on the Group.

2.5 Impacts of the Group's organizational change on financial information

/ Main characteristics of the new organization

On January 1, 2018, the Group changed its managerial and operational organization:

- 14 Business Lines (LB) were created with the mission of developing every aspect of the strategy for their product / customer segment. They manage their profitability, their industrial sourcing, their pricing policy, their product and service offers and their market approach as well as partnership / mergers and acquisitions.
- The Regions, numbering 10, market products and services, with no hierarchical link to the LBs.
- It all relies on eight operational directions that provide expertise and support to LBs and Regions.
- Four Business Directions (DB), each headed by a member of the Group's Executive Committee, supervise the LBs according to their field of activity, which correspond, with very few exceptions, to those of the Product Lines in the former organization. Three Business Directions are dedicated to Tires activities ("Tires" DB). Another DB encompasses activities associated with Tire DBs such as Distribution, Services and Solutions, Mobility Experiences offers to consumers (like Guides and Maps) and Competition, as well as High Technology Materials activities.

The roles and responsibilities assigned to each one of the above mentioned entities were significantly modified by the new organization, in particular interactions between Business Lines and Regions. In the former organization, the vertical organization of Product Lines was spread in the geographical zones into entities which had broad responsibilities on the means and resources they need for their activity (industrial assets, development, marketing and sales). The organization in place as from 2018 is a transversal organization, in which the different players are acting collectively for achieving the targeted performance and results. Their performance metrics are reflecting their level of responsibilities.

The key performance indicators, in particular "Sales" and "Segment Operating Income" – SOI, are regularly reviewed and analyzed by the Management of the Group at the level of the three Tires DBs, to which the activities of the DB4 are allocated according to their respective synergies.

/ Impact on the segment reporting

Considering (i) the activities encompassed by the DBs and (ii) the way they are monitored by the Management of the Group, as reflected in the Group dashboard, the Group assesses that the new organization does not have a significant impact on the structure of the segment reporting disclosed and described more in details in Note 5 "Segment reporting".

/ Impact on the definition of CGUs and group of CGUs

In the context of the new organization, the Group redefined the scope of responsibilities relating to the management of the industrial assets used for the production of tires finished products. Consequently, an analysis was undertaken to determine the potential impact of the reorganization on the definition of the CGUs.

For tires relating activities, Cash generating Units are defined on the basis of groups of industrial assets used for producing finished products that are consistent in terms of industrial criteria (similar technologies) and in terms of market served (offers and geographical zone), This approach has resulted in recognizing "Tires" CGUs, that differ little from the CGUs as defined in the former organization.

Furthermore, with no change compared to the former organization, Services and Solutions activities, Experiences, High Technology Materials and Distribution activities are split into "Non Tire" CGUs.

The definition of the indicators of potential impairment was revised consequently for Tires CGUs and they are described in Note 3.17 "Empairment of non-financial assets".

In respect of groups of CGUs, management of goodwill, which reflects the way synergies identified from acquisitions are operationally implemented, is now performed at a worldwide level for all the Tires activities, when this management was done at a regional level in the former organization for both Passenger Car and Light Trucks activities and Truck activities. This change applies notably to Services and Solutions activities (Sascar and Nextraq).

Should the impairment test had been done at the level of groups of CGUs as defined in the former organization, the Group would not have identified any indication of goodwill impairment.

The note 13.2 "Goodwill" describes in more details the CGUs and the groups of CGUs, as well as the results of the impairment test which were carried out at December 31, 2018.

2.6 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.

/ 2.6.1 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 Business Lines and the Business Directions 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".

/ 2.6.2 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 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".

/ 2.6.3 Income taxes

Significant judgment and estimates are required in determining the deferred tax assets resulting from tax losses carryovers or deductible temporary differences.

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 notes 11 "Income tax" and 18 "Taxes".

The Group companies operate in legal and regulatory contexts, including tax, different and sometimes uncertain. They may be involved, in the course of their activities, in litigations, disputes or other procedures. Each of the known litigation or ongoing proceedings, in which the Group or one of the Group companies are involved, was examined at the closing date, when needed with the assistance of external consultants, and provisions have, if necessary, been established to cover the estimated risks. The main ongoing tax litigation is described in note 32.2 "Contingencies".

/ 2.6.4 Goodwill, intangible assets acquired and their residual useful life

As part of its acquisitions, process the Group identifies, measures and recognizes intangible assets (brands and customer relationships, for example) and to determine their residual useful lives. The difference between the fair value of assets acquired and liabilities assumed, on one hand, and the consideration transferred, on the other hand, represents goodwill which is allocated to the CGUs or to the groups of CGUs benefiting from the synergies expected from the business combination. In order to perform the purchase price allocation, the Group takes into account the various strategic and operational objectives underlying the acquisition and relies on the expertise of valuation firms.

The value of assets and liabilities recognized in the frame of business combinations may be impacted in the future if judgments, estimates and key hypotheses made at the time of the acquisition, like turnover growth rate, operating margin or discount factors should differ.

During the second half of 2018, the Group achieved the purchase price allocation relating to Fenner (note 4.2 "Acquisition of Fenner Plc") and recognized brands and customers relationships that are detailed in note 13.1.1 "Fenner Plc". The Group also allocated the assets of Fenner, including goodwill, to CGUs as described in this same note.

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.

The profit resulting from downstream transactions carried out with a joint venture or an associate is deducted from the net profit of this entity by the percentage representing the Group's interest in the company accounted for using the equity method.

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 Euros, 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 non-consolidated equity investments 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 €:	**2018**	**2017**	**2018**	**2017**
US dollar (USD)	1.146	1.193	1.182	1.129
Canadian dollar (CAD)	1.560	1.505	1.530	1.465
Mexican peso (MXN)	22.546	23.502	22.703	21.307
Brazilian real (BRL)	4.440	3.956	4.283	3.601
British pound (GBP)	0.905	0.888	0.884	0.877
Chinese yuan (CNY)	7.860	7.808	7.803	7.631
Indian rupee (INR)	80.218	76.579	80.611	73.522
Thai baht (THB)	37.136	38.917	38.172	38.311

3.4 Derivative financial instruments

Derivative financial instruments are used to manage financial exposures.

All derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see hedging policy below).

All changes in fair value of derivatives not designated as hedging instruments are recorded as financial income or expense in the period in which they arise.

Fair values are based on market values for listed instruments or on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into account market data.

Embedded derivatives are recognized separately if not closely related to the host contract.

3.5 Hedging

Some derivative financial instruments are eligible for hedge accounting and are therefore designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges);
- hedges of highly probable forecast transactions (cash flow hedges);
- net investment hedges.

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 reserves. The ineffective portion of the gain or loss is recognized immediately in the income statement.

When options are used to hedge future transactions, the Group qualifies the intrinsic value and the time value in relation to the hedged item (“aligned time value”) in hedge accounting. These items are recorded in other reserves.

For forward contracts used to hedge future transactions, the Group classifies the spot component and the forward points in hedge accounting.

Amounts accumulated in other reserves are recognized in the income statement over the period during which the hedged item affects the profit and loss, as follows:

- when the hedged item is a non-financial asset (for example, a consolidated investment or an inventory), deferred gains or losses, as well as deferred gains or losses on the time value of the option or contract forward points are included in the initial cost of the asset;
- the gains or losses resulting from the interest rate hedge are recognized in financial income at the same time as the interest on the loans that are hedged.

When a hedging instrument is sold or expires, or when a hedging instrument no longer meets the criteria required to qualify for hedge accounting, the amount accumulated in other reserves at that date is immediately recognized in profit or loss.

/ 3.5.3 Net investment hedges

Certain loans and borrowings denominated in foreign currencies are considered, in essence, as an integral part of the net investment in a subsidiary whose functional currency is not the euro, when the settlement is neither planned nor likely in a foresceable future.

Foreign exchange differences relating to these loans and borrowings are recognized in other comprehensive income. This specific treatment applies until the definitive disposal date of the net investment or when the partial or total repayment of these borrowings or debts becomes highly probable.

Net investment hedges in foreign currencies are accounted for in a similar manner to cash flow hedges. Any gain or loss on the hedging instrument is recognized in other comprehensive income for the portion relating to the hedged risk (effective portion). The ineffective portion is immediately recognized in the income statement.

/ 3.5.4 Derivatives not qualified in hedge accounting

Certain other financial derivative instruments, while offering effective economic hedging in terms of the Group’s financial policy, do not meet the criteria for hedge accounting or have not been treated as hedging instruments (refer to the policy relating to financial derivative instruments, above). Changes in the market value of these derivatives must therefore be recognized in profit or loss. For example, foreign exchange derivatives used to hedge the currency exposure of financial assets and liabilities recognized in the consolidated statement of financial position are not designated as hedging instruments.

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 unconsolidated equity investments) 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 unconsolidated equity investments) 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 Segment EBITDA

The Group defines Segment EBITDA as segment operating income less depreciation of property, plant and equipment and amortization of intangible assets.

3.8 Revenue recognition

The accounting principles concerning the recognition of income arising in the course of ordinary activities were updated in light of the new provisions of IFRS 15 standard. They are presented below:

The sale of tires, in the original equipment or replacement market, constitutes the major part of Group income. In this commercial relationship, the Group acts as a principal and not as an agent. The clients have the full and complete possibility to use the tires for their own benefit, or to market them, and in this case, to fix the resale price. Furthermore, they carry the inventory risk.

The trade terms offered by Group companies, in line with normal market practice, vary according to the category of clients and the country in which the sales are made. They anticipate however, that the payment for the goods sold will be made in a period appreciably less than one year and there is therefore no reason to adjust the amount of consideration received from customers to take into account the effects of a financing component.

Each delivery of tires, either in the original equipment market with car manufacturers or in the replacement market, represents a distinct and separate performance obligation to be fulfilled at a point in time and which corresponds to the loading of goods or their delivery, in accordance with the underlying contract.

The warranties offered to the buyers cover design or manufacturing defects, which may appear as irregular or excessive tires wear under normal conditions of use. These warranties, which do not provide the client with any supplementary guarantee, apart from the fact that the tire is exempt from defects, continue to be accounted for in conformity with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets.

The Group accepts, under certain conditions, to give trade concessions or to reimburse unsatisfied clients. It also gives, occasionally and under special circumstances, the right to return products already sold. This right gives rise to the recognition of a liability and a reduction in income as well as an asset representing the Group's right to recover the goods that customers will return.

In addition, the amount that the Group effectively receives for the tires delivered, as well as the revenue from sales booked to the income statement, can vary as a result of the deferred rebates, stipulated in contractual agreements and/or at the start of commercial campaigns, which will be paid to the customers at the end of the reference period and depending on the achievement of qualitative or quantitative objectives fixed for that period. Their value is determined using the expected value method. The Group relies on the analysis of historical data and its accumulated experience to estimate the probable amount of rebates and discounts to be given to customers. The revenue from ordinary activities is therefore recognized taking into account the uncertainty surrounding the different elements of variable consideration and to the extent that it is highly probable that the outcome of the uncertainty concerning the different elements of the variable consideration will not give rise to a significant reduction in the amount of sales already booked, once the uncertainty is resolved. The difference between the amounts invoiced to the customers and the revenue from ordinary activities booked results in the recognition of a liability as a future reimbursement booked in the position "Other short term liabilities" of the consolidated statement of financial position.

The other sales categories comprise, essentially, the management of tires for commercial fleets and the supply of telematics services, the latter having for objective the reduction in the consumption of fuel and the efficiency of fleets. The services supplied within the framework of these contracts consist of a single performance obligation satisfied over time for which the sales revenue is recognized according to the level of progress, measured on the basis of the efforts made and the costs incurred.

The Group is led to conclude multi-year agreements with customers, which include a commitment, relative to its capacity to supply the products, in exchange for a specific consideration. This is to be paid in advance of the obligations of supplying the products which will be spread over the duration of the contract. As such, this commitment is considered to be linked to the supply of the products and will be recognized as revenue as and when the supply obligations are fulfilled. When the payment is received, a contract liability is registered and split between the positions "provisions and other long term liabilities" and "other short term liabilities" of the consolidated statement of financial position, depending on the date of the execution of the performance obligations.

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 Segment operating income

The "Segment operating income" is measuring the performance of the operating segments and is one of the Group's management indicators.

3.12 Other operating income and expenses

"Other operating income and expenses" records items that are not taken into account by the Management when measuring the performance of the operating segments due to their nature or their significant, unusual or abnormal characteristics. They include, in particular, the costs related to the reorganization and adaptation of activities and those related to major litigations (and the adjustments in the corresponding provisions), as well as impairment of goodwill and acquisition-related costs. Given the recent major acquisitions made by the Group, the amortization of trademarks and customer relationships recognized as part of a business combination is also recognized in other operating income and expenses. They also include gain/loss on disposals and changes in impairment of property, plant and equipment and intangible assets, acquisition price adjustments as well as gains and losses related to changes in post-employment benefits. They are detailed in note 9 "Other operating income and expenses".

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.

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 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: 3-7 years
- Brands and trademarks: 5-20 years
- Customer relationships: 5-20 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 other operating income and expenses.

Property, plant and equipment which are financed by leases giving the Group substantially all of the risks and rewards of ownership are capitalized at the lower of the fair value of the leased 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 in the smallest identifiable group of assets that generates cash flows that are largely independent of cash flows from other assets or group of assets (Cash Generating Units – CGUs).

For the tire business, CGUs are based on industrial asset groups, generally production plants, working together to manufacture and make available product offers meeting the customers' needs with similar expectations in homogeneous markets or market segments.

CGUs related to non-tires business (Services and Solutions, Experiences, High Technology Materials and Distribution) generally cover the perimeter of each of these activities.

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. For depreciation tests, goodwill is allocated to CGU or group of CGUs on the same basis as used by the Group management to monitor the performance of the businesses and assess synergies deriving from business combinations.

CGUs for which no goodwill is allocated are tested for depreciation only if there is any indication that they may be impaired. In assessing whether there is any indication that a CGU may be impaired, the Group has defined three indicators for tires business' CGUs. They measure respectively the trends (i) in the market served by the CGU, (ii) in the economic performance through the cost of sales' margin and (iii) in the use of the installed industrial capacities. For non-tires business' CGUs as well as for distributions' CGUs, the measurement of the trends in the economic performance is the triggering indicator of an impairment test.

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 "Other operating income and expenses".

3.18 Non derivative financial assets

/ 3.18.1 Asset categories

The Group classified its financial assets to the IFRS 9 categories depending on the SPPI factors (Solely Payment of Principal and Interest) and its business model. This model can take two forms: either collect the contractual cash flows and keep the financial asset until maturity (HTC: held to collect); or collect the contractual flows and sell the asset (HTCS: held to collect and sell).

The Group classifies and measures its debt instruments in the following categories:

- Amortized cost: held to maturity financial assets in order to collect repayments from principal and interest;
- Fair value through income statement: financial assets that do not meet the criteria to be classified either in amortized costs (SPPI and HTC), nor in fair value through other comprehensive income (SPPI and HTCS).

The Group has not identified debt instruments that meet the fair value through other comprehensive income criteria.

The Group measures all its non-consolidated equity investments at their fair value. When the Group chooses to use the irrevocable option to record fair value variations in other comprehensive income, the realized gains or losses on disposal are not recycled in the income statement. The impairment losses recognized on equity investments are not shown separately from the other variations in fair value.

/ 3.18.2 Initial recognition and derecognition

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.

/ 3.18.3 Measurement

Loans and receivables are measured at amortized cost using the effective interest rate method.

Financial assets at fair value are valued by direct reference to a price quoted in an active market or on the basis of market assumptions (note 3.6 "Fair value of financial instruments"). Gains and losses, realized or unrealized, arising from changes in the fair value of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

Gains and losses, realized or unrealized, arising from changes in the fair value of financial assets at fair value through comprehensive income are recorded in other comprehensive income and never impact the income statement.

/ 3.18.4 Impairment

At each closing, the Group seeks any objective indication of impairment of a financial asset recorded at amortized cost.

The model for calculating the expected credit loss is determined on the basis of the counterparty rating and the associated default probability. The Impairment is calculated over a period of 12 months given the non-deterioration of the credit risk of the counterparties. It is recognized in the income statement.

When the credit risk of a financial asset at amortized cost increases significantly, the expected credit loss is calculated over the life of the asset.

If there is no longer a reasonable way to recover the value of a financial asset at amortized cost, the asset is derecognized from the consolidated statement of financial position and impacts the income statement.

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 initially recognized at the amount unconditionally due by the customer. The Group manages its trade receivables in order to collect the contractual cash flows and measures its receivables at amortized cost, according to the effective interest rate method, after deduction of any impairment losses.

When payment terms are less than one year, the initial fair value and the subsequent amortized cost are equal to the nominal amount to the extent that the receivable does not include a significant financial component.

The Group applies the simplified approach of IFRS 9, which consists of calculating the expected credit loss over the life of the trade receivable. This model makes it possible to determine a credit loss expected at maturity for all trade receivables, as soon as they are registered.

Expected credit losses are based on customer payment patterns that have been observed over 36 months, and trade credit losses historically recorded during this period.

An impairment loss is also recognized in the presence of objective indications that the Group will not be able to cash all amounts due according to the terms of the original transaction. Bankruptcies, the legal processes of protection against creditors, cases of notorious insolvency or disappearance of the debtor, late payments of more than six months, the economic or political risks of the country of residence of the debtor, as well as the deterioration of its solvency are all indicators that suggest that a commercial debt must be impaired. The amount of the impairment loss is the difference between the carrying amount of the asset and the discounted value at the initial effective interest rate of the estimated future receipts. Before recognizing an impairment, the quality of the guarantees potentially obtained must be assessed, as well as the capacity to implement them. The impairment loss is recognized in commercial expenses.

When the receivable is uncollectable, it is canceled by compensation with the impairment previously recorded. Any subsequent receipts corresponding to previously derecognized receivables are recorded as a reduction of commercial 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 financial liability.

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.

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 "Segment other income and expenses".

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 "Segment other income and expenses".

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 "Segment other income and expenses".

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 CHANGE IN THE SCOPE OF CONSOLIDATION

4.1 Creation of a 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 wholesale and retail distribution activities into a joint venture named TBC, equally owned by both parties. The transaction is forming the second largest player in the wholesale tire market in the United Sates which will operate under a new brand, NTW.

The transaction was completed on April 5, 2018, after obtaining the required approvals.

The Group contributed to the joint venture its Tire Centers, LLC wholesale network in the United States for an amount of US$160 million, in addition to a cash consideration of US$470 million. In consideration for its contribution, the Group received 50% of the share capital of the joint venture and exercises joint control over TBC. Consequently, these shares have been included on the line "Investments in equity-accounted entities" of the consolidated statement of financial position. Furthermore, each party Michelin and Sumitomo has granted a US$200 million loan to the joint venture, thus completing its funding.

The Group accounted for the contribution of its wholesaler activity to the joint venture in accordance with IFRS 10.

The loss of control of Tire Centers, LLC led to (i) the derecognition of TCI's assets and liabilities from the consolidated statement of financial position, (ii) the recognition of the shares received in the newly formed joint venture TBC at their fair value, and (iii) the recognition of a disposal gain equal to the difference between the fair value of the shares received in counterpart of the TCI contribution and the net carrying amount of the assets and liabilities of the former subsidiary as a result of the loss of control. This disposal gain, amounting to €35 million, was recognized on the line "Other operating income and expenses" of the consolidated income statement.

The recognition of Michelin's share in net earnings of TBC is based on TBC's financial statements for the prior month (November 30, 2018 for the year end closing). As at December 31, 2018, the purchase price allocation is still in progress.

Quantitative data are presented in Note 17 "Equity method investments".

4.2 Acquisition of Fenner Plc

In March 2018, the Group and Fenner Plc announced that they have reached an agreement on the terms of a recommended cash acquisition pursuant to which Michelin would acquire the entire issued and to be issued share capital of Fenner by means of a Court-sanctioned scheme of arrangement under Part 26 of the United Kingdom's Companies Act 2006.

After Fenner's shareholders approved the Scheme in May and clearance from the antitrust authorities was obtained, the Scheme was sanctioned by the Court and the acquisition became effective on May 31, 2018.

Each Fenner shareholder subject to the Scheme received 610 pence in cash for each Fenner Plc share on or before June 14, 2018, therefore valuing the acquired company at GBP1.2 billion. The Group has exclusive control over Fenner which is therefore fully consolidated since May 31, 2018.

Headquartered in Hessle, United Kingdom, Fenner is one of the leaders in heavy conveyor belts industry and a global player in the heavy and complex conveyor belt solution market so as a leading player in reinforced polymer technology.

By this acquisition, the Group's ambition is to provide mining industry customers with a comprehensive offering, ranging from tires to conveyor belts with related services and solutions, and to enhance both companies' geographical reach. Furthermore, the transaction is expected to broaden high-technology materials expertise and innovation.

Quantitative data are presented in Note 13.1.1 "Fenner Plc".

4.3 Acquisition of Camso Inc.

On December 18, 2018, the Group completed the acquisition of Camso Inc., after obtaining all of the required approvals from the relevant antitrust authorities. Headquartered in Magog, Quebec, Canada, Camso has been designing, manufacturing and marketing off-the-road mobility solutions since 1982. Camso is a market leader in rubber tracks for farm equipment and snowmobiles, and in solid and bias tires for material handling equipment. It also ranks among the top three players in the construction market, in tracks and tire solutions for small heavy equipment. Camso sales amounted to US$976 million for financial year ending March 31, 2018.

By joining its own activities with the ones of Camso, the Group will become the world leader on off-the-road markets. The transaction will enable to provide customers with a comprehensive range of offers, like premium radial tires and tracks in the agricultural market or radial, bias and tracks in the construction market. Deployment of new offers will be accelerated by the complementarity of both Michelin and Camso's distribution networks. In the technology field, the acquisition is expected to leverage the Group's innovation capacity in tracks and airless tires. Furthermore, Camso has a strong manufacturing presence in emerging countries, particularly in Sri Lanka and Vietnam.

The consideration fully paid in cash in exchange of 100% of the Camso shares amounts to US$1.36 billion.

Due to the transaction date, the Group was not in position to consolidate Camso according to the acquisition method prior to the closing date of the Group consolidated financial statements, given the unavailability of Camso's consolidated statement of financial position as at December 31, 2018, that will be the reference for the identification of acquired assets and liabilities assumed and their valuation at fair value. On a provisional basis, full acquisition price – €1.174 billion as at December 18, 2018 – was therefore accounted for as preliminary Goodwill in the consolidated statement of financial position. Camso net income and cash flow over the period covering December 19 to 31 are immaterial. Based on Camso audited and consolidated March 31, 2018 statement of financial position, the Group considers that elected provisional presentation has no significant impact on its consolidated statement of financial position.

Acquisition price allocation will be performed in the course of 2019 financial year.

4.4 Other acquisitions and non-controlling interests acquired

On February 12, 2018, Michelin entered into an agreement with Mobivia, the European leader in multi-brand vehicle servicing and parts in order to drive further growth in A.T.U. (Auto-Teile-Unger), the largest network of auto centers in Germany. To that end, the Group acquired a 20% minority stake in the Swiss holding company of the A.T.U. network for a total amount of €60 million. This partnership is assessed as an associate being accounted for using the equity method.

In October, the Group announced the acquisition of the U.S. company Tablet, an online travel agency specializing in luxury hotels offering their guests unforgettable and original experiences. Headquartered in New York, the company was founded in 2000 and is providing its services through a selection and booking platform. Tablet's selection currently has 3,500 hotels and 52% of Tablet clients are North-American customers. The acquisition by the Group should enable conquering wider and more geographically diverse audiences, by extending existing offers and proposing new ones.

The fair value at acquisition date of the transferred consideration, which includes an earn-out, amounts to €35 million. On a provisional basis, the acquisition price was fully accounted for as preliminary Goodwill in the Group's consolidated statement of financial position. Purchase price allocation will be performed in the course of 2019 financial year.

NOTE 5 SEGMENT REPORTING

As a result of the new organization put in place by the Group as of January 1, 2018 and described in note 2.5 "Impacts of the Group's organizational change on financial information", the segmental information is presented according to the following three operating segments:

- Automotive and related distribution;
- Road transportation and related distribution;
- Specialty businesses and related distribution.

Specialty businesses include the Specialty activities (Mines, Off-Road, Two-wheel, Aircraft and Conveyor belts) and High Technology Materials. These three operating segments are essentially identical to the previously presented segments, with the exception of the following reallocations:

(1) Transfer of the replacement light truck tires, from the "Automotive" segment (formerly the Passenger car and light truck) to the "Road transportation" segment.

(2) Transfer of construction truck tires, from the "Road transportation" segment (formerly Truck tires) to the "Specialty businesses" segment.

The 2017 segmental information has been restated to reflect these reallocations.

The operating segments performance is measured mainly on "Sales" and "Segment operating income" based on the same principles applied to the Group's consolidated income statement.

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:

(in € million)	2018				2017			
	Automotive and related distribution	Road transportation and related distribution	Specialty businesses and related distribution	Total	Automotive and related distribution	Road transportation and related distribution	Specialty businesses and related distribution	Total
Profit and loss information								
Sales	11,340	5,852	4,836	**22,028**	11,953	5,946	4,061	**21,960**
Segment operating income	1,314	513	948	**2,775**	1,465	483	794	**2,742**
In percentage of sales	*11.6%*	*8.8%*	*19.6%*	**12.6%**	*12.3%*	*8.1%*	*19.6%*	**12.5%**
Depreciation and amortization[1]	(685)	(351)	(308)	**(1,344)**	(705)	(408)	(232)	**(1,345)**
Segment assets								
Goodwill, Intangible assets and PP&E[2]	6,765	3,753	4,197	14,715	6,684	3,665	2,411	**12,760**
Finished products inventories	1,208	822	691	**2,721**	1,425	818	638	**2,881**
Trade receivables	1,550	1,035	722	**3,307**	1,572	974	538	**3,084**
Total of segment assets	**9,523**	**5,610**	**5,610**	**20,743**	**9,681**	**5,457**	**3,587**	**18,725**
Other information								
Capital expenditure	879	440	349	**1,668**	1,024	461	286	**1,771**

(1) Excluding amortization of trademarks and customer relationships acquired through business combinations (notes 3.12 and 9.1).
(2) Excluding Camso.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	December 31, 2018	December 31, 2017
Segment assets	**20,743**	**18,725**
Camso provisional goodwill	1,159	-
Non-current financial assets and other assets	691	479
Investments in associates and joint ventures	938	356
Deferred tax assets	740	890
Other net inventories (raw materials and supplies, work in progress)	1,726	1,627
Current financial assets	314	285
Other current assets	1,037	1,132
Cash and cash equivalents	2,100	1,773
TOTAL GROUP ASSETS	**29,448**	**25,267**

The geographic information is broken down by zone hereunder:

	2018				2017			
(in € million)	Europe	North America	Other	Total	Europe	North America	Other	Total
Sales	8,570	7,824	5,634	**22,028**	8,315	8,056	5,589	**21,960**
Goodwill, Intangible assets and PP&E	6,590	4,178	3,947	**14,715**	5,804	3,217	3,739	**12,760**
Capital expenditure	824	435	409	**1,668**	866	533	372	**1,771**

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 €2,056 million (2017: €1,984 million). The intangible assets and PP&E located in France amounted to €2,352 million (2017: €2,298 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 sales in 2018 and 2017.

NOTE 6 EXPENSES BY NATURE

The following operating costs from segment activities are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Raw materials and consumables used and changes in finished products inventories	(7,948)	(8,072)
Employee benefit costs	(5,972)	(5,909)
Transportation of goods	(1,186)	(1,183)
Depreciation and amortization[1]	(1,344)	(1,345)
Other expenses	(2,803)	(2,709)
EXPENSES BY NATURE	**(19,253)**	**(19,218)**

(1) Excluding amortization of trademarks and customer relationships acquired through business combinations.

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, 2018	Year ended December 31, 2017
Wages and salaries	(4,732)	(4,617)
Payroll taxes	(907)	(963)
Defined benefit plan costs (note 27.1)	(169)	(64)
Defined contribution plan costs (note 27.2)	(223)	(220)
Share-based payments – cost of services rendered (note 25)	(7)	(7)
EMPLOYEE BENEFIT COSTS	**(6,038)**	**(5,871)**

The average number of employees in 2018 is 118,308 (2017: 114,438).

NOTE 8 SEGMENT OTHER INCOME AND EXPENSES

Segment other income and expenses are recognized within in the income statement:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Acquisition costs linked to business combinations	-	(10)
Employee shareholder plan cost	(13)	-
Share-based payments – cost of services rendered	(9)	(7)
Other operating income/(expenses)	17	(18)
SEGMENT OTHER INCOME AND EXPENSES	**(5)**	**(35)**

NOTE 9 OTHER OPERATING INCOME AND EXPENSES

The other operating income and expenses are detailed in the table below:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Amortization of brands, trademarks and customer relationships acquired (note 9.1)	(39)	-
Reorganization and adaptation of activities (note 9.2)	(113)	(55)
Impairment of fixed assets (note 9.3)	(70)	(54)
Retiree benefit costs (note 9.4)	(66)	37
Other operating income/(expenses) (note 9.5)	63	(39)
OTHER OPERATING INCOME AND EXPENSES	**(225)**	**(111)**

9.1 Amortization of intangible assets recognized in the course of a business combination

Amortization of intangible assets recognized in the course of a business combination amounts to €39 million in 2018. From this amount, €9 million are relating to amortization of brands or trademarks and €30 million to amortization of customer relationships. Amortization of identifiable intangible assets (except technology) accounted for as part of the acquisition of Fenner amounts for the seven months following the acquisition to €25 million.

9.2 Reorganizations and adaptation of activities

The Group announced in November 2018 its intention to close the Dundee site in the United Kingdom by mid-2020. The site manufactures 16-inch and smaller Michelin tires for passenger cars. The factory employs 845 people. The Groups intends to implement a personalized support program for each of the factory's employee. In addition to enhanced redundancy packages and early retirement measures for employees at the end of their career, a comprehensive plan will be proposed to assist the employees concerned to start a new career as quickly as possible. Michelin Development, the Group's entity dedicated to local economic development in the areas of its operations, will also be working with local stakeholders with the aim of creating an equivalent number of new jobs.

A provision amounting to €104 million has been recognized which will mainly cover the cost of the social elements of this project, as well as the costs necessary to deploy the revitalization plan to help the impacted area.

Other restructurings of activities took place in 2018 for which provisions have been recognized for a total amount of €45 million.

In 2017, the Group announced the project of the new global organization to better serve its customers. In France, the implementation of this new organization has repercussions on the workforce headcount, especially within the Clermont-Ferrand sites. A voluntary pre-retirement scheme for managers and employees of the sites concerned was proposed and agreed with the unions. In addition, for those employees who could not 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 was 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 was announced in December 2017 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 were put in place which resulted in a provision of €16 million.

9.3 Impairment of fixed assets

Impairment losses on non-reusable equipment arising out of the Dundee plant closure amount to €47 million.

Other Impairment losses were recognized in 2018, for a total amount of €24 million, in relation to capitalized expenditure for information systems whose roll-out will only be partial.

In 2017, impairment losses on previously recognized goodwill totaled €36 million. They concerned mainly BookaTable.

Impairment losses on non-reusable assets, due to the competitiveness improvement plan in Germany and the ongoing restructuring in Italy, amounted to €12 million.

9.4 Retiree benefit costs

A High Court judgment in the "Lloyds Bank" case has been published on October 26, 2018. This judgment aims to eliminate inequalities between males and females which may exist in pension schemes with a "Guaranteed Minimum Pensions (GMPs)". The conclusions of the judgment related to the GMPs equalization have been analyzed by the Group leading to recognize an expense (a positive past service cost) for an amount of €37 million.

In 2017, an income amounting to €62 million resulted from the evolution of provisions for employee benefits in relation to the pension plans in the United Kingdom and the healthcare plan in the United States of America. The income was 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.

9.5 Other operating income and expenses

During the year 2018, the Group acquired both companies Fenner Plc and Camso Inc. As part of these transactions, expenses or fees relating to consulting, due diligence, valuation and audit were incurred for a total amount of €30 million

By a decision ruled in March 2017 (RE #574.706), Brazil's Federal Supreme Court (STF) concluded that amounts of ICMS, a tax comparable to VAT, that are invoiced to and collected from the customers should be excluded from the calculation basis of PIS and COFINS, two social contributions due by companies and based on their gross income. After this decision from STF, many courts have ruled in favor of taxpayers who had brought actions against the tax administration on this matter. The Group's Brazilian subsidiary was granted with a final and a favorable ruling in October 2018.

Consequently to the aforementioned decision, the subsidiary assessed the total amount of PIS/COFINS overpaid during the period from July 2005 to October 2018 and recognized a €51 million income. Interests calculated on the total amount of overpaid contributions amounts to €26 million. They have been accrued on the line "Other financial income and expenses" of the consolidated income statement.

In the United States of America, the disposal of the TCi activity to transfer it to the joint venture with Sumitomo Corporation of Americas has generated a profit of €35 million (note 4.1 "Creation of a joint venture with Sumitomo Corporation of Americas").

At December 31, 2017, an amount of €39 million was provided for in relation to the following matter:

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).

A first adverse judgment was rendered in September 2017. The Group pursued its recourse but recognized the risks related to these claims and set aside the above mentionned provision.

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, 2018	Year ended December 31, 2017
Interest expenses	(210)	(177)
Interest income	2	5
Interest rate derivatives	(4)	(16)
Fees on credit lines	(3)	(5)
Capitalized borrowing costs	15	17
COST OF NET DEBT	**(200)**	**(176)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	3	19
Currency remeasurement (including currency derivatives)	(7)	(14)
Other	20	(5)
OTHER FINANCIAL INCOME AND EXPENSES	**16**	**-**

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 33.1.2 "Liquidity risk") and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (note 33.1.4 "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 33.2.3 "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 €5 million (2017: decrease of €17 million) and is included in "Interest rate derivatives (Cost of net debt)".

10.2 Ineffective hedges

The effectiveness of the hedge is determined since the beginning of the hedging relationship and through periodic prospective evaluations of effectiveness to ensure the existence of an economic relationship between the hedged item and the hedge instrument.

These hedging relationships may be ineffective if the timing of the planned transaction changes from the original estimate. In 2018, the Group hedged the purchase price of the companies Camso and Fenner (note 4 "Change in the scope of consolidation") using cash flow hedging derivatives.

The ineffective portion of the cash flow hedges amounted to €3 million over the period (2017: zero). It was recorded under Other financial income and expenses.

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Current tax expense (note 18.2)	(570)	(559)
Deferred tax income/(expense) (note 18.1)	-	(102)
INCOME TAX	**(570)**	**(661)**

Current tax includes €35 million of withholding tax on royalties and distribution of retained earnings between Group companies (2017: €81 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Income before tax	**2,230**	**2,354**
Tax calculated using domestic tax rates applicable to income in the respective countries	(483)	(631)
Tax effect from:		
▶ untaxed transactions	(22)	(9)
▶ deferred tax assets not recognized during the year	(84)	(36)
▶ net change in unrecognized deferred tax assets	35	8
▶ changes in tax rates	(32)	25
▶ taxes with no tax base (tax credits, withholding tax, etc.)	(1)	(52)
▶ other items	17	34
INCOME TAX	**(570)**	**(661)**

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 recovery forecasts supporting deferred tax assets are periodically reviewed by the tax entity and may, if necessary, lead to the recognition of previously unrecognized deferred tax assets.

In 2018, deferred tax asset assets arising from tax losses carried forward were recognized in China and Germany for €61 million. These deferred tax assets have been recognized to the extent that it is probable that the Group will have future taxable profits against which these losses carried forward can be recovered. Recovery forecasts are analyzed according to the entity and its forecasted taxable income. These forecasts take into account assumptions that are consistent with the short- and medium-term budgets prepared by Group entities.

In China, the Group considers that an amount of €36 million of tax for loss carryforwards (tax base: €144 million) can be recognized in the consolidated statement of financial position. The amount recognized takes into consideration that tax losses can be carried forward for 5 years.

In Germany, following a reorganization of the tax consolidation, an amount of €25 million was recognized as tax losses carry forwards. Tax losses can be carried forward indefinitely. The use of tax losses is limited to 60% of the profits of the year if the taxable profit exceeds €1 million.

Following the Group's announcement of its intention to close the Dundee plant by mid-2020, the group has remeasured its deferred taxes in the United Kingdom. This remeasurement takes into account the new taxable profit projections and has led to a deferred tax expense of €29 million recognized through the income statement. In this context, loss carryforwards amounting to €229 million did not result in the recognition of deferred tax assets for €39 million.

In France, the Group applied provisions of the 2019 finance act (*Loi de finances*) relating to the taxation of industrial property royalties and reassessed its deferred tax assets, resulting in a deferred tax expense of €31 million.

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.

In 2017, 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.

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, 2018 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"). 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, 2018	Year ended December 31, 2017
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,677	1,700
▶ Less, estimated grants to the General Partners	(12)	(11)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,665**	**1,689**
▶ Plus, interest expenses on convertible bonds	-	-
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,665**	**1,689**
Weighted average number of shares *(thousands of shares)* **outstanding used in the calculation of basic earnings per share**	**178,990**	**179,889**
▶ Plus, adjustment for share option plans	129	257
▶ Plus, adjustment for convertible bonds	-	-
▶ Plus, adjustment for performance shares	857	689
Weighted average number of shares used in the calculation of diluted earnings per share	**179,976**	**180,835**
Earnings per share *(in €)*		
▶ Basic	9.30	9.39
▶ Diluted	9.25	9.34

Taking into account the evolution of the average share price in 2018, 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 2018 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, 2017	**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**
Translation adjustments	(48)	(37)	**(85)**
Additions (including new emission rights: €21 million)	-	222	**222**
Disposals	-	(31)	**(31)**
Changes in scope of consolidation	1,631	1,088	**2,719**
Transfers and other	1	4	**5**
Gross carrying amounts at December 31, 2018	**2,738**	**3,420**	**6,158**
Amortization and impairment at January 1, 2017	**(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)**
Translation adjustments	-	1	**1**
Amortization	-	(175)	**(175)**
Net impairment	(9)	(25)	**(34)**
Disposals	-	19	**19**
Changes in scope of consolidation	-	(18)	**(18)**
Transfers and other	-	(5)	**(5)**
Amortization and impairment at December 31, 2018	**(71)**	**(1,592)**	**(1,663)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2018	**2,667**	**1,828**	**4,495**
Net carrying amounts at December 31, 2017	**1,092**	**785**	**1,877**

13.1 Purchase price allocation

/ 13.1.1 Fenner Plc

At acquisition date, May 31, 2018, the fair value of the consideration transferred amounts to €1,370 million and has been fully paid in cash. 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	1,056
Property, plant and equipment (PP&E)	241
Non-current financial assets and other assets	-
Deferred tax assets	16
Non-current assets	**1,313**
Inventories	120
Trade receivables and other current assets	165
Cash and cash equivalents	78
Current assets	**363**
Non-current financial liabilities	190
Provisions and other non-current liabilities	23
Deferred tax liabilities	256
Non-current liabilities	**469**
Current financial liabilities	8
Trade payables and other current liabilities	209
Current liabilities	**217**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**990**

The fair value of intangible asset was assessed, with the assistance of an external consultant, using the royalty relief method for the brands and trademarks and using an income approach for the customer relationships and the technology. The Fenner-Dunlop trademark, major reference for conveyor belting products, was valued at €178 million and will be amortized over a 20-year estimated useful life period. The various trademarks relating to reinforced polymers products were valued at €150 million and have an indefinite useful life. The technology was valued at €35 million; its useful life mirrors the indefinite useful life of the underlying trademark. The fair value of the customer relationships amounts to €687 million. They will be amortized over their remaining useful life of 20 years.

At acquisition date, the net carrying amount of trade receivables was €144 million, which properly reflected their fair value.

As of December 31, 2018, the provisional allocation of the purchase price, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for €380 million, calculated as follows:

(in € million)	**At acquisition date**
Fair value of consideration transferred (1)	1,370
Fair value of net assets acquired (2)	990
GOODWILL (1) - (2)	**380**

Goodwill rationale is mainly supported by expected synergies:

- on conveyor belts activities, the acquisition enables the Group to provide its mining industry customers with a comprehensive offering, ranging from tires to conveyor belts with related services and solutions, and to enhance both companies' geographical reach ;
- on high-technology materials activities, the transaction broadens the Group's high-technology materials expertise and innovation.

Net cash-flow generated by the acquisition is as follows:

(in € million)	**At acquisition date**
Fair value of consideration transferred	(1,370)
Cash acquired	78
Acquisition costs paid	(17)
CASH-FLOW FROM THE ACQUISITION	**(1,309)**

Over the seven months to December 31, 2018, Fenner contributed €512 million to the Group's sales, €24 million to its operating income and €14 million to its net income. Had the acquisition taken place on January 1, 2018, the sales in the consolidated income statement would have amounted to €22,388 million and consolidated net income for the year, after adjusting for Fenner's non-recurring elements over the pre-acquisition period, would have amounted to €1,665 million. In determining these amounts, the Group assumed that the fair value of the identifiable assets acquired and liabilities assumed as determined at the acquisition date would have been the same as if the acquisition had occurred on January 1, 2018.

/ 13.1.2 Acquisitions of 2017 finalized in 2018

During 2018, the Group completed the purchase price allocation and finalized the accounting under the acquisition method of the following business combinations done in 2017.

In October 2017, the Group acquired Lehigh Technologies in the United States. This company 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. The allocation of the purchase price to the assets acquired and to the liabilities assumed led to the recognition of final goodwill for an amount of €4 million immediately impaired.

In October 2017, the Group also acquired 100% of the truck tire distributor and service provider Tructyre, in the United Kingdom. In December, the acquisition of PTG (Germany) and Teleflow (France), two leaders in tire pressure control systems, was completed. The total amount of consideration paid in cash for these three acquisitions was €36 million. The purchase price allocation was finalized during the second half-year of 2018 and final goodwill totaling €24 million was recognized, of which €4 million were impaired during 2018 financial period.

13.2 Goodwill

As a consequence of the new managerial and operational organization put in place in the Group as from January 1, 2018, of which key features are described in the note 2.5 "Impact of the Group's organizational change on the financial information", goodwill previously recognized in the consolidated statement of financial position at December 31, 2017 has been allocated to CGUs and to groups of CGUs as they were redefined according to their operational monitoring modalities and they are presented in the column "December 31, 2017" of the table below.

At December 31, 2018, the amounts allocated to the CGUs are as follows:

(in € million)	**Decembre 31, 2018**	**Decembre 31, 2017**
Group of CGUs Passenger car tires – global brands	364	355
Group of CGUs Passenger car tires – regional brands	11	11
Group of CGUs Light Truck and Truck tires	606	622
Group of CGUs Mining(1)	235	-
CGU 2 Wheels tires	26	29
CGU Off road tires	35	14
Group of CGUs High Technology Materials(1)	136	-
Other CGUs	59	61
Preliminary goodwill for Camso and Tablet(2)	1,195	-
GOODWILL	**2,667**	**1,092**

(1) As indicated in the note 13.1, the Fenner conveyor belts' business is a separate CGU which is combined with the Mining CGU for the impairment tests purposes. Reinforced polymers' activities are shown in the "High Technology Materials" group of CGUs.
(2) Goodwill for Camso correspond to the acquisition price for the reasons mentioned in notes 4.3 and 4.4.

As a reminder, goodwill was allocated to the CGUs or groups of CGUs at December 31, 2017, as follows:

(in € million)	Decembre 31, 2017
CGU Passenger car and light truck tires Southeast Asia/Australia	121
CGU Passenger car and light truck tires North America	115
CGU Passenger car and light truck tires Europe	112
Group of CGUs Truck tires South America	202
Group of CGUs Truck tires North America	273
Group of CGUs Truck tires Europe	109
CGU Bookatable	61
Other CGUs	99
GOODWILL	**1 092**

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 2018 for the valuation of the terminal value are presented in the table below:

(in percent)	WACC	Perpetual growth rate
Group of CGUs Passenger car tires – global brands	7.4	1.5
Group of CGUs Passenger car tires – regional brands	7.1	1.5
Group of CGUs light truck and truck tires	7.9	1.8
Group of CGUs Mining	9.2	1.9
CGU 2 Wheels tires	7.9	1.8
CGU Off road tires	7.4	1.6

A WACC increase of 100 basis points would not lead to recognize any impairment.

13.3 Intangible assets

In 2018, additions to intangible assets, amounting to €222 million (2017: €190 million) break down into the following categories:

- Software €188 million
- Emission rights – allowances granted €21 million
- Other €13 million

Changes in scope of consolidation amount to €1,088 million (2017: €156 million) and breaks down as follows:

- Brands and trademarks €330 million
- Customer relationships €691 million
- Technology €42 million
- Other €25 million

13.3.1 Software

The net carrying amount of software at December 31, 2018 was €550 million (2017: €511 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, 2018 the net carrying amount of trademarks was €383 million (2017: €77 million), of which €184 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, 2018 amounts to 2.5 million metric tons (2017: 1.9 million metric tons) representing a value of €25 million (2017: €11 million). The liability related to actual emissions in 2018 amounts to 0.8 million metric tons (2017: 0.9 million metric tons) representing a value of €9 million (2017: €5 million). It will be offset by the delivery of the allowances granted.

/ 13.3.4 Development costs

In 2018 and 2017, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfill six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

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, 2017	**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**
Translation adjustments	16	79	(1)	**94**
Additions (including finance leases: €65 million)	334	1,118	80	**1,532**
Disposals	(145)	(504)	(48)	**(697)**
Changes in scope of consolidation	119	97	6	**222**
Transfers and other	(220)	215	6	**1**
Gross carrying amounts at December 31, 2018	**6,835**	**19,614**	**1,539**	**27,988**
Depreciation and impairment at January 1, 2017	**(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)**
Translation adjustments	(4)	(53)	2	**(55)**
Depreciation	(180)	(947)	(81)	**(1,208)**
Net impairment	(7)	(9)	(4)	**(20)**
Disposals	106	454	43	**603**
Changes in scope of consolidation	-	18	4	**22**
Transfers and other	-	1	1	**2**
Depreciation and impairment at December 31, 2018	(3,001)	(12,557)	(1,051)	**(16,609)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2018	**3,834**	**7,057**	**488**	**11,379**
Net carrying amounts at December 31, 2017	**3,815**	**6,588**	**480**	**10,883**

PP&E under construction amounted to €2,121 million (2017: €2,186 million).

Accumulated impairment losses amounted to €309 million (2017: €332 million).

The borrowing costs capitalized in 2018 in PP&E amounted to €15 million (2017: €17 million).

PP&E held under finance leases amounted to €317 million (2017: €263 million). The gross carrying amounts of these assets totaled €388 million (2017: €325 million).

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

(in € million)	December 31, 2018		December 31, 2017	
	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	31	38	20	24
Between one and five years	155	172	116	125
More than five years	117	121	112	120
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**303**	**331**	**248**	**269**

The minimum future payments increase between the two years is due mainly to the introduction in 2018 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, 2018	December 31, 2017
Equity investments (note 15.1)	233	285
Loans and deposits (note 15.2)	260	71
Derivative instruments (note 16.1)	90	119
Other	108	4
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**691**	**479**

15.1 Unconsolidated equity investments

Unconsolidated equity investments consist essentially of a portfolio of shares of non-listed companies (note 33.4 "Financial assets classification").

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

(in € million)	2018	2017
At January 1	**285**	**208**
Translation adjustments	4	(11)
Additions	18	118[(1)]
Exit	(82)[(1)]	(41)
Impairment reversal	-	1
Fair value changes	8	10
AT DECEMBER 31	**233**	**285**

(1) *At Decembre 31, 2017, the available for sale assets were including €55 million related to acquisitions performed in 2017 which were consolidated in 2018 (note 13.1.2").*

15.2 Loans and deposits

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2018	December 31, 2017
Gross loans and deposits	303	111
Impairments	(43)	(40)
TOTAL	**260**	**71**

The balance includes loans to employees and customers, as well as loans to equity accounted entities.

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, 2018	December 31, 2017
(in € million)	Fair values	Fair values
Interest-rate derivatives qualifying as fair value hedging instruments	-	14
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	33	5
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	43	45
▶ Interest-rate derivatives	1	-
▶ Other derivatives[(1)]	13	55
Non-current derivative instruments (note 15)	**90**	**119**
Interest-rate derivatives qualifying as fair value hedging instruments	6	-
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	1	2
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	24	27
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Current derivative instruments (note 21)	**31**	**29**
TOTAL ASSETS	**121**	**148**

(1) Corresponds to the financial instruments acquired to hedge the optional component of convertible 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 €34 million as of December 31, 2018 (December 31, 2017: €42 million).

16.2 Derivatives recognized in liabilities

(in € million)	December 31, 2018 Fair values	December 31, 2017 Fair values
Interest-rate derivatives qualifying as fair value hedging instruments	-	-
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	25	59
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	42	37
▶ Interest-rate derivatives	-	-
▶ Other derivatives(1)	13	55
Non-current derivative instruments (note 26)	**80**	**151**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	2	2
▶ Interest-rate derivatives	-	-
▶ Other derivatives	6	1
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	58	26
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Current derivative instruments (note 26)	**66**	**29**
TOTAL LIABILITIES	**146**	**180**

(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 €21 million as of December 31, 2018 (2017: €15 million).

16.3 Derivative contractual amounts

The contractual amounts of derivatives financial instruments are presented in the table below:

(in € million)	December 31, 2018 Current	December 31, 2018 Non current	December 31, 2018 Total	December 31, 2017 Current	December 31, 2017 Non current	December 31, 2017 Total
Currency derivatives	5,096	1,472	**6,568**	3,582	981	**4,563**
Interest rate derivatives	200	106	**306**	209	220	**429**
Other	-	2,094	**2,094**	-	1,006	**1,006**
Derivatives not qualifying for hedge accounting	**5,296**	**3,672**	**8,968**	**3,791**	**2,207**	**5,998**
Interest rate derivatives	383	-	**383**	-	383	**383**
Interest-rate derivatives qualifying as fair value hedging instruments	**383**	**-**	**383**	**-**	**383**	**383**
Currency derivatives	73	1,001	**1,074**	73	611	**684**
Interest rate derivatives	-	-	**-**	-	-	**-**
Other	15	1	**16**	7	1	**8**
Derivatives qualifying as cash flow hedging instrument	**88**	**1,002**	**1,090**	**80**	**612**	**692**
TOTAL	**5,767**	**4,674**	**10,441**	**3,871**	**3,202**	**7,073**

At December 31, 2018, the Group has outstanding short term futures contracts on natural rubber with a liability market value of €1 million (2017: liability of €1 million) which has been fully cashed in through the daily margin calls. The contractual values of these futures are €27 million (2017: €15 million).

The increase in nominal foreign exchange derivatives not qualifying for hedge accounting is mainly due to the short-term management of foreign exchange exposures, mainly influenced by the acquisition of Camso (note 4.3 "Acquisition of Camso Inc.") at the balance sheet date.

16.4 Hedge accounting

(in € million)	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument (asset)	Carrying amount of the hedging instrument (liability)	Hedge reserve/ Translation reserve	Amount recognized to profit or loss	Line item affected in profit or loss
Derivatives qualifying as fair value hedging instruments						
Intrest rate swaps	383	6	-	-	(8)	Cost of net debt
Derivatives qualifying as cash flow hedging instrument						
Non-convertible bonds exchange rate forward contracts	941	29	(25)	(13)	62	Cost of net debt/ Other financial income and expense
Commodity price risk – forward purchase contracts	15	-	(6)	(6)	(2)	Operating income
Interest rate swaps	-	-	-	(23)	-	Cost of net debt
Interest component of cross currency swaps	104	4	(2)	(1)	(4)	Cost of net debt
Forecast sales exchange rate forward contracts	13	-	-	-	(1)	Operating income
Foreign exchange risk on commodity price risk – forward exchange rate contracts	16	1	-	-	-	Operating result
Financial debt qualifying as net investment hedge instrument						
Private placement	140	-	(140)	(7)	-	None
Current and non-current hedging instruments	1,612	40	(173)	(50)	47	-

Equity includes, in other reserves (note 25 “Reserves”), gains or losses related to cash flow hedge transactions. These reserves are used to recognize the effective portion of derivatives that have been designated as hedge accounting (note 3.5.2 cash flow hedges). The amounts are then transferred to the initial cost of a non-financial asset or to the income statement. The largest amount recognized in “Other reserves” during the period is €26 million and refers to interest rate pre-hedging transactions on bond issues that took place in August 2018 (note 26.1 “Bonds and commercial paper”). The amounts are transferred to the income statement when the interest on the covered bonds affects the profit and loss until 2025 and 2030 respectively.

NOTE 17 EQUITY METHOD INVESTMENTS

Joint ventures and associates are listed in note 36 "List of consolidated companies" to the Group consolidated financial statements.

17.1 Joint venture with Sumitomo Corporation of Americas (TBC)

The allocation of the fair value of the consideration paid to the identifiable assets and to the liabilities assumed is not completed at closing date.

Summarized financial data in respect of TBC joint-venture are set out in the table below:

(in € million)	November 30, 2018(*)
Dividends received	-
Current assets	1,308
thereof cash and cash equivalents	56
Non-current assets (including goodwill)	1,177
Total assets	**2,485**
Current liabilities	762
thereof other short-term financial liabilities	64
Non-current liabilities	608
thereof long-term financial liabilities	411
Total liabilities	**1,370**
Sales	2,869
Interest income	-
Interest expense	(16)
Depreciation and amortization	(47)
Income tax expense	(4)
Net earnings (loss) from continuing operations	20
Other comprehensive income	(6)
Total comprehensive income (a)	14
Elimination of profit from downstream transactions (net of tax) (b)	(34)
Share of comprehensive income 50% x (a) + (b)	**(27)**
Net assets (excluding goodwill)	942
Goodwill	173
Net assets (including goodwill)	**1,115**
Share of net assets (including goodwill) = 50%	558
Elimination of profit from downstream transaction (net of tax)(1)	(34)
Carrying amount of net interest in the joint venture	**524**

(*) The recognition of Michelin's share in net earnings of TBC is based on TBC's financial statements for the prior month (November 30, 2018 for the year end closing, note 4.2).
(1) The profit resulting from "downstream" transactions with TBC was deducted from the share in TBC net earnings by the percentage representing the Group's equity interest in the joint venture for an amount of €34 million.

17.2 Investment in equity accounted entities

Changes in investments in equity-accounted entities are as follows:

(in € million)	Investments in associates	Investments in joint ventures	Total investment in equity accounted entities
At January 1, 2017	**202**	**107**	**309**
Share in net earnings of the period	9	5	14
Dividend payments	(3)	(7)	(10)
Change in scope of consolidation	34	-	34
Translation adjustments	(9)	(8)	(17)
Other	-	26	26
At December 31, 2017	**233**	**123**	**356**
Share in net earnings of the period	(2)	(36)	(38)
Impairment	(8)	-	(8)
Dividend payments	(5)	(5)	(10)
Change in scope of consolidation/capital increases	75	542	617
Translation adjustments	1	20	21
Other	-	-	-
AT DECEMBER 31, 2018	**294**	**644**	**938**

17.3 Financial information on other equity accounted companies

The financial statements of equity accounted companies which are not material taken individually include the following amounts (this information is presented based on a 100% holding):

(in € million)	2018	2017
Assets	1,810	1,440
Liabilities	1,047	734
Net sales	2,357	1,530
Net income	(30)	32

17.4 Transactions with equity accounted entities

Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2018	2017
Income statement		
Income for the sale of goods or supply of services	334	78
Expenses for the purchase of products or supply of services	(175)	(224)
Balance sheet		
Financial liabilities	(6)	(7)
Accounts payable	(7)	(5)
Financial assets	237	20
Accounts receivable	174	11

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the consolidated statement of financial position are as follows:

(in € million)	December 31, 2018	December 31, 2017
Deferred tax assets	740	890
Deferred tax liabilities	(326)	(113)
NET DEFERRED TAX ASSET	**414**	**777**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2018	December 31, 2017
Employee benefits	673	783
Inventories	97	115
Financial instruments	76	62
Provisions	51	70
Unused tax losses	103	90
Unused tax credits	2	7
Goodwill & Intangible assets	(258)	4
Property, plant and equipment	(463)	(450)
Other	133	96
NET DEFERRED TAX ASSET	**414**	**777**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2018	2017
At January 1	**777**	**1,074**
Translation adjustments	5	(38)
Deferred tax income/(expense) (note 11)	-	(102)
Tax recognized in other comprehensive income	(101)	(132)
Changes in scope of consolidation	(266)	(26)
Other	(1)	1
AT DECEMBER 31	**414**	**777**

In 2018, excluding the impact of tax recognized in other comprehensive income and translation adjustment, the decrease in net deferred taxes is mainly due to the recognition of the deferred tax liability resulting from the purchase price allocation of Fenner (note 13.1.1 "Fenner Plc").

In 2017, 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 fixed assets and the impact of the US tax reform.

The deferred income tax recognized in other items of comprehensive income is as follows:

(in € million)	December 31, 2018	December 31, 2017
Post-employment benefits	330	431
Equity investments	(20)	(21)
Financial instruments	1	1
TOTAL DEFERRED TAX INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**311**	**411**

In 2018, the change in deferred tax recognized in other comprehensive income is mainly due to lower applicable tax rates and to the review of the recoverability of some deferred tax assets.

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 other comprehensive income.

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2018	December 31, 2017
Deductible temporary difference	**126**	**106**
Tax losses		
▶ of which expiring in less than one year	27	16
▶ of which expiring between one to five years	92	112
▶ of which expiring in more than five years	34	30
▶ of which no expiration	288	274
Total tax losses	**441**	**432**
Tax credits	**4**	**2**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**571**	**540**

18.2 Current taxes

Current taxes in the consolidated statement of financial position are as follows:

(in € million)	2018	2017
Taxes receivables (note 22)	426	438
Taxes payables (note 30)	(186)	(188)
Net total at January 1	**240**	**250**
Current tax expense (note 11)	(570)	(559)
Income tax paid	497	563
Translation adjustments and other	(9)	(14)
Total changes	**(82)**	**(10)**
Taxes receivables (note 22)	317	426
Taxes payables (note 30)	(159)	(186)
NET TOTAL AT DECEMBER 31	**158**	**240**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2018	December 31, 2017
Raw materials and supplies	1,221	1,158
Work in progress	543	512
Finished goods	2,767	2,923
Total gross inventory	**4,531**	**4,593**
Write-downs on raw materials and supplies	(35)	(42)
Write-downs on work in progress	(3)	(1)
Write-downs on finished goods	(46)	(42)
Total write-downs	**(84)**	**(85)**
NET INVENTORY	**4,447**	**4,508**

Movements in inventory write-downs were as follows:

(in € million)	2018	2017
At January 1	**(85)**	**(100)**
Translation adjustments and other	1	6
Write-downs of inventories recognized as an expense in the period	(22)	(28)
Reversals of write-downs	22	37
AT DECEMBER 31	**(84)**	**(85)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2018	December 31, 2017
Gross trade receivables	3,407	3,188
Impairment	(100)	(104)
TRADE RECEIVABLES	**3,307**	**3,084**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2018:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,960**	**(15)**	**2,945**
Overdue			
▶ from less than three months	296	(4)	292
▶ between three and six months	49	(3)	46
▶ from more than six months	102	(78)	24
Overdue trade receivables	**447**	**(85)**	**362**
TRADE RECEIVABLES	**3,407**	**(100)**	**3,307**

Movements in impairment are broken down in the table below:

(in € million)	2018	2017
At January 1	**(104)**	**(114)**
Translation adjustments	1	6
Impairment charges	(65)	(39)
Impairment reversals	69	45
Changes in scope of consolidation	(1)	(2)
AT DECEMBER 31	**(100)**	**(104)**

Impairment reversals in 2018 include write-offs of €28 million (2017: €19 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, 2018	December 31, 2017
Loans and deposits	103	76
Cash management financial assets (note 26)	180	180
Derivative instruments (note 16.1)	31	29
CURRENT FINANCIAL ASSETS	**314**	**285**

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 €34 million (2017: €42 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, 2018	December 31, 2017
Suppliers – advances	129	137
Current tax – advance payments	317	426
Other taxes receivable	327	296
Other	269	278
Less impairment	(5)	(5)
OTHER CURRENT ASSETS	**1,037**	**1,132**

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, 2018	December 31, 2017
Cash at bank and in hand	255	250
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)	1,845	1,523
CASH AND CASH EQUIVALENTS	**2,100**	**1,773**

The average effective interest rate on short-term bank deposits was 0.09% in 2018 (2017: 0.28%).

Cash and cash equivalents are essentially held in Euros (2018: 89%, 2017: 93%).

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 (2018: €81 million, 2017: €81 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2017	**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**
Issuance of shares from the exercise of share options and performance shares	2	56	58
Cancellation of shares	(1)	(74)	(75)
Other	-	(1)	(1)
AT DECEMBER 31, 2018	**360**	**2,923**	**3,283**

(number of shares)	Share issued	Treasury shares	Shares outstanding
At January 1, 2017	**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**
Issuance of shares from the exercise of share options and performance shares	974,876	-	974,876
Purchase of shares	-	(648,231)	(648,231)
Disposal of shares	-	-	-
Reduction in capital	(648,231)	648,231	-
Other	-	-	-
AT DECEMBER 31, 2018	**179,847,632**	**-**	**179,847,632**

The par value per share amounts to €2 (unchanged from 2017). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2018, the dividend payable for the year 2017 to the shareholders was €3.55 per share (2017: €3.25 per share). It has been fully settled in cash for a net amount of €637 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €3.70 per share in 2019 for the year 2018.

NOTE 25 RESERVES

(in € million)	Translation reserve	Treasury shares	Other reserves	Retained earnings	Total
At January 1, 2017	**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**
Unconsolidated equity investments – change in fair values	-	-	*10*	-	**10**
Tax effect – unconsolidated equity investments – change in fair values	-	-	*3*	-	**3**
Unconsolidated equity investments – (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**
Dividends and other allocations	-	-	-	(647)	**(647)**
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	-	7	**7**
Purchase of shares	-	(75)	-	-	**(75)**
Cancellation of shares	-	75	-	-	**75**
Other	-	-	-	-	**-**
Transactions with the shareholders of the Company	**-**	**-**	**-**	**(640)**	**(640)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,677	**1,677**
Post-employment benefits	-	-	-	*71*	**71**
Tax effect – Post-employment benefits	-	-	-	*(101)*	**(101)**
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(30)	**(30)**
Unconsolidated equity investments – change in fair values	-	-	-	-	**-**
Tax effect – unconsolidated equity investments – change in fair values	-	-	-	-	**-**
Unconsolidated equity investments – (gain)/loss recognized in income statement	-	-	-	-	**-**
Currency translation differences	*(57)*	-	*(1)*	-	**(58)**
Other	*26*	-	*(43)*	5	**(12)**
Other items of comprehensive income that may be reclassified to income statement	(31)	-	(44)	5	**(70)**
Comprehensive income	**(31)**	**-**	**(44)**	**1,652**	**1,577**
AT DECEMBER 31, 2018	**(527)**	**-**	**55**	**9,334**	**8,862**

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 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 19, 2017 Annual Shareholders Meeting, an agreement was signed in February 2018 by which the Group undertook to buy back from an investment services provider a variable number of shares before November 22, 2018, for a maximum amount of €75 million. The investment service provider applied the contractual provision by which he was entitled to accelerate the purchase of the shares, consequently all of the shares have been effectively bought back and were cancelled at June 30, 2018. The average unit price of the 648,231 shares acquired during the first half-year 2018 was €115.70.

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.

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2018	December 31, 2017
Bonds	4,484	1,770
Loans from financial institutions and other	184	217
Finance lease liabilities	272	228
Derivative instruments	80	151
Non-current financial liabilities	**5,020**	**2,366**
Bonds and commercial paper	580	172
Loans from financial institutions and other	457	272
Finance lease liabilities	31	20
Derivative instruments	66	29
Current financial liabilities	**1,134**	**493**
FINANCIAL LIABILITIES	**6,154**	**2,859**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2018	December 31, 2017
Financial liabilities	6,154	2,859
Derivatives recognized as assets (note 16.1)	(121)	(148)
Borrowing collaterals (note 32.3.2)	(34)	(42)
Cash management financial assets (note 21)	(180)	(180)
Cash and cash equivalents (note 23)	(2,100)	(1,773)
NET DEBT	**3,719**	**716**

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, 2018	December 31, 2017
Bonds	4,463	1,848
Loans from financial institutions and other	184	217
Finance lease liabilities	272	228
Derivative instruments	80	151
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**4,999**	**2,444**

Changes in financial liabilities and derivatives are detailed by flow in the table below:

(in € million)	At January 1, 2018	Cash Flows from financial liabilities	Non-cash variations: Translation adjustments	Non-cash variations: Other	At December 31, 2018
Bonds, loans from financial institutions and other	1,987	2,894	-	(213)	4,668
Finance lease liabilities	228	-	7	37	272
Derivative instruments	151	(73)	-	2	80
Non-current financial liabilities	**2,366**	**2,821**	**7**	**(174)**	**5,020**
Bonds, loans from financial institutions and other	444	191	(11)	413	1,037
Finance lease liabilities	20	(19)	1	29	31
Derivative instruments	29	3	-	34	66
Current financial liabilities	**493**	**175**	**(10)**	**476**	**1,134**
FINANCIAL LIABILITIES	**2,859**	**2,996**	**(3)**	**302**	**6,154**
Derivatives recognized as assets	(148)	24	4	(1)	(121)
Net impact in the consolidated cash flow statement		**3,020**			

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, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €302 million (2017: €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%	-	315	-	316
Bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of €750 million ▶ issued in August 2018 and due in September 2038 ▶ nominal interest rate of 2.50% ▶ effective interest rate of 2.56%	-	743	-	-
Bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of €1,000 million ▶ issued in August 2018 and due in September 2030 ▶ nominal interest rate of 1.75% ▶ effective interest rate of 1.84% (2.00% after hedging)	-	990	-	-
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 Compagnie Générale des Établissements Michelin ▶ nominal value of €750 million ▶ issued in August 2018 and due in September 2025 ▶ nominal interest rate of 0.875% ▶ effective interest rate of 1.045% (1.169% after hedging)	-	742	-	-
Liability component of zero-coupon convertible bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of $600 million ▶ issued in January 2018 and due in January 2023 ▶ nominal interest rate of 0% ▶ effective interest rate of 2.50% (0.16% after hedging) ▶ conversion price at December 31, 2018 of €166.98	-	464	-	-
Private placement issued by Fenner Plc ▶ nominal value of $160 million ▶ issued in 2011 and due in 2021 ($95 million) and 2023 ($65 million) ▶ nominal and effective interest rate of 5.144% (2021) and 5.420% (2023)	-	140	-	-
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €300 million (2017: €300 million) ▶ issued in May 2015 and due in May 2022 ▶ nominal interest rate of 1.125% ▶ effective interest rate of 1.17%	-	300	-	299

(in € million)	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
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) and April 2017 ($100 million) 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, 2018 of €132.70	-	493	-	464
Bonds issued by Michelin Luxembourg SCS				
▶ nominal value of €383 million (2017: €383 million)				
▶ issued in June 2012 and due in June 2019				
▶ nominal interest rate of 2.75% (1.105% after hedging)				
▶ hedged through a €383 million interest rate swaps (2017: €383 million) expiring in June 2019 (fair value hedge) (note 16)	386	-	-	394
Commercial paper issued by Compagnie Générale des Établissements Michelin				
▶ nominal value in € equivalent: €181 million, £13 million (2017: €110 million, £28 million, $34 million)				
▶ effective interest rate of -0.23% at December 31, 2018	194	-	172	-
TOTAL	**580**	**4,484**	**172**	**1,770**

At December 31, 2018, the weighted average nominal interest rate for bonds and commercial paper is 1.97% (1.46% after hedging).

/ 26.1.1 Convertible bonds issue

The Group issued in January 2018 exclusively cash-settled convertible bonds with a total face value of US$ 600 million. The bonds were issued at 95.5% of their face value. Those bonds do not bear interest and are redeemable at on November 10, 2023.

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 covered by euro-denominated swaps, provides the Group with the equivalent of classic euro-denominated bond financing at an advantageous cost.

In January 2017, the Group issued exclusively cash-settled five year convertible bonds with a total face value of US$ 500 million. These bonds were issued at par.

In April 2017, the Group issued additional convertible bonds with a total face value of 100 million US dollars. These bonds were issued at 103.50% of their face value.

These operations have been accounted for in accordance with the accounting policies described in sections 3.4 to 3.6.

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".

/ 26.1.2 Maturing convertible bonds

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.

/ 26.1.3 Bonds issue

At the end of August 2018, the Group, through CGEM, issued three new bonds, totaling €2.5 billion in three tranches, maturing in 7 years, 12 years and 20 years respectively.

The 7-year tranche amounts to €750 million and has a coupon of 0.875% *per annum* and was issued at 99.099% of the nominal amount.

The 12-year tranche of €1 billion has a coupon of 1.75% *per annum* and has been issued at 99.262% of the nominal amount.

The 20-year tranche amounts to €750 million and has a coupon of 2.50% *per annum* and has been issued at 99.363% of the nominal amount.

/ 26.1.4 Private placement

Fenner principal committed loan facilities consist of USD private placement loan notes totaling USD160 million. The three loans mature between 2021 and 2023 and bear fixed interest rates averaging 5.26%.

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".

At December 31, 2018, loans from financial institutions amount to €640 million; they are principally denominated in Euros and at floating rates.

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-2017*;* (ii) Canada: 105% of CPM 2014 Private – MI-2017*;* (iii) UK: Generational S2PA CMI_2016 with a 1.5% p.a. long term rate of improvement with a weighting of 115% for males and 101% for females and (iv) Germany: Heubeck RT 2018 G.

	December 31, 2018				December 31, 2017			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	18.7	21.6	21.1	20.2	19.2	22.1	21.1	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	19.8	22.7	22.3	22.3	20.3	22.9	22.3	20.7
Life expectancy for females at 65 at the end of the reporting period	21.0	24.1	24.0	23.7	21.1	24.5	24.0	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.1	25.1	25.4	25.4	22.2	25.2	25.4	24.8

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2018	December 31, 2017
Present value of fully or partly funded obligations	7,311	-	7,311	7,444
Fair value of plan assets	(6,294)	-	(6,294)	(6,367)
Funded status deficit/(surplus)	**1,017**	**-**	**1,017**	**1,077**
Present value of unfunded obligations	993	1,752	2,745	2,819
Unrecognized asset due to application of asset ceiling	88	-	88	73
NET DEFINED BENEFIT OBLIGATION	**2,098**	**1,752**	**3,850**	**3,969**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			3,850	3,969
NET LIABILITY	**2,098**	**1,752**	**3,850**	**3,969**

At December 31, 2018, the present value of the defined benefit obligation is made up of €3,840 million relating to active employees, €1,132 million relating to deferred members and €5,084 million relating to members in retirement (2017: respectively €4,098 million, €1,210 million and €4,955 million).

At December 31, 2018, the present value of the defined benefit obligation is made up of €7,921 million relating to vested benefits and €2,135 million relating to non-vested benefits (2017: respectively €8,050 million and €2,213 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	2018	2017
At January 1	**2,149**	**1,820**	**3,969**	**4,763**
Contributions paid to the funds	(189)	-	(189)	(190)
Benefits paid directly to the beneficiaries	(33)	(107)	(140)	(154)
Other movements	27	(6)	21	-
Items recognized in operating income				
Current service cost	47	60	107	107
Actuarial (gains) or losses recognized on other long term benefit plans	-	(5)	(5)	-
Past service cost resulting from plan amendments	40	14	54	(56)
Effect of plan curtailments or settlements	-	-	-	-
Effect of plan curtailments recognized within reorganizations and adaptation of activities	(13)	(8)	(21)	(183)
Other items	13	-	13	13
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	43	46	89	115
Items recognized in other comprehensive income				
Translation adjustments	9	14	23	(180)
Actuarial (gains) or losses	(11)	(76)	(87)	(296)
Portion of unrecognized asset due to the application of the asset ceiling	16	-	16	30
AT DECEMBER 31	**2,098**	**1,752**	**3,850**	**3,969**

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	2018	2017
At January 1	**1,746**	**537**	**2,283**	**2,549**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	(14)	(8)	(22)	(243)
▶ Due to experience	7	(9)	(2)	(31)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	(267)	(57)	(324)	440
▶ Due to experience	262	(2)	260	(462)
Unrecognized asset due to application of asset ceiling	16	-	16	30
Change in the scope of consolidation	1	-	1	-
AT DECEMBER 31	**1,751**	**461**	**2,212**	**2,283**
Of which actuarial gains or (losses)	*1,663*	*461*	*2,124*	*2,210*
Of which asset ceiling effect	*88*	*-*	*88*	*73*

In 2018, the net amount recognized in the consolidated income statement was an expense of €237 million (2017: income of €4 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2018	Year ended December 31, 2017
Cost of services rendered during the year	47	60	107	107
Net interest on the defined benefit liability (asset)	43	46	89	115
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	(5)	(5)	-
Past service cost recognized during the year:				
▶ Due to the introduction of or modifications to defined benefit plans	40	14	54	(56)
▶ Due to curtailments of defined benefit plans	-	-	-	-
Effect of defined benefit plans settlements	-	-	-	-
Other items	13	-	13	13
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	(13)	(8)	(21)	(183)
TOTAL RECORDED IN THE INCOME STATEMENT	**130**	**107**	**237**	**(4)**

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.

/ 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 average pensionable recurring earnings. Only employees who have voluntarily joined the defined contribution plan (in 2004 or 2007) may receive a lump sum payment.

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, the Pension Plan for the Employees of Michelin North America (Canada) Inc. and Participating Employers (MR Plan). Other minor defined benefit plans which are closed to new entrants are valued but not detailed further.

The MR Plan 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 currently 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).

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 certain trigger threshold. 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 this threshold, the annuity paid by the plan is capped at this level. Closure of the plan being not possible for new entrants, the historical 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)	2018				2017			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	4,017	4,378	48	**8,443**	4,449	4,715	52	**9,216**
Translation adjustments	76	(46)	(6)	**24**	(479)	(116)	(5)	**(600)**
Changes in scope of consolidation	8	270	-	**278**	-	-	-	**-**
Current service cost	2	44	1	**47**	3	42	1	**46**
Interest cost on the defined benefit obligation	143	96	3	**242**	163	105	3	**271**
Administration costs	7	5	1	**13**	9	4	-	**13**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	-	40	-	**40**	4	(24)	-	**(20)**
▶ Past service cost due to curtailments of defined benefit plans	-	(13)	-	**(13)**	-	(88)	-	**(88)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Benefits paid	(256)	(216)	(3)	**(475)**	(255)	(220)	(4)	**(479)**
Other items	-	-	-	**-**	-	-	1	**1**
Actuarial (gains) or losses generated during the year	(233)	(65)	3	**(295)**	123	(40)	-	**83**
Present value of the obligations at the end of the year	**3,764**	**4,493**	**47**	**8,304**	**4,017**	**4,378**	**48**	**8,443**
Fair value of plan assets at the beginning of the year	3,739	2,585	43	**6,367**	3,974	2,509	37	**6,520**
Translation adjustments	60	(45)	(4)	**11**	(426)	(93)	(9)	**(528)**
Changes in scope of consolidation	9	242	-	**251**	-	-	-	**-**
Interest income on plan assets	132	66	4	**202**	144	64	5	**213**
Contributions paid to the plans	22	167	-	**189**	44	146	1	**191**
Benefits paid by the plans	(257)	(183)	(2)	**(442)**	(254)	(189)	(2)	**(445)**
Other items	-	-	-	**-**	-	-	1	**1**
Actual return on plan assets excluding interest income	(221)	(60)	(3)	**(284)**	257	148	10	**415**
Fair value of plan assets at the end of the year	**3,484**	**2,772**	**38**	**6,294**	**3,739**	**2,585**	**43**	**6,367**
DEFICIT/(SURPLUS) AT THE END OF THE YEAR	**280**	**1,721**	**9**	**2,010**	**278**	**1,793**	**5**	**2,076**
Deferred items at the beginning of the year	(66)	-	(7)	**(73)**	(46)	-	-	**(46)**
Translation adjustments	4	-	-	**4**	4	-	1	**5**
Unrecognized asset due to application of the asset ceiling generated during the year	(24)	-	5	**(19)**	(24)	-	(8)	**(32)**
DEFERRED ITEMS AT THE END OF THE YEAR	**(86)**	**-**	**(2)**	**(88)**	**(66)**	**-**	**(7)**	**(73)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**366**	**1,721**	**11**	**2,098**	**344**	**1,793**	**12**	**2,149**

France

The Group has announced in June 2017 a global reorganization project aimed to better serve the customers. A voluntary pre-retirement plan was offered to the salaried employees and managers based at the Clermont-Ferrand site, resulting in a curtailment of the pension plan by €88 million. In 2018, the Group has re-measured the impact of this voluntary pre-retirement plan in the light of the actual data and an additional curtailment for an amount of €8 million has been recognized accordingly.

United Kingdom

The Group announced in November 2018 its intention to progressively cease activities at its Dundee site, in the United Kingdom, by mid-2020. The impact of the production site phasing-out has been measured in 2018 and led the Group to recognize a curtailment of the pension plan amounting to €5 million.

A High Court judgment in the "Lloyds Bank" case has been published on October 26, 2018. This judgment aims to eliminate inequalities between males and females which may exist in pension schemes with a "Guaranteed Minimum Pensions (GMPs)". The conclusions of the judgment related to the GMPs equalization have been analyzed by the Group leading to recognize a positive past service cost for an amount of €37 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 2018, the amount recognized resulting from the effect of the asset ceiling was €16 million (2017: €30 million).

In 2018, the present value of defined benefit pension obligations decreased by €139 million. This change was due to:

(in € million)	2018	2017
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(24)	600
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	296	(83)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	173	149
Changes in plan regulations	(27)	108
Changes in the scope of consolidation	(279)	-
Other items	-	(1)

The fair value of plan assets amounted to €6,294 million at December 31, 2018, showing a decrease of €73 million compared to December 31, 2017. The factors behind this variation were as follows:

(in € million)	2018	2017
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	11	(528)
Difference between the contributions paid to the funds and the benefits paid by the funds	(253)	(254)
Actual return on plan assets	(82)	628
Changes in the scope of consolidation	251	-
Other items	-	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 2018 and the previous four periods:

(in € million)	2018	2017	2016	2015	2014
Defined benefit obligation	(8,304)	(8,443)	(9,216)	(8,852)	(8,440)
Plan assets	6,294	6,367	6,520	6,448	6,142
SURPLUS/(DEFICIT)	**(2,010)**	**(2,076)**	**(2,696)**	**(2,404)**	**(2,298)**
Experience adjustment to:					
▶ plan liabilities	15	32	38	75	32
▶ plan assets	(284)	415	315	(107)	538

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:

Experience adjustment to:	2018	2017	2016	2015	2014
▶ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.18%	-0.38%	-0.41%	-0.85%	-0.38%
▶ to the plan assets in percentage of the fair value of the assets	-4.51%	6.52%	4.83%	-1.66%	8.76%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2018			December 31, 2017		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.12%	2.18%	9.20%	3.65%	2.11%	9.85%
Inflation rate	2.37%	2.60%	4.00%	2.37%	2.69%	4.50%
Rate of salary increases	2.82%	2.76%	4.84%	2.86%	2.81%	4.84%
Weighted average duration of the defined benefit obligation	11.6	15.4	12.1	12.1	15.9	12.4

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 2018 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.37%	7.07%
Discount rate on the aggregate of current service cost and interest cost on the obligation	6.45%	-7.67%
Inflation rate on the defined benefit obligation (DBO)	3.94%	-3.83%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	4.17%	-4.01%
Salary increase rate on the defined benefit obligation (DBO)	1.32%	-1.11%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	2.24%	-1.91%
Interest rates on the fair market value of plan assets	-5.53%	6.20%

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

	Year ended December 31, 2018				Year ended December 31, 2017			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	2	44	1	**47**	12	44	2	**58**
Interest cost on the defined benefit obligation	143	96	3	**242**	163	105	3	**271**
Interest income on plan assets	(130)	(66)	(3)	**(199)**	(143)	(64)	(4)	**(211)**
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	-	40	-	**40**	4	(24)	-	**(20)**
▶ due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	-	-	**-**
Other items	7	5	1	**13**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(13)	-	**(13)**	-	(88)	-	**(88)**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**22**	**106**	**2**	**130**	**36**	**(27)**	**1**	**10**
Actual return on plan assets	**(89)**	**6**	**1**	**(82)**	**401**	**212**	**15**	**628**

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

	December 31, 2018					December 31, 2017				
	Canada	USA	UK	Other	Total	Canada	USA	UK	Other	Total
Quoted securities										
Local equities	2.0%	6.7%	0.0%	0.0%	**2.9%**	3.2%	10.4%	2.4%	0.0%	**5.7%**
Foreign and global equities	5.7%	6.2%	3.7%	0.0%	**4.8%**	9.3%	9.4%	11.0%	0.0%	**9.6%**
Alternative investments	3.4%	10.9%	8.1%	0.0%	**8.0%**	3.9%	11.2%	18.3%	0.0%	**12.1%**
Real estate	0.1%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
Indexed linked bonds	0.1%	0.2%	11.7%	11.5%	**5.3%**	0.1%	0.1%	10.3%	13.8%	**4.5%**
Fixed income government and agencies	35.3%	19.5%	12.6%	0.0%	**18.4%**	24.1%	9.4%	9.6%	0.0%	**11.7%**
Corporate bonds	11.8%	26.8%	13.9%	0.0%	**17.8%**	11.5%	27.2%	7.4%	0.0%	**16.0%**
Other fixed income, multi-asset credit, emerging market bonds	33.6%	18.2%	24.3%	0.0%	**22.2%**	39.8%	19.4%	22.4%	0.0%	**23.4%**
Cash & cash equivalent	1.3%	1.7%	10.1%	0.7%	**4.9%**	1.9%	2.9%	4.2%	2.9%	**3.2%**
Total quoted securities	**93.4%**	**90.0%**	**84.5%**	**12.3%**	**84.4%**	**93.8%**	**90.1%**	**85.7%**	**16.7%**	**86.1%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	87.7%	**4.5%**	0.0%	0.0%	0.0%	83.3%	**3.4%**
Private placements[1]	2.9%	1.6%	8.2%	0.0%	**4.3%**	3.2%	2.0%	7.0%	0.0%	**4.0%**
Real estate	3.7%	8.4%	7.4%	0.0%	**6.8%**	3.0%	7.9%	7.3%	0.0%	**6.5%**
Total non-quoted securities	**6.6%**	**10.0%**	**15.5%**	**87.7%**	**15.6%**	**6.2%**	**9.9%**	**14.3%**	**83.3%**	**13.9%**
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**	**13.1**	**29.2**	**9.2**	**20.1**	**16.9**	**16.4**	**33.6**	**N/A**	**22.1**

(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 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 rates 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 2018 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				
2018	23	198	1	**222**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2019	2	225	-	**227**
2020	2	105	-	**107**
2021	2	101	-	**103**
2022	2	81	-	**83**
2023	16	79	-	**95**
2024-2028	355	498	-	**853**

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 2018, in addition to the ordinary contributions, it was decided to make contributions in the UK for an amount of €113 million and in the United States for an amount of €21 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, 2018				December 31, 2017			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	790	990	40	**1,820**	958	1,025	38	**2,021**
Translation adjustments	14	-	-	**14**	(98)	1	(4)	**(101)**
Changes in scope of consolidation	-	(6)	-	**(6)**	-	-	-	**-**
Current service cost	10	46	4	**60**	10	48	4	**62**
Interest cost on the defined benefit obligation	28	16	2	**46**	34	19	2	**55**
Administration costs	-	-	-	**-**	-	-	-	**-**
Plan reorganization costs generated during the year:								
▶ past service cost due to the introduction of or modifications to defined benefit plans	11	3	-	**14**	(39)	3	-	**(36)**
▶ past service cost due to curtailments of defined benefit plans	-	(8)	-	**(8)**	-	(95)	-	**(95)**
▶ (gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Benefits paid	(46)	(59)	(2)	**(107)**	(51)	(69)	(2)	**(122)**
Other items	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	(83)	1	1	**(81)**	(24)	58	2	**36**
Present value of the obligations at the end of the year	**724**	**983**	**45**	**1,752**	**790**	**990**	**40**	**1,820**
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	**724**	**983**	**45**	**1,752**	**790**	**990**	**40**	**1,820**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**724**	**983**	**45**	**1,752**	**790**	**990**	**40**	**1,820**

USA

A first valuation of a Long Term Disability plan has been carried out generating a positive past service cost for an amount of €11 million.

France

The Group has re-measured the impact of the voluntary pre-retirement plan put in place in 2017 in the light of the actual data. The initial measurement carried out in 2017 resulted in a curtailment of the other post-employment benefit plans amounting to €95 million. The re-measurement of the impact led the Group to recognize, in 2018, an additional curtailment for an amount of €8 million.

In 2018 the present value of "other defined benefit plans" decreased by €68 million, due to:

	2018	2017
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(14)	101
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	81	(36)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	1	5
Changes in plan regulations	(6)	131
Changes in the scope of consolidation	6	-
Other items	-	-

The present value of the defined benefit obligation and experience adjustments are as follows for 2018 and the previous four periods:

(in € million)	2018	2017	2016	2015	2014
Defined benefit obligation	(1,752)	(1,820)	(2,021)	(2,271)	(2,286)
Experience adjustments to plan liabilities	14	46	16	25	65
Experience adjustments to plan liabilities *(in % of present value of the obligation – DBO)*	-0.80%	-2.53%	-0.79%	-1.10%	-2.84%

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

	December 31, 2018			December 31, 2017		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.12%	1.76%	5.28%	3.57%	1.61%	5.47%
Weighted average duration of the defined benefit obligation	10.8	14.1	10.8	11.3	13.6	9.6

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2018		December 31, 2017	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.89%	6.10%	7.85%	6.30%
Minimum long-term rate of annual growth in healthcare costs	4.93%	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 2018 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-5.99%	6.56%
Discount rate on the aggregate of current service cost and interest cost on the obligation	-0.12%	-0.03%
Healthcare cost trend on the healthcare defined benefit obligation	1.75%	-1.67%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	1.62%	-1.52%

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

	Year ended December 31, 2018				Year ended December 31, 2017			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	10	46	4	**60**	10	48	4	**62**
Interest cost on the defined benefit obligation	28	16	2	**46**	34	19	2	**55**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	(1)	(3)	(1)	**(5)**	-	-	-	**-**
Past service cost recognized during the year:								
▶ due to the introduction of or modifications to defined benefit plans	11	3	-	**14**	(39)	3	-	**(36)**
▶ due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(8)	-	**(8)**	-	(95)	-	**(95)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**48**	**54**	**5**	**107**	**5**	**(25)**	**6**	**(14)**

Group payments made under "other defined benefit plans" in 2018 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2018	46	59	2	**107**
Estimates of benefit payments to be made				
2019	47	46	4	**97**
2020	48	50	1	**99**
2021	49	54	1	**104**
2022	49	52	2	**103**
2023	50	54	2	**106**
2024-2028	237	237	14	**488**

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 2018, the contributions paid to defined contribution plans and expensed amounted to €223 million (2017: €220 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:

	2018		2017	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**53.81**	**360,951**	**54.35**	**672,028**
Granted	-	-	-	-
Forfeited	51.17	(47,596)	51.16	(2,098)
Exercised	52.73	(201,946)	55.00	(308,979)
AT DECEMBER 31	**56.87**	**111,409**	**53.81**	**360,951**

111,409 of the 111,409 options outstanding as at December 31, 2018 are exercisable (2017: 360,951 exercisable out of a total of 360,951).

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2018		December 31, 2017	
Grant dates	Vesting dates	Expiry dates	Exercise prices *(in € per option)*	Number of options outstanding	Exercise prices *(in € per option)*	Number of options outstanding
November 2009	November 2013	November 2018	51.16	-	51.16	177,748
May 2010	May 2014	May 2019	52.13	34,304	52.13	79,963
May 2011	May 2015	May 2020	66.00	40,637	66.00	59,127
June 2012	June 2016	June 2021	51.16	36,468	51.16	44,113
NUMBER OF STOCK OPTIONS OUTSTANDING				**111,409**		**360,951**

28.2 Performance share plans

Changes in the number of performance share rights are as follows:

	2018	2017
	Number of outstanding performance share rights	Number of outstanding performance share rights
At January 1	**883,512**	**668,936**
Granted	129,270	296,440
Forfeited	(195,252)	(42,780)
Shares delivered	(194,291)	(39,084)
AT DECEMBER 31	**623,239**	**883,512**

In November 2018, 129,270 rights to performance shares have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2022 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 €47.91. 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 2018 is estimated at €4 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2018 Number of outstanding performance share rights	December 31, 2017 Number of outstanding performance share rights
	France	Other countries	France	Other countries	France	Other countries		
2014	2018	2018	None	None	63.05	63.05	-	276,168
2014	2018	2018	None	None	63.05	63.05	-	106,244
2015	2019	2019	None	None	82.24	82.24	83,464	84,140
2016	2020	2020	None	None	66.41	66.41	119,540	120,520
2017	2021	2021	None	None	66.84	66.84	290,965	296,440
2018	2022	2022	None	None	47.91	47.91	129,270	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**623,239**	**883,512**

The expense recognized in 2018 for the performance share plans amounts to €9 million (2017: €7 million) and is included in "Segment other income and expenses ".

28.3 Employee share purchase plans

In 2018, 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 €82.31, after a 20% discount on the reference price of €102.89, 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 four.

578,639 shares were purchased during this share offer.

The global expense recognized in the income statement by the Group in 2018, in relation to this plan, amounted to €13 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	578,639
Reference price *(in €)*	102.89
Subscription price *(in €)*	82.31
Five-year risk-free rate[1]	0.20%
Five-year market participant rate[2]	5.85%
Dividend yield	3.45%
Cost of the lock-up period *(in % of the reference price)*	23.99%
Cost recognized *(in € per share)*	22.68

(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 €1,315 million (2017: €1,676 million) and include provisions for reorganizations and adaptation of activities, provisions for litigation and for warranties, contracts liabilities as described in note 3.8 "Revenue recognition", 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, 2018	**410**	**454**	**864**
Additional provisions	150	89	**239**
Provisions utilized during the year	(165)	(94)	**(259)**
Unused provisions reversed during the year	(23)	(12)	**(35)**
Translation adjustments	(3)	1	**(2)**
Other effects	(163)	(6)	**(169)**
AT DECEMBER 31, 2018	**206**	**432**	**638**

The €445 million balance for litigation, warranties and other provision includes mainly amounts arising from social security disputes (URSSAF in France), as well as civil liability claims in North America and obligations arising from warranties given to customers, in particular in the United States.

29.1 Reorganizations and adaptation of activities

At December 31, 2018, the remaining provisions for reorganizations and adaptation of activities relate to following countries:

(in € million)	December 31, 2018	December 31, 2017
France[(1)]	94	269
United Kingdom	67	62
Italy	21	40
Germany	18	26
Other countries	6	13
TOTAL	**206**	**410**

(1) The balance includes mainly the provision made in relation to the implementation of the new worldwide organization 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, 2018	December 31, 2017
Customers – Deferred rebates	843	847
Employee benefits	575	573
Social security liabilities	325	221
Reorganizations and adaptation of activities liabilities	170	3
Current income tax payable	159	186
Other taxes	230	279
Other	388	276
OTHER CURRENT LIABILITIES	**2,690**	**2,385**

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, 2018	Year ended December 31, 2017
Investment grants	(12)	(13)
Change in employee benefit obligations	(218)	(235)
Change in litigation and other provisions	(24)	(5)
Costs related to reorganizations and adaptation of activities	(172)	(100)
Other	13	7
Other operating income and expenses (cash) and change in provisions	**(413)**	**(346)**
Interest and other financial expenses paid	(216)	(422)
Interest and other financial income received	21	23
Dividends received	13	26
Cost of net debt and other financial income and expenses paid	**(182)**	**(373)**
Change in inventories	4	(311)
Change in trade receivables and advances	(52)	(317)
Change in trade payables and advances	(47)	205
Change in trade payables under factoring contracts	(77)	199
Change in other receivables and payables	(24)	160
Change in working capital, net of impairments	**(196)**	**(64)**
Purchases of intangible assets (note 13)	(201)	(186)
Purchases of PP&E (note 14)	(1,467)	(1,585)
Government grants received	20	25
Change in capital expenditure payables	(68)	78
Purchases of intangible assets and PP&E	**(1,716)**	**(1,668)**
Increase in other non-current financial assets	(209)	(21)
Decrease in other non-current financial assets	9	10
Net cash flows from cash management financial assets	-	(18)
Net cash flows from borrowing collaterals	7	36
Net cash flows from other current financial assets	(31)	(10)
Cash flows from other financial assets	**(224)**	**(3)**
Increase in non-current financial liabilities	2,974	494
Decrease in non-current financial liabilities	(80)	(28)
Repayment of finance lease liabilities	(19)	(24)
Net cash flows from current financial liabilities	191	(424)
Derivatives	(46)	(86)
Cash flows from financial liabilities	**3,020**	**(68)**
Details of non-cash transactions:		
▶ New finance leases (note 14)	65	135
▶ Increase/(Decrease) of liabilities to minority shareholders	-	-
▶ New emission rights	7	4

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, 2018	December 31, 2017
Within one year	264	234
Between one and five years	435	415
More than five years	180	134
TOTAL FUTURE MINIMUM PAYMENTS	**879**	**783**

Total operating lease rents recognized in the income statement in 2018 amounted to €367 million (2017: €379 million).

/ 32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2018, amounts to €310 million (of which €105 million is likely to be delivered from 2020).

/ 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 2019. 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, 2018, the present value of the future contributions exceeding the provision booked in the Group accounts amounts to €65 million.

/ 32.2.2 Tax audit in Germany

Following a tax audit covering the periods 2005 to 2009, which gave rise in 2015 to notifications of intended tax adjustment in respect thereof, a German subsidiary has received in 2018 the relating final tax audit report and the amended tax assessment notices.

The final tax audit report includes an adjustment of the subsidiary's taxable income of €382 million through an estimation of the overall profit of the subsidiary using the Group average margin as an appropriate margin for the subsidiary. This adjustment includes notably for €298 million the challenge by the tax authorities of the effects, on the subsidiary, of the transfer price policy applied by the Group. The items relating to transfer pricing were pointed out in the 2015 notifications of intended tax adjustment. Furthermore, the tax administration considers in its final report that the subsidiary did not provide all the requested information in order to justify the applied transfer price policy.

The maximum financial risk relating to this litigation amounts to €227 million (€146 million for the additional tax and the balance for late interests).

The Group does not accept any of the positions taken by the German tax authorities.

On July 17th, the Group filed towards the German tax authorities:

- a proceeding that resulted in suspending the enforcement of the payments, which consequently were not significant;
- an appeal against the methodology used by the tax authorities and based on the Group average margin.

Furthermore, the Group is preparing to apply for a Mutual Agreement Procedure (MAP) according to the EU Arbitration Convention or the respective Double Tax Treaties, for the total reassessment amounting to €382 million.

The Group considers that it has strong arguments to make its point of view prevail and it is more likely than not it will be successful in each of the actions already filed or about to be filled.

On that basis, the Group assesses that the maximum financial risk it may suffer is not significant.

In 2016 a new tax audit covering the periods 2010 to 2014 was initiated; but no conclusion can be made at the date these financial statements are published. At 31 December 2018, the Group considers that there is no evidence of a risk of reassessment under this tax audit.

/ 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 €232 million at 2018 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. In June 2017, the Group filed two appeals to bring the case before the Superior Court of Justice and the Supreme Court, which will have to decide beforehand whether these appeals are admissible before the case is decided on the merits. 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 but as of December 31, 2017, the preliminary decision concerning the sequestration of the company's assets had not been put into effect. On June 4, 2018, the Judge hearing the case instigated in November 2016 by the Prosecutor of the State of Rio de Janeiro, decided to dismiss the lawsuit, as the accusation is not admissible anymore on the basis of a new law enacted in 2017. In rendering his decision, the judge revoked the legal order to freeze the subsidiary's assets. The Prosecutor appealed this decision but, as of 31 December 2018, this appeal has not yet been brought to trial.

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 (2017: €33 million).

/ 32.3.2 Financial assets

Loans and deposits amounting to €34 million (2017: €42 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 €474 million (2017: €468 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, 2018 (2017: €15 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 FINANCIAL RISK MANAGEMENT

33.1 Financial risk management policy

/ 33.1.1 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.

/ 33.1.2 Liquidity risk

33.1.2.1 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.

33.1.2.2 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.

/ 33.1.3 Currency risk

33.1.3.1 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.

33.1.3.2 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.

/ 33.1.4 Interest rate risk

33.1.4.1 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.

33.1.4.2 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).

/ 33.1.5 Equity risk

33.1.5.1 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.

33.1.5.2 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.

/ 33.1.6 Counterparty risk

33.1.6.1 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.

33.1.6.2 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.

/ 33.1.7 Credit risk

33.1.7.1 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.

33.1.7.2 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.

33.2 Financial risk data

/ 33.2.1 Liquidity risk

At December 31, 2018, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2019	2020	2021	2022	2023	2024	2025 and beyond
Bonds	656	72	154	860	586	62	3,676
Loans from financial institutions and other	474	1	1	15	65	23	76
Obligation under finance lease	31	39	39	39	39	39	78
Derivative instruments	35	(10)	(20)	28	(8)	-	-
REPAYMENT SCHEDULE OF FINANCIAL DEBTS	**1,196**	**102**	**174**	**942**	**682**	**124**	**3,830**
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 (€2,100 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.

/ 33.2.2 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, 2018				December 31, 2017			
(in € million)	EUR	CNY	USD	Other	EUR	CNY	USD	Other
Monetary assets	577	605	5,349	2,467	659	774	4,679	1,961
Monetary liabilities	(1,477)	(85)	(4,111)	(1,440)	(1,681)	(113)	(4,192)	(1,415)
Net position before hedging	**(900)**	**520**	**1,238**	**1,027**	**(1,022)**	**661**	**487**	**546**
Hedges	907	(521)	(1,293)	(1,040)	1,032	(679)	(491)	(582)
NET POSITION AFTER HEDGING	**7**	**(1)**	**(55)**	**(13)**	**10**	**(18)**	**(4)**	**(36)**

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 (2017: €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 33.1.3 "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.

Most of the open positions at Decembre 31, 2018 were hedged in early January 2019.

Currency translation risk

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

(in € million)	December 31, 2018	December 31, 2017
EUR	5,115	6,400
USD	2,862	1,962
BRL	1,081	979
THB	525	526
CNY	562	407
CAD	450	333
INR	211	236
GBP	1,133	121
Other	228	297
TOTAL	**12,167**	**11,261**

/ 33.2.3 Interest rate risk

Net debt at December 31, 2018 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
USD	1,097	153	**1,250**	(293)	50	907	**957**	714	(714)	764	193	**957**
CNY	-	12	**12**	668	-	680	**680**	270	(270)	270	410	**680**
THB	-	164	**164**	320	-	484	**484**	200	(200)	200	284	**484**
MXN	-	-	**-**	358	-	358	**358**	87	(87)	87	271	**358**
GBP	5	7	**12**	306	5	313	**318**	-	-	5	313	**318**
EUR	3,599	(1,363)	**2,236**	(1,942)	4,646	(4,352)	**294**	(401)	401	4,245	(3,951)	**294**
Other currencies	6	14	**20**	583	6	597	**603**	295	(295)	301	302	**603**
Total before derivatives	**4,707**	**(1,013)**	**3,694**	**-**	**4,707**	**(1,013)**	**3,694**	**1,165**	**(1,165)**	**5,872**	**(2,178)**	**3,694**
Fair value of derivatives included in net debt			**25**				**25**					**25**
NET DEBT (NOTE 26)			**3,719**				**3,719**					**3,719**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2018:

		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	**(22)**	(40)	(1)	402	**361**
1-point upward shift	**22**	38	1	(402)	**(363)**

(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.

/ 33.2.4 Equity risk

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

(in € million)	December 31, 2018	December 31, 2017
Carrying amount (note 15.1)	233	285
IMPACT ON EQUITY OF A 10% UNFAVORABLE CHANGE IN THE PRICE OF THE GROUP INVESTMENT PORTFOLIO	**(18)**	**(20)**

/ 33.2.5 Counterparty risk

At December 31, 2018, 61% 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.

/ 33.2.6 Credit risk

At December 31, 2018, net receivable balances from the ten largest customers amounted to €449 million (2017: €543 million). Seven of these customers are located in Europe and three in North America. At the same date, 72 customers (2017: 67) have been granted credit limits in excess of €10 million. Out of these, 36 are located in Europe, 25 in North America, four in Asia, seven in Africa, India or Middle-East. There was no significant collateral received to limit credit risk. In 2017, credit losses represented 0.13% of sales (2017: 0.09%).

/ 33.2.7 Commodities derivatives

In 2018, the Group did not have any significant hedges of commodities purchases (note 16.3 "Derivative contractual amounts").

33.3 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, 2018	December 31, 2017
Net debt (note 26)	3,719	716
Total equity	12,167	11,261
GEARING RATIO	**0.31**	**0.06**

33.4 Financial assets classification

Group financial assets have been classified to the categories "fair value through income statement", "fair value through other comprehensive income" and "amortized cost" in the following manner at December 31, 2018:

(in € million)	FV through P&L	FV through OCI	Amortised cost	Total 2018
Trade receivables	-	-	3,307	**3,307**
Current financial assets	65	-	249	**314**
Cash and cash equivalents	1,667	-	433	**2,100**
Non-current financial assets	101	208	382	**691**
TOTAL FINANCIAL ASSETS	**1,833**	**208**	**4,371**	**6,412**

At January 1, 2018, the classification taking into account the adjustments accounted for with as a result of the adoption of IFRS 9 was as follows:

(in € million)	FV through P&L	FV through OCI	Amortised cost	January 1, 2018 restated
Trade receivables	-	-	3,080	3,080
Current financial assets	71	-	214	285
Cash and cash equivalents	1,323	-	450	1,773
Non-current financial assets	137	272	75	484
TOTAL FINANCIAL ASSETS	**1,531**	**272**	**3,819**	**5,622**

33.5 Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2018 and 2017 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total 2018
Cash and cash equivalents	1,667	-	-	**1,667**
Deposits borrowing collaterals	34	-	-	**34**
Derivatives (note 16.1)	-	121	-	**121**
Unconsolidated equity investments (note 15.1)	38	-	195	**233**
TOTAL ASSETS	**1,739**	**121**	**195**	**2,055**
Derivatives (note 16.2)	-	146	-	**146**
TOTAL LIABILITIES	**-**	**146**	**-**	**146**

(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**
Unconsolidated equity investments (note 15.1)	32	-	253	**285**
TOTAL ASSETS	**1,397**	**148**	**253**	**1,798**
Derivatives (note 16.2)	-	180	-	**180**
TOTAL LIABILITIES	**-**	**180**	**-**	**180**

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, 2018	**253**
Additions	15
Disposals*	(82)
Transfers from other level to level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in net income	-
Gains or losses for the year included in other comprehensive income	-
Others	9
AT DECEMBER 31, 2018	**195**

* *Of which €55 million correspond to acquisitions performed in 2017 and consolidated in 2018 (note 13.1.2).*

NOTE 34 RELATED PARTY TRANSACTIONS

34.1 Senior Management and Supervisory Board

In 2018, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2017 net income and amounting to €2.7 million (2017 based on 2016 net income: €2.2 million).

He was entitled to a compensation of €1.5 million (social charges included) as General Manager of Manufacture Française des Pneumatiques Michelin (2017: €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 (2017: €0.6 million). He was entitled to a gross amount (social charges and tax included) of €0.9 million according to the terms of a long term incentive bonus program representing the outstanding value of the vested rights in that program (2017: €1.2 million).

The Annual Shareholders Meeting of May 18, 2018 approved to elect Florent Menegaux as Managing General Partner of Compagnie Générale des Établissements Michelin. Therefore, Florent Menegaux has not received any statutory distribution based on 2017 net income.

He was entitled to a compensation of €0.8 million (social charges included) as General Manager of Manufacture Française des Pneumatiques Michelin. The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.7 million.

The Annual Shareholders Meeting of May 18, 2018 approved to elect Yves Chapot as General Manager of Compagnie Générale des Établissements Michelin.

He was entitled to a compensation of €0.5 million (social charges included) as General Manager of Compagnie Générale des Établissements Michelin. The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.3 million. A provision of €0.5 million (social charges included) is recognized as at December 31, 2018 based on the present value of the vested rights in a long term incentive bonus program and a variable compensation program.

The global compensation granted in 2018 to the 10 members[(1)] members of the Group Executive Committee (2017: 11 members[(1)]) was €20 million (2017: €24 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Short term benefits	14.6	17.1
Post-employment benefits	3.0	3.8
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	2.5	3.4
COMPENSATION GRANTED TO MEMBERS OF THE GROUP EXECUTIVE COMMITTEE	**20.1**	**24.3**

The attendance fees paid in 2018 to the Supervisory Board members for 2017 meetings were €0.5 million (2017: €0.5 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 2018 consolidated financial statements.

(1) *Members of the Group Executive Committee as at December 31.*

35.1 Acquisition of PT Multistrada Arah Sarana TBK

On January 22, 2019, The Group announced it has signed an agreement to acquire 80% of PT Multistrada Arah Sarana TBK ("Multistrada"), a tire manufacturer based in Indonesia. Upon closing, Michelin will pay US$ 439 million for 80% of the Multistrada shares subject to certain closing adjustments. As Multistrada is a publicly listed company, and pursuant to Indonesian regulations, Michelin will subsequently launch a public offer for the remaining outstanding shares, at the same price per share as that offered to the 80% shareholder group.

NOTE 36 LIST OF CONSOLIDATED 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	Consolidation method	Registered office	Nature	% of interest
EUROPE				
Germany				
Michelin Reifenwerke AG & Co. Kommanditgesellschaft auf Aktien	Full consolidation method	Karlsruhe	Manufacturing & commercial	100.00
EUROMASTER GmbH	Full consolidation method	Mannheim	Commercial	100.00
EUROMASTER Reifenservice Deutschland GmbH	Full consolidation method	Mannheim	Commercial	100.00
EUROMASTER Immobilien GmbH	Full consolidation method	Mannheim	Commercial	100.00
Advantico GmbH	Full consolidation method	Mannheim	Commercial	60.00
Michelin Deutschland GmbH	Full consolidation method	Kaiserslautern	Financial	100.00
PTG Reifendruckregelsysteme GmbH	Full consolidation method	Neuss	Commercial	100.00
Bookatable GmbH & Co KG	Full consolidation method	Hamburg	Commercial	100.00
Bookatable Verwaltungs GmbH	Full consolidation method	Hamburg	Commercial	100.00
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Full consolidation method	Karlsruhe	Financial	100.00
IHLE tires GmbH	Full consolidation method	Muggensturm	Commercial	100.00
Tirecorp GmbH	Full consolidation method	Muggensturm	Commercial	100.00
Ihle International GmbH	Full consolidation method	Muggensturm	Commercial	100.00
ProServ Produktionsservice und Personaldienste GmbH	Equity method	Karlsruhe	Miscellaneous	49.00
Dichtelemente Hallite GmbH	Full consolidation method	Hamburg	Manufacturing & commercial	100.00
Austria				
Michelin Reifenverkaufsgesellschaft m.b.H.	Full consolidation method	Vienna	Miscellaneous	100.00
Euromaster Reifenservice GmbH	Full consolidation method	Vienna	Commercial	100.00
Belgium				
Michelin Belux S.A.	Full consolidation method	Zellik	Commercial	100.00
Michelin Travel Partner Belgium BVBA	Full consolidation method	Zellik	Commercial	100.00
Bulgaria				
Michelin Bulgaria EOOD	Full consolidation method	Sofia	Miscellaneous	100.00
Croatia				
Michelin Hrvatska d.o.o.	Full consolidation method	Zagreb	Commercial	100.00
Denmark				
Euromaster Danmark A/S	Full consolidation method	Skanderborg	Commercial	100.00
Bookatable ApS	Full consolidation method	Copenhagen	Commercial	100.00
Michelin Gummi Compagni A/S	Full consolidation method	Frederiksberg	Miscellaneous	100.00
Euromaster Ejendomme A/S	Full consolidation method	Skanderborg	Commercial	100.00
Viborg Direct A/S	Full consolidation method	Skanderborg	Commercial	100.00
Ihle Skandinavien ApS	Full consolidation method	Copenhagen	Commercial	100.00
Spain				
Michelin España Portugal, S.A.	Full consolidation method	Tres Cantos	Manufacturing & commercial	99.81
Reservas de Restaurantes, S.L.	Full consolidation method	Madrid	Miscellaneous	99.81
Euromaster Automoción y Servicios, S.A.	Full consolidation method	Madrid	Commercial	100.00
Nex Tyres, S.L.	Full consolidation method	Lleida	Commercial	50.00

Companies	Consolidation method	Registered office	Nature	% of interest
Livebookings SL	Full consolidation method	Madrid	Commercial	100.00
Michelin Travel Partner España Portugal SrL	Full consolidation method	Tres Cantos	Commercial	99.81
LEHIGH SPAIN SL	Full consolidation method	Barcelona	Miscellaneous	79.90
Servicios y Asistencia OK24, S.L.	Full consolidation method	Madrid	Commercial	60.80
Fundación Michelin Desarrollo	Full consolidation method	Valladolid	Miscellaneous	99.81
RODI METRO, S.L.	Equity method	Lleida	Miscellaneous	20.00
Fenner Dunlop SL	Full consolidation method	Esparreguera	Manufacturing & commercial	100.00
Estonia				
Michelin Rehvide OÜ	Full consolidation method	Tallinn	Miscellaneous	100.00
Finland				
Oy Suomen Michelin Ab	Full consolidation method	Espoo	Miscellaneous	100.00
Suomen Euromaster Oy	Full consolidation method	Pori	Commercial	100.00
France				
Compagnie Générale des Établissements Michelin	Full consolidation method	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Full consolidation method	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Full consolidation method	Avallon	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Full consolidation method	Bassens	Manufacturing	100.00
Euromaster France	Full consolidation method	Montbonnot-Saint-Martin	Commercial	98.61
Michelin Aircraft Tyre	Full consolidation method	Clermont-Ferrand	Commercial	100.00
Transityre France	Full consolidation method	Clermont-Ferrand	Commercial	100.00
Alliance Réseaux	Full consolidation method	Saint-Jean-de-Maurienne	Commercial	100.00
One Shot Pay SAS	Full consolidation method	Saint-Jean-de-Maurienne	Commercial	60.00
Michelin Travel Partner	Full consolidation method	Boulogne-Billancourt	Commercial	100.00
Spika	Full consolidation method	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Full consolidation method	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Full consolidation method	Montbonnot-Saint-Martin	Commercial	96.81
Tyredating	Full consolidation method	Lyon	Commercial	100.00
Ihle France	Full consolidation method	Schiltigheim	Commercial	100.00
Euromaster Services et Management	Full consolidation method	Clermont-Ferrand	Commercial	100.00
GIE MICHELIN PLACEMENTS	Full consolidation method	Clermont-Ferrand	Financial	100.00
SIMP	Full consolidation method	Clermont-Ferrand	Financial	51.00
Société d'Investissements et de Mécanique	Full consolidation method	Montagny	Miscellaneous	100.00
Michelin Ventures SAS	Full consolidation method	Clermont-Ferrand	Financial	100.00
Mon Tour en France	Full consolidation method	Saint-Jean-de-Maurienne	Commercial	59.85
Oxymore	Full consolidation method	Montbonnot-Saint-Martin	Commercial	96.15
Jean Estager et Cie	Full consolidation method	Montbonnot-Saint-Martin	Commercial	96.81
Teleflow SAS	Full consolidation method	Mably	Miscellaneous	100.00
V DATA SERVICES	Full consolidation method	Nantes	Miscellaneous	100.00
Adaran	Full consolidation method	Montbonnot-Saint-Martin	Commercial	100.00
Michelin Middle East	Full consolidation method	Clermont-Ferrand	Financial	100.00
AddUp	Equity method	Cébazat	Manufacturing	50.00
MMM !	Equity method	Paris	Miscellaneous	42.11
ALLOPNEUS	Equity method	Aix-en-Provence	Commercial	39.99

Companies	Consolidation method	Registered office	Nature	% of interest
Société Internationale de Plantations d'Hévéas	Equity method	Courbevoie	Miscellaneous	36.00
SYMBIOFCELL	Equity method	Grenoble	Miscellaneous	46.64
TAQUIPNEU	Equity method	Montauban	Miscellaneous	22.92
Fenner Dunlop SARL	Full consolidation method	Elancourt	Manufacturing & commercial	100.00
Greece				
Elastika Michelin A.E.	Full consolidation method	Halandri	Commercial	100.00
Hungary				
Michelin Hungaria Tyre Manufacture Ltd.	Full consolidation method	Nyíregyháza	Manufacturing & commercial	100.00
IHLE MAGYARORSZÁG Kft.	Full consolidation method	Komárom	Commercial	100.00
Ireland				
Miripro Insurance Company Designated Activity Company / Miripro Insurance Company DAC	Full consolidation method	Dublin	Miscellaneous	100.00
ASYNC TECHNOLOGIES LIMITED	Equity method	Ennis	Miscellaneous	25.00
Italy				
Società per Azioni Michelin Italiana	Full consolidation method	Turin	Manufacturing & commercial	100.00
Fondazione Michelin Sviluppo	Full consolidation method	Turin	Miscellaneous	100.00
Euromaster Italia S.r.l.	Full consolidation method	Milan	Commercial	100.00
Michelin Travel Partner Italia S.r.l.	Full consolidation method	Milan	Commercial	100.00
Hallite Italia S.r.l.	Full consolidation method	Collesalvetti	Manufacturing & commercial	100.00
Fenner Dunlop Italia S.r.l.	Full consolidation method	Milan	Manufacturing & commercial	100.00
Latvia				
Michelin Riepas SIA	Full consolidation method	Riga	Miscellaneous	100.00
Lithuania				
UAB Michelin Padangos	Full consolidation method	Vilnius	Miscellaneous	100.00
Luxembourg				
Michelin Luxembourg SCS	Full consolidation method	Luxembourg	Financial	100.00
Michelin Finance (Luxembourg) S.à r.l.	Full consolidation method	Luxembourg	Financial	100.00
Norway				
Norsk Michelin Gummi AS	Full consolidation method	Oslo	Miscellaneous	100.00
Fenner Mandals AS	Full consolidation method	Mandal	Manufacturing & commercial	100.00
The Netherlands				
Euromaster Bandenservice B.V.	Full consolidation method	Deventer	Commercial	100.00
Michelin Nederland N.V.	Full consolidation method	Drunen	Commercial	100.00
Transityre B.V.	Full consolidation method	Breda	Commercial	100.00
Michelin Distribution B.V.	Full consolidation method	Breda	Commercial	100.00
Actor B.V.	Full consolidation method	Deventer	Commercial	100.00
Euromaster Vastgoed B.V.	Full consolidation method	Deventer	Commercial	100.00
MC Projects B.V.	Equity method	Maastricht	Miscellaneous	50.00
Dunlop Service B.V.	Full consolidation method	Klazienaveen	Manufacturing & commercial	100.00
Fenner Dunlop B.V.	Full consolidation method	Drachten	Manufacturing & commercial	100.00
De Bruin & Berends B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Assets B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Dunlop Enerka Netherlands B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Enerka Netherlands Holding B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Dunlop Manufacturing Holdings B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Dunlop Service International B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Conveyor Belting International B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Sales & Marketing B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Fenner Dunlop Steelcord B.V.	Full consolidation method	Drachten	Financial	100.00
Fenner Cooperatief W.A.	Full consolidation method	Drachten	Financial	100.00
Fenner US Financing B.V.	Full consolidation method	Drachten	Financial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
Portugal				
Michelin-Companhia Luso-Pneu, Limitada	Full consolidation method	Lisbon	Miscellaneous	100.00
EUROMASTER PORTUGAL – SOCIEDADE UNIPESSOAL, LDA	Full consolidation method	Lisbon	Commercial	100.00
Poland				
Michelin Polska S.A.	Full consolidation method	Olsztyn	Manufacturing & commercial	100.00
Euromaster Polska sp. z.o.o.	Full consolidation method	Olsztyn	Commercial	100.00
Michelin Development Foundation (Fundacja Rozwoju Michelin)	Full consolidation method	Olsztyn	Miscellaneous	100.00
Dunlop Conveyor Belting Polska sp.zo.o	Full consolidation method	Mikołów	Manufacturing & commercial	100.00
Czech republic				
Euromaster Česká republika s.r.o. (Euromaster Ceska republika s.r.o.)	Full consolidation method	Prague	Commercial	100.00
Michelin Česká republika s.r.o. (Michelin Ceska republika s.r.o.)	Full consolidation method	Prague	Miscellaneous	100.00
IHLE Czech, s.r.o.	Full consolidation method	Plzen	Commercial	100.00
Romania				
Michelin Romania S.A.	Full consolidation method	Voluntari	Manufacturing & commercial	99.86
Euromaster Tyre & Services Romania S.A.	Full consolidation method	Voluntari	Commercial	100.00
IHLE ANVELOPE SRL	Full consolidation method	Pitesti	Commercial	100.00
United Kingdom				
Michelin Tyre Public Limited Company	Full consolidation method	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Full consolidation method	Birmingham	Commercial	100.00
Associated Tyre Specialists (Investment) Limited	Full consolidation method	Birmingham	Commercial	100.00
Blackcircles.com Limited	Full consolidation method	Edinburg	Commercial	100.00
Black Circles Holdings Limited	Full consolidation method	Edinburg	Miscellaneous	100.00
Livebookings Holdings Limited	Full consolidation method	London	Commercial	100.00
LB Central Limited	Full consolidation method	London	Commercial	100.00
BookaTable Limited	Full consolidation method	London	Commercial	100.00
Loghos Limited	Full consolidation method	London	Commercial	100.00
Michelin Europe (EEIG)	Full consolidation method	Stoke-on-Trent	Miscellaneous	99.96
Michelin Finance (U.K.) Limited	Full consolidation method	London	Financial	100.00
Michelin Lifestyle Limited	Full consolidation method	Stoke-on-Trent	Commercial	100.00
Michelin Development Limited	Full consolidation method	Stoke-on-Trent	Miscellaneous	100.00
TFM Holdings Limited	Full consolidation method	Eastleigh	Commercial	100.00
Michelin Travel Partner UK Limited	Full consolidation method	Stoke-on-Trent	Commercial	100.00
FENNER GROUP HOLDINGS LIMITED	Full consolidation method	Hessle	Parent	100.00
Fenner International Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
Hallite Seals International Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
James Dawson & Son Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
Dunlop Conveyor Belting Investments Limited	Full consolidation method	Hessle	Financial	100.00
Fenner N.A. Limited	Full consolidation method	Hessle	Financial	100.00
Hall & Hall Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (Advanced Engineering Products) Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (India) Limited	Full consolidation method	Hessle	Financial	100.00
James Dawson (China) Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Pension Scheme Trustee Limited	Full consolidation method	Hessle	Miscellaneous	100.00
Fenner International Australia Limited	Full consolidation method	Hessle	Financial	100.00
CDI Energy Products UK Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
BTL Limited	Full consolidation method	Hessle	Financial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
Fenner Advanced Sealing Investments Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Advanced Sealing Technologies Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Drives Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Dunlop Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Dynamics Limited	Full consolidation method	Hessle	Financial	100.00
Hallite (France) Limited	Full consolidation method	Hessle	Financial	100.00
Hallite Limited	Full consolidation method	Hessle	Financial	100.00
Hallite Polytek Limited	Full consolidation method	Hessle	Financial	100.00
Indico (Europe) Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (Fenaplast) Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (Special Belting) Limited	Full consolidation method	Hessle	Financial	100.00
Norwegian Seals UK Limited	Full consolidation method	Hessle	Financial	100.00
Turner Belting Limited	Full consolidation method	Hessle	Financial	100.00
Vulcanisers International Limited	Full consolidation method	Hessle	Financial	100.00
Serbia				
Tigar Tyres d.o.o.	Full consolidation method	Pirot	Manufacturing & commercial	100.00
Slovakia				
Michelin Slovensko, s.r.o.	Full consolidation method	Bratislava	Miscellaneous	100.00
IHLE SLOVAKIA s.r.o.	Full consolidation method	Bratislava	Commercial	100.00
IHLE SLOVAKIA LOGISTIC A SERVIS s.r.o.	Full consolidation method	Bratislava	Commercial	100.00
Slovenia				
Michelin Slovenija, pnevmatike, d.o.o.	Full consolidation method	Ljubljana	Miscellaneous	100.00
IHLE pnevmatike, d.o.o.	Full consolidation method	Maribor	Commercial	100.00
Sweden				
Euromaster AB	Full consolidation method	Varberg	Commercial	100.00
Michelin Nordic AB	Full consolidation method	Stockholm	Commercial	100.00
BookaTable AB	Full consolidation method	Stockholm	Commercial	100.00
2Book AB	Full consolidation method	Stockholm	Commercial	100.00
Switzerland				
Euromaster (Suisse) S.A.	Full consolidation method	Givisiez	Commercial	100.00
Nitor S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Full consolidation method	Givisiez	Commercial	100.00
Compagnie Financial Michelin SCmA	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Full consolidation method	Granges-Paccot	Miscellaneous	100.00
Michelin Mexico Properties Sàrl	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Inter Assistance S.A.	Full consolidation method	Granges-Paccot	Miscellaneous	100.00
Michelin Finanz Gesellschaft fuer Beteiligungen S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Invest S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Livebookings AG	Full consolidation method	Zürich	Commercial	100.00
Michelin Trésorerie Europe de l'Est S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Trésorerie Europe S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
IHLE Service & Logistik Schweiz AG	Full consolidation method	Bülach	Commercial	100.00
SWISSCO PROJECT S.A.	Equity method	Neuchâtel	Miscellaneous	20.00
Turkey				
Michelin Lastikleri Ticaret A.S.	Full consolidation method	Istanbul	Commercial	100.00
Euromaster Lastik Ve Servis Limited Sirketi	Full consolidation method	Istanbul	Commercial	100.00
AFRICA/INDIA/MIDDLE EAST				
South Africa				
Michelin Tyre Company South Africa Proprietary Limited	Full consolidation method	Boksburg	Commercial	100.00
Fenner (South Africa) (Pty) Limited	Full consolidation method	Isando	Financial	100.00
Fenner Conveyor Belting (South Africa) (Pty) Limited	Full consolidation method	Isando	Manufacturing & commercial	71.00

Companies	Consolidation method	Registered office	Nature	% of interest
Algeria				
Michelin Algérie SPA	Full consolidation method	Algiers	Commercial	100.00
Société d'Applications Techniques Manufacturings	Full consolidation method	Algiers	Commercial	100.00
Cameroon				
Société Moderne du Pneumatique Camerounais	Full consolidation method	Douala	Commercial	100.00
Ghana				
Dunlop Conveyor Belting Ghana Limited	Full consolidation method	Accra	Manufacturing & commercial	100.00
Morocco				
Fenner Dunlop Maroc SARL	Full consolidation method	Casablanca	Manufacturing & commercial	100.00
Nigeria				
Michelin Tyre Services Company Ltd.	Full consolidation method	Lagos	Commercial	95.48
India				
Michelin India Private Limited	Full consolidation method	Chennai	Manufacturing	100.00
Michelin India Technology Center LLP	Full consolidation method	Gurgaon	Miscellaneous	100.00
Fenner Conveyor Belting Private Limited	Full consolidation method	Madurai	Manufacturing & commercial	100.00
Hallite Sealing Solutions India Private Limited	Full consolidation method	Bangalore	Manufacturing & commercial	100.00
Saudi Arabia				
E.A. Juffali & Brothers for Tyres	Equity method	Jeddah	Commercial	50.00
United Arab Emirates				
Michelin AIM FZE	Full consolidation method	Jafza (Dubai)	Miscellaneous	100.00
Dunlop Conveyor Belting Distribution FZE	Full consolidation method	Dubai	Manufacturing & commercial	100.00
Dunlop Service Middle East, LLC	Full consolidation method	Dubai	Manufacturing & commercial	49.00
NORTH AMERICA				
Canada				
Michelin North America (Canada) Inc.	Full consolidation method	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	Full consolidation method	New Glasgow	Commercial	100.00
Michelin Development (Canada) Inc.	Full consolidation method	New Glasgow	Miscellaneous	100.00
Oliver Rubber Canada Limited	Full consolidation method	Granton, Nova Scotia	Commercial	100.00
Fenner Dunlop (Bracebridge), Inc.	Full consolidation method	Bracebridge	Manufacturing & commercial	100.00
Hallite Seals (Canada) Ltd	Full consolidation method	Mississauga	Manufacturing & commercial	100.00
United States of America				
Michelin North America, Inc.	Full consolidation method	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Full consolidation method	Wilmington	Commercial	100.00
CR Funding Corporation	Full consolidation method	Wilmington	Financial	100.00
Michelin Corporation	Full consolidation method	New York	Financial	100.00
Oliver Rubber Company, LLC	Full consolidation method	Wilmington	Manufacturing	100.00
NexTraq LLC	Full consolidation method	Wilmington	Commercial	100.00
Tire Centers West, LLC	Full consolidation method	Wilmington	Commercial	100.00
Pelham 2 Corp.	Full consolidation method	Wilmington	Financial	100.00
Lehigh Technologies, Inc.	Full consolidation method	Wilmington	Commercial	100.00
BookaTable Inc.	Full consolidation method	New York	Commercial	100.00
ViaMichelin North America LLC	Full consolidation method	Greenville	Commercial	100.00
TBC CORPORATION	Equity method	Palm Beach Gardens	Commercial	50.00
Padfield Inc.	Equity method	Salt Lake City	Commercial	20.47
T & W TIRE, L.L.C.	Equity method	Oklahoma City	Commercial	25.00
Snider Tire, Inc.	Equity method	Greensboro	Commercial	31.03
Fenner Inc.	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner America, Inc.	Full consolidation method	Wilmington	Financial	100.00
Fenner Advanced Sealing Technologies, LLC	Full consolidation method	Wilmington	Financial	100.00
Fenner U.S., Inc.	Full consolidation method	Wilmington	Financial	100.00
American Industrial Plastics, LLC	Full consolidation method	Plantation	Manufacturing & commercial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
CDI Energy Products, LLC	Full consolidation method	Dallas	Manufacturing & commercial	100.00
Hallite Seals Americas, LLC	Full consolidation method	Plymouth	Manufacturing & commercial	100.00
Solesis Medical Technologies, Inc.	Full consolidation method	Harrisburg	Financial	100.00
Charter Medical, Limited	Full consolidation method	Raleigh	Manufacturing & commercial	100.00
SanaVita Medical, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
The Secant Group, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner Dunlop Conveyor Systems and Services, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner Dunlop Americas, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner Dunlop (Port Clinton), LLC	Full consolidation method	Columbus	Manufacturing & commercial	100.00
Fenner Dunlop (Toledo), LLC	Full consolidation method	Columbus	Manufacturing & commercial	100.00
Mexico				
Michelin Mexico Holding, S.A. de C.V.	Full consolidation method	Queretaro	Financial	100.00
Industrias Michelin, S.A. de C.V.	Full consolidation method	Queretaro	Manufacturing & commercial	100.00
AUTOPARTES INTERNACIONALES DE GUANAJUATO LEÓN, S.A. de C.V.	Full consolidation method	Ciudad de León	Miscellaneous	100.00
Michelin Sascar Mexico S.A. de C.V.	Full consolidation method	Queretaro	Commercial	100.00
Michelin Mexico Services, S.A. de C.V.	Full consolidation method	Queretaro	Miscellaneous	100.00
Autopartes Internacionales de Queretaro, S.A. de C.V.	Full consolidation method	Queretaro	Manufacturing & commercial	100.00
Panama				
Michelin Panama Corp.	Full consolidation method	Panama	Miscellaneous	100.00
SOUTH AMERICA				
Argentina				
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Full consolidation method	Buenos Aires	Commercial	100.00
Brazil				
Sociedade Michelin de Participações, Indústria e Comércio Ltda.	Full consolidation method	Rio de Janeiro	Manufacturing & commercial	100.00
Sociedade Tyreplus Brasil Ltda.	Full consolidation method	Rio de Janeiro	Commercial	100.00
Plantações Michelin da Bahia Ltda.	Full consolidation method	Rio de Janeiro	Miscellaneous	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda.	Full consolidation method	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda.	Full consolidation method	Rio de Janeiro	Miscellaneous	100.00
Sascar Tecnologia e Segurança Automotiva S.A.	Full consolidation method	Barueri	Miscellaneous	100.00
Industrial Levorin S.A.	Full consolidation method	Guarulhos	Manufacturing & commercial	100.00
Neotec Indústria e Comércio de Pneus Ltda.	Full consolidation method	Manaus	Manufacturing & commercial	100.00
LevNeo Participações Ltda.	Full consolidation method	Guarulhos	Miscellaneous	100.00
FAST APARELHOS ELETROELETRÔNICOS S.A.	Full consolidation method	Campinas	Miscellaneous	100.00
SEVA Engenharia Eletrônica S.A.	Full consolidation method	Contagem	Miscellaneous	100.00
Chile				
Michelin Chile Ltda.	Full consolidation method	Santiago	Commercial	100.00
Conveyor Services S.A.	Full consolidation method	Antofagasta	Manufacturing & commercial	66.00
Fenner International Chile Limitada	Full consolidation method	Las Condes	Financial	100.00
Fenner Dunlop Chile SpA	Full consolidation method	Las Condes	Financial	100.00
Colombia				
Industria Colombiana de Llantas S.A.	Full consolidation method	Bogotá	Commercial	99.96
Ecuador				
Michelin del Ecuador S.A.	Full consolidation method	Quito	Commercial	100.00
Peru				
Michelin del Perú S.A.	Full consolidation method	Lima	Commercial	100.00
Venezuela				
Michelin Venezuela, S.A.	Equity method	Valencia	Commercial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
SOUTHEAST ASIA/AUSTRALIA				
Australia				
Michelin Australia Pty Ltd	Full consolidation method	Melbourne	Commercial	100.00
Hallite Seals Australia Pty Limited	Full consolidation method	Blacktown	Manufacturing & commercial	100.00
Transeals Pty Limited	Full consolidation method	Welshpool	Financial	100.00
Fenner Dunlop Australia Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Fenner (Pacific) Pty Limited	Full consolidation method	West Footscray	Financial	100.00
Fenner Australia Financing Pty Limited	Full consolidation method	West Footscray	Financial	100.00
Australian Conveyor Engineering Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Fenner Dunlop Conveyor Services Pty Limited	Full consolidation method	West Footscray	Financial	100.00
Fenner Investments Australia Limited Partnership	Full consolidation method	West Footscray	Financial	100.00
BBV partnership	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Apex MasterBlast Trust	Full consolidation method	West Footscray	Financial	100.00
Australian Conveyor Technologies	Full consolidation method	Somersby	Financial	100.00
Control X Engineering	Full consolidation method	West Footscray	Financial	100.00
Belle Banne Conveyor Services Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Leading Edge Conveyor Services Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Indonesia				
PT Michelin Indonesia	Full consolidation method	Jakarta	Commercial	100.00
PT Synthetic Rubber Indonesia	Full consolidation method	Jakarta	Manufacturing	55.00
PT ROYAL LESTARI UTAMA	Equity method	Jakarta	Miscellaneous	49.07
Malaysia				
Michelin Malaysia Sdn. Bhd.	Full consolidation method	Petaling Jaya	Commercial	100.00
Michelin Services (S.E.A.) Sdn. Bhd.	Full consolidation method	Petaling Jaya	Miscellaneous	100.00
New Zealand				
Tyreline Distributors Limited	Equity method	Hamilton	Commercial	25.00
Beau Ideal Limited	Equity method	Te Awamutu	Commercial	25.01
Singapore				
Michelin Asia (Singapore) Co. Pte. Ltd.	Full consolidation method	Singapore	Commercial	100.00
Michelin Asia-Pacific Pte Ltd	Full consolidation method	Singapore	Miscellaneous	100.00
Michelin Asia-Pacific Import (SG) Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Michelin Asia-Pacific Export (SG) Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Michelin Asia-Pacific Import-Export (SG) Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Société des Matières Premières Tropicales Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Wine Advocate Pte. Ltd.	Equity method	Singapore	Miscellaneous	40.00
Fenner Singapore Pte. Ltd	Full consolidation method	Singapore	Financial	100.00
CDI Multiseals Pte. Ltd	Full consolidation method	Singapore	Manufacturing & commercial	100.00
Thailand				
Michelin Siam Company Limited	Full consolidation method	Bangkok	Manufacturing & commercial	100.00
Michelin Experience (E2A) Co., Ltd.	Full consolidation method	Bangkok	Commercial	49.00
Michelin ROH Co., Ltd.	Full consolidation method	Bangkok	Miscellaneous	100.00
NTeq Polymer Co., Ltd.	Equity method	Surat Thani	Miscellaneous	45.00
Vietnam				
Michelin Vietnam Company Limited	Full consolidation method	Ho Chi Minh City	Commercial	100.00
CHINA				
China				
Michelin Shenyang Tire Co., Ltd.	Full consolidation method	Shenyang	Manufacturing	100.00
Shanghai Michelin Tire Co., Ltd.	Full consolidation method	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Full consolidation method	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00
Shanghai Suisheng Information Technology Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
Michelin Tire Research and Development Center (Shanghai) Co., Ltd.	Full consolidation method	Shanghai	Miscellaneous	100.00
Tyre Plus (Shanghai) Auto Accessories Trading Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00
Michelin (Shanghai) Aircraft Tires Trading Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00
DT Asia Holding Co., Limited	Equity method	Hong Kong	Commercial	40.00
Dawson Polymer Products (Shanghai) Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Hallite Shanghai Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Dunlop Conveyor Belting (Shanghai) Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Shanghai Fenner Conveyor Belting Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	85.00
Fenner Management (Shanghai) Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Taiwan				
Michelin Tire Taiwan Co., Ltd.	Full consolidation method	Taipei	Commercial	100.00
EASTERN EUROPE				
Russia				
Michelin Russian Tyre Manufacturing Company LLC	Full consolidation method	Davydovo	Manufacturing & commercial	100.00
Ukraine				
Michelin Ukraine LLC	Full consolidation method	Kiev	Commercial	100.00
JAPAN/KOREA				
Japan				
Nihon Michelin Tire Co., Ltd.	Full consolidation method	Tokyo	Commercial	100.00
South Korea				
Michelin Korea Co., Ltd.	Full consolidation method	Seoul	Commercial	100.00

NOTE 37 STATUTORY AUDITORS' FEES

	Deloitte				PricewaterhouseCoopers			
	Issuer's auditor (Deloitte & Associés)		Network		Issuer's auditor (PricewaterhouseCoopers Audit)		Network	
(in € thousand)	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit, certification and half-year limited review of the individual and consolidated financial statements								
▶ Issuer	620	48%	-	-	635	47%	-	-
▶ Fully consolidated subsidiaries	660	52%	2,552	100%	716	53%	3,542	100%
Sub-total	**1,280**	**100%**	**2,552**	**100%**	**1,351**	**100%**	**3,542**	**100%**
Other services than certification of accounts								
▶ Issuer(1)	37	100%	579	49%	108	69%	-	-
▶ Fully consolidated subsidiaries(2)	-	0%	588	51%	48	31%	1,522	100%
Sub-total	**37**	**100%**	**1,167**	**100%**	**156**	**100%**	**1,522**	**100%**
TOTAL	**1,317**		**3,719**		**1,507**		**5,064**	

(1) These services include the issuance of a comfort letter by the Statutory Auditors in relation to a bond issue and an independent third-party body mission by the audit firm PricewaterhouseCoopers Audit.
(2) These services relate mainly to certificates issued by the audit firm PricewaterhouseCoopers Audit.

7.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

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 includes information specifically required by French law, such as information about the appointment of Statutory Auditors or verification of the Managing Chairman' management report and other documents provided to the 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, 2018.

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 at December 31, 2018 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 these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2018 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) 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 inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Impact of the Group's reorganization on segment information and the structure of the CGUs or groups of CGUs used to calculate impairment

Risk identified

Note 2.5 to the consolidated financial statements describes the new managerial and operational organization introduced by the Group on January 1, 2018 and the impacts of those changes on financial information.

With respect to the structure of segment information, the changes are not material: three Business Directions (DBs) have been created corresponding to the Group's tire operations (the "Tire DBs"). A further DB encompasses all operations that relate to the Tire DBs, in particular Distribution and Services & Solutions. Given the operations that fall within the scope of the DBs and the manner in which they are managed by Group Management (as reflected in the dashboard), the new organization does not have a significant impact on the published segment information. The segment information for 2017 provided in Note 5 to the consolidated financial statements has been restated in accordance with the new organization.

The reorganization has only had an impact on tire operations, with changes to the respective responsibilities of the Business Lines, Regions and Operational Directions.

Consequently, the structure of cash-generating units (CGUs) or groups of CGUs for the purpose of goodwill impairment testing has been affected, as described in Notes 2.5, 3.17 and 13.2 to the consolidated financial statements:

- CGUs are based on groups of finished product manufacturing assets which meet industrial coherence and target market criteria, in terms of offering and geography. In this respect, they differ only slightly from the previous CGUs;

- for groups of CGUs, goodwill is now managed at a global level for all tire operations, reflecting the operational implementation of the synergies identified at the time of the acquisitions. Goodwill was previously managed at a regional level for the Passenger car/Light truck and Truck tire businesses. This change particularly concerns Services & Solutions which are tested in 2018 within the group of CGUs corresponding to the Truck tire business.

We considered the impact of the change in the Group's organization with respect to segment information and the structure of the CGUs and groups of CGUs used to calculate impairment to be a key audit matter for the following two reasons:

- the degree of judgment required by Management with respect to the configuration of the reporting segments presented in segment information and the shift from a regional to a global level for the management of all groups of CGUs;
- the structural impact of these decisions on the presentation of the different businesses' performance within the segment information and on the measurement of assets for impairment testing purposes.

How our audit addressed this risk

Our work involved:

- obtaining an understanding of the new organization and the differences with the previous organization, in particular the respective responsibilities of the different Operational Directions, the management of industrial assets and production, the performance indicators used and the dashboard used by Group Management.

Segment information

- verifying the consistency of the reporting segments used to present segment information with the dashboard used by Group Management;
- assessing the relevance of the method applied to calculate the data used to restate the segment information published at December 31, 2017 and verifying the underlying calculations;
- examining the compliance of the reporting segments defined and presented in Note 5 to the consolidated financial statements with IFRS.

Structure of CGUs and groups of CGUs

- examining the compliance of the structure of the CGUs and groups of CGUs used by Management with the provisions of IAS 36 "Impairment of Assets" and IFRS 8 "Operating Segments";
- assessing the relevance of the structure of CGUs and groups of CGUs with regard to the new organization;
- verifying the appropriateness of the disclosures provided in Notes 2.5, 3.17 and 13.2 to the consolidated financial statements.

Impairment of non-financial assets

Risk identified

At December 31, 2018, the Group held non-financial assets (i.e., goodwill, intangible assets and property, plant and equipment) in the amount of €15,874 million, for total assets on the balance sheet of €29,448 million. Its non-financial assets primarily comprise property, plant and equipment in the amount of €11,379 million, the major portion of which relates to the Group's production sites. The remainder mainly comprises goodwill (€1,472 million) or unallocated goodwill, in particular the goodwill of the Camso group (€1,159 million) acquired in December 2018.

Note 3.17 to the consolidated financial statements describes the methods used by the Group to ensure that, at least annually for goodwill or where there is an indication of impairment for other non-financial assets, the carrying amount of the non-current non-financial assets allocated to the cash-generating units (CGUs) does not exceed their recoverable amount. For the majority of the assets, the recoverable amount is assessed based on discounted cash flows, using the Group's five-year plans. For the Distribution CGUs, the recoverable amount is measured based on the fair value, less costs of disposal, of land and buildings, which represent most of their assets.

We considered the value of non-financial assets to be a key audit matter due to their materiality in the consolidated balance sheet and because the determination of their recoverable amount requires judgment, notably for the cash flow projections and the discount rates applied.

How our audit addressed this risk

With the assistance of our valuation experts, we performed the following procedures with respect to impairment tests:

- examined the compliance of the method applied by the Group with the provisions of IAS 36 "Impairment of Assets", taking into account the impacts of the internal reorganization effective from January 1, 2018;
- performed a critical assessment of the analyses conducted by the Group to identify the assets carrying a risk of impairment;
- reconciled the value of the assets subject to the impairment tests with the accounts;
- verified that the cash flow projections used are consistent with the budget forecasts validated by Management;
- assessed the reasonableness of the revenue, EBITDA and investment forecasts – which are the main assumptions underlying the cash flow amounts – with the finance managers of the relevant businesses, in particular with respect to past performance and by performing sensitivity analyses on the various inputs;
- assessed the reasonableness of the discount rates and the long-term growth rates used to perform the impairment tests, based on comparable market data;
- verified the appropriateness of the disclosures provided in Notes 2.5, 2.6.1, 3.17 and 13.2 to the consolidated financial statements.

Measurement of the assets acquired and liabilities assumed in connection with the acquisition of Fenner Plc

Risk identified

Following the completion of a takeover bid, the Group acquired UK group Fenner Plc for a total amount of GBP 1.2 billion. Fenner has been fully consolidated since May 31, 2018. The business combination has been recognized in accordance with IFRS 3, which requires that the assets acquired and liabilities assumed through the acquisition be measured and recognized at fair value at the takeover date.

Following the recognition of the business combination at the takeover date (May 31, 2018), the following material assets have been recognized in the consolidated balance sheet: (i) 13 brands in a total amount of €328 million, of which €178 million will be amortized over 20 years and the remainder have indefinite useful lives; (ii) 8 customer relationships in a total amount of €687 million, which will be amortized over an average period of 20 years. The identified liabilities are primarily comprised of deferred tax liabilities resulting from the measurements performed, in an amount of €240 million.

These measurements, in particular of identifiable assets such as brands and customer relationships, were carried out with the assistance of an external expert, using methods generally used for these types of assets.

These methods are complex and based on numerous assumptions that require judgment, such as forecast data or market comparisons. We considered the recognition and presentation of the acquisition of Fenner Plc to be a key audit matter given the material amount of the assets acquired and liabilities assumed and the judgment required to identify and measure these assets and liabilities in accordance with IFRS 3.

Information about the business combination and its recognition are provided in Notes 2.6.4, 4.2 and 13.1.1 to the consolidated financial statements.

How our audit addressed this risk

We gained an understanding of the terms of the acquisition agreement and the processes implemented by Management to analyze and recognize the acquisition of Fenner Plc.

With the assistance of our valuation experts, our procedures consisted in:

- verifying the appropriateness of the recognition method used by Management;
- examining the calculation of the fair value of the consideration transferred based on the acquisition price;
- analyzing the work performed by Management to identify and measure the assets and liabilities of the acquired company;
- assessing the relevance of the measurement methods used for the main asset categories with regard to commonly used practices (relief from royalty method for brands and excess earning method for customer relationships) and verifying the consistency of the measurement inputs with the documentation obtained from Fenner's management team or external data from comparable companies;
- assessing the reasonableness of the amortization periods used in light of the estimated useful lives of the identified assets;
- verifying the purchase price allocation to the assets acquired and liabilities assumed based on the results of the measurements performed and the determination of the residual goodwill;
- analyzing the work performed by Management in connection with the goodwill allocation to the cash-generating units (CGUs);
- verifying the appropriateness of the disclosures provided in Notes 2.6.4, 4.2 and 13.1.1 to the consolidated financial statements.

Employee benefit obligations under defined benefit plans

Risk identified

The Group has set up several post-employment defined contribution and benefit plans, mainly pension and health insurance plans and end-of-service 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 Group's cumulative employee benefit obligations amounted to €10,056 million at December 31, 2018. Given that some of these liabilities are covered by dedicated assets (plan assets) with a fair value of €6,206 million, mainly in North America and the United Kingdom, the provision recognized in the consolidated balance sheet at December 31, 2018 amounted to €3,850 million.

In order to measure the Group's obligations under the defined benefit plans and the expense to be recognized during the period, Management must exercise significant judgment to determine, for each of the relevant countries and plans, the appropriate assumptions to be used, the main ones being the discount and inflation rates and demographic assumptions such as the long-term rate of change in salaries and mortality tables.

Management also exercises judgment to measure the fair value of the plan assets.

Changes in any of the key assumptions underlying the measurements can have a material impact on the measurement of the recognized net liability and on the Group's results. Accordingly, Management calls upon external actuaries to assist in determining these assumptions. We considered the measurement of the benefit obligations and plan assets resulting from the defined benefit plans to be a key audit matter given their amounts, the significant judgment exercised by Management to determine the main actuarial or demographic assumptions and the resulting sensitivity.

How our audit addressed this risk

We made inquiries about the process implemented by Management to measure the Group's obligations under post-employment defined benefit plans as well as the related plan assets, for the main plans in North America, the United Kingdom, Germany and France.

With the assistance of our experts, our procedures mainly consisted in:

- assessing the reasonableness of the main assumptions used, in particular 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, etc.) with the details of the plans.

Our other procedures consisted in:

- examining the impact of the main amendments made to certain plans and verifying their correct recognition;
- regarding plan assets, making inquiries about the process implemented by Management to document the existence and measurement of these assets and, using sampling techniques, verifying their existence and the consistency of their measurement with the confirmations from third parties;
- using sampling techniques, confirming that individual data and the actuarial and demographic assumptions used by Management have been correctly transcribed by the external actuaries in their calculation of the Group's benefit obligations;
- verifying the appropriateness of the disclosures provided in Notes 9.4 and 27.1 to the consolidated financial statements.

Tax dispute in Germany

Risk identified

The Group carries out its business activities in different and sometimes uncertain and volatile legal and regulatory environments, particularly as regards tax rules. In the ordinary course of business, the tax and social security authorities in the countries in which the Group operates have questions relating to its activities. These audits can result in tax adjustments or disputes with the relevant local authorities.

The estimated risk relating to each dispute is reviewed regularly by the management team of the relevant subsidiary and at Group level, with the assistance of outside counsel for the most material or complex disputes. More specifically, the Group is involved in a dispute with the local authorities in Germany, following a tax audit covering the years 2005-2009. The resulting tax adjustment, which primarily concerns transfer pricing, amounts to €382 million.

Relying on internal analyses and the advice of its outside counsel, Management does not accept the local authorities' position and does not consider the residual risk to be material.

The matter is described in Note 32.2.2 to the consolidated financial statements.

We considered the tax dispute in Germany to be a key audit matter given the potential amounts at stake, the complexity of the related tax regulations and the significant level of judgment required to determine the accounting positions relating to this dispute.

How our audit addressed this risk

With the assistance of our experts, we performed the following procedures:

- conducted interviews with the local management teams of the relevant entities and at Group level to assess the status of the proceedings and to quantify the potential impact on the consolidated financial statements of the adjustments notified or in the process of being notified by the tax authorities and of the disputes underway with the local authorities;
- consulted the decisions of the local legal and tax authorities as well as the relevant Group entities' correspondence with those authorities and with their outside counsel;
- verified that the accounting treatment of the risk relating to the dispute in Germany complies with the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

We also assessed the appropriateness of the disclosures provided in Note 32.2.2 to the consolidated financial statements.

/ Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified 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.

We attest that the Group management report includes the consolidated non-financial information statement required under Article L. 225-102-1 of the French Commercial Code. However, in accordance with Article L. 823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

/ 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.

At December 31, 2018, PricewaterhouseCoopers Audit and Deloitte & Associés were in the 15th and 9th consecutive year of their engagement, respectively.

/ Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of 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 expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Managing Chairman.

/ Responsibilities of the Statutory Auditors relating to 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 of 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 taken by users on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their 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;
- obtain an understanding of the internal control procedures 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess 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 the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain 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 Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

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 the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in 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 any risks to our independence and the related safeguard measures with the Audit Committee.

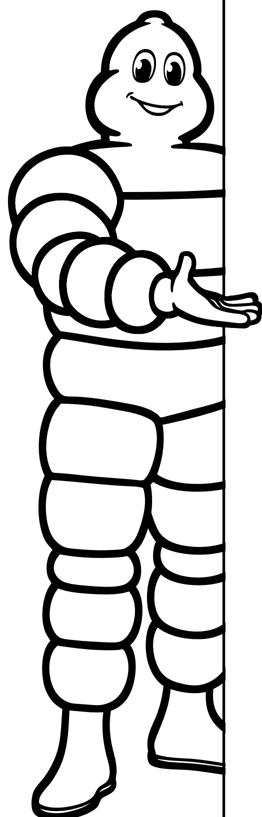
Paris-La Défense and Neuilly-sur-Seine, February 11, 2019

The Statutory Auditors

Deloitte & Associés	**PricewaterhouseCoopers Audit**
Pascale Chastaing-Doblin	Jean-Christophe Georghiou

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 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 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 €813.2 million in 2018, versus €1,029.3 million in 2017.

8.1.1 a) Operating income

Operating income amounted to €322.8 million in 2018, compared with €151.7 million in 2017. Royalty revenue grew by 31.4% during the year, reflecting a similar rise in net sales by Group companies, while operating expenses increased by €65.7 million to €615.5 million from €549.8 million in 2017.

8.1.1 b) Financial income

Net financial income amounted to €538.3 million in 2018, compared with €861.5 million the previous year, reflecting a fall in dividend income.

8.1.2 BALANCE SHEET

Equity amounted to €7,486 million at December 31, 2018, versus €7,338 million a year earlier. The net increase corresponded mainly to recognition of the Company's significant net income for the year less payment of the 2017 dividend for €647 million.

8.2 FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (PARENT)

BALANCE SHEET AT DECEMBER 31, 2018

			December 31, 2018			December 31, 2017
Assets *(in € thousands)*		Note	Cost	Depreciation, amortization & provisions	Net	Net
Non-current assets						
Intangible assets						
Brands, licenses and other rights			449,349	121,356	327,993	375,587
Other intangible assets			61	61	0	0
		5-6	**449,410**	**121,417**	**327,993**	**375,587**
Property and equipment						
Land			102	0	102	102
Buildings			1,837	1,837	0	0
Other			346	346	0	0
		5-6	**2,285**	**2,183**	**102**	**102**
Investments						
Shares in subsidiaries and affiliates		5-6-7-19	7,823,631	161,939	7,661,692	6,078,726
Loans and advances to subsidiaries and affiliates[(1)]		5-7-9	1,151,179	0	1,151,179	892,805
Loans[(2)]		5-6-7-9	263,543	925	262,618	252,079
Other equity interests		5-7-20	2,920	0	2,920	2,860
		5-7-9	**9,241,273**	**162,864**	**9,078,409**	**7,226,470**
	(I)		**9,692,968**	**286,464**	**9,406,504**	**7,602,159**
Current assets						
Receivables		7-9	727,190	0	727,190	617,945
Derivative instruments		8	132,067	29,023	103,044	43,068
Cash			1,417,144	0	1,417,144	1,150,977
			2,276,401	**29,023**	**2,247,378**	**1,811,990**
Prepaid expenses			87	0	87	89
	(II)		**2,276,488**	**29,023**	**2,247,465**	**1,812,079**
Deferred charges and bond call premiums	**(III)**	8	**48,664**	**2,556**	**46,108**	**2,214**
Conversion losses	**(IV)**	8	**1,693**	**0**	**1,693**	**65,370**
TOTAL ASSETS	**(I)+(II)+(III)+(IV)**		**12,019,813**	**318,043**	**11,701,770**	**9,481,822**
(1) Of which: short-term					*835,179*	*892,805*
(2) Of which: short-term					*1,543*	*110,079*

EQUITY AND LIABILITIES *(in € thousands)*		Note	December 31, 2018	December 31, 2017
Equity				
Share capital		11	359,695	359,042
Paid-in capital in excess of par		11	2,923,472	2,941,581
Revaluation reserve		12	624,772	624,772
Other reserves		12	1,283,866	1,284,255
Retained earnings		12	1,419,799	1,037,347
Net income for the year		12	813,150	1,029,300
Untaxed reserves		12	61,598	61,598
	(I)		**7,486,352**	**7,337,895**
Liabilities[1]				
Convertible bonds		8-10	1,049,125	505,550
Ordinary bonds and other borrowings		8-10	2,707,845	146,538
Other financial liabilities[2]		7-10	9,494	910,606
Accrued taxes and payroll costs		10	7,092	4,914
Other liabilities		7-10	417,720	459,163
Derivative instruments		8	20,215	53,538
	(II)		**4,211,491**	**2,080,309**
Conversion gains	**(III)**	**8**	**3,927**	**63,618**
TOTAL EQUITY AND LIABILITIES	**(I)+(II)+(III)**		**11,701,770**	**9,481,822**
(1) Of which: long-term			*3,569,340*	*560,244*
Of which: short-term			*642,151*	*1,520,065*
(2) Of which: short-term bank loans and overdrafts			*0*	*0*

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

(in € thousands)		Note	2018	2017
Revenue				
Royalties – of which, export revenues: 833,146		14	895,113	681,188
Other revenue			10,901	12,894
Exchange gains			32,239	7,459
Total revenue	**(I)**		**938,253**	**701,541**
Operating expenses				
External charges[1]			520,786	483,768
Taxes other than on income			12,299	10,278
Payroll costs			1,246	123
Depreciation and amortization		6	48,696	47,571
Other expenses			537	536
Exchange losses			31,896	7,554
Total operating expenses	**(II)**		**615,460**	**549,830**
OPERATING INCOME	**(I)-(II)**		**322,793**	**151,711**
Financial income				
Dividends from subsidiaries and affiliates[2]		2.2	626,854	845,093
Interest income[2]			41,914	19,585
Provision reversals[2]			0	3,004
Exchange gains			22,184	1,587
Total financial income	**(III)**		**690,952**	**869,269**
Financial expense				
Amortization and provision expense[3]			118,677	1,120
Interest expense[3]			30,585	6,614
Exchange losses			3,403	0
Total financial expenses	**(IV)**		**152,665**	**7,734**
NET FINANCIAL INCOME	**(III)-(IV)**		**538,287**	**861,535**
INCOME BEFORE NON-RECURRING ITEMS AND TAX	**(I-II+III-IV)**		**861,080**	**1,013,246**
Non-recurring income			0	0
Non-recurring expenses			0	0
NET NON-RECURRING INCOME (EXPENSE)	**(V-VI)**		**0**	**0**
INCOME TAX BENEFIT (EXPENSE)	**(VII)**	**15**	**47,930**	**(16,054)**
Total revenue	(I+III+V)		1,629,205	1,570,810
Total expenses	(II+IV+VI+VII)		816,055	541,510
NET INCOME			**813,150**	**1,029,300**
(1) External charges primarily comprise R&D and services costs rebilled to the Company by the subsidiaries.				
(2) Of which: income from related parties			*642,467*	*860,237*
(3) Of which: expenses paid to related parties			98,072	*1,669*

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 Managing Chairman on February 8, 2019 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. 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.

2.2. In April 2018, Compagnie Financière Michelin SCmA paid a total of €627 million in **dividends.**

2.3. In March 2018, the Company and **Fenner Plc** ("Fenner") announced that they had reached an agreement on the terms of a recommended cash acquisition pursuant to which Michelin would acquire the entire issued and to be issued share capital of Fenner by means of a Court-sanctioned scheme of arrangement under Part 26 of the United Kingdom's Companies Act 2006. After Fenner's shareholders approved the Scheme in May and clearance from the antitrust authorities was obtained, the Scheme was sanctioned by the Court and the acquisition became effective on May 31, 2018. Each Fenner shareholder subject to the Scheme received 610 pence in cash for each Fenner share on or before June 14, 2018, valuing Fenner at approximately GBP 1.2 billion on an enterprise value basis. Fenner is controlled by the Company and has therefore been fully consolidated in the Michelin Group's financial statements since May 31, 2018.

Headquartered in Hessle, United Kingdom, Fenner is one of the leaders in the heavy conveyor belts industry and a global player in the heavy and complex conveyor belt solution market. It is a leading player in reinforced polymer technology as well.

With this acquisition, the Michelin Group's ambition is to provide mining industry customers with a comprehensive offering, ranging from tires to conveyor belts with related services and solutions, and to enhance both companies' geographical reach. Furthermore, the transaction is expected to broaden the Group's high-technology materials expertise and innovation capacity.

2.4. Under the **share buyback program** authorized at the May 19, 2017 Annual Shareholders Meeting, an agreement was signed in February 2018 by which the Company undertook to buy back from an investment services provider a variable number of shares before November 22, 2018, for a maximum amount of €75 million. The investment service provider applied the acceleration clause contained in the contract and completed the program before the end of the first half of 2018. All of the bought-back shares had been canceled as of June 30, 2018. The 648,231 shares were acquired at an average price of €115.70 per share.

2.5. In early September 2018, the Company carried out a €2.5 billion **bond issue** comprising three tranches with 7, 12 and 20-year maturities. The 7-year tranche for an amount of €750 million pays interest at 0.875% and was issued at 99.099% of par. The 12-year tranche for an amount of €1 billion pays interest at 1.75% and was issued at 99.262% of par. The 20-year tranche for an amount of €750 million pays interest at 2.5% and was issued at 99.363% of par.

2.6. A total of 578,639 shares were issued during the year in connection with the Group's 2018 employee share ownership plan (Note 13).

2.7. The Company underwrote a €234 million share issue by Canada Inc. to help finance this subsidiary's acquisition of the Camso Group. The total acquisition cost was €1.2 billion and two other Michelin Group companies also participated in its financing.

Reporting net sales of USD 1 billion in 2017, Camso has been designing, manufacturing and marketing OTR mobility solutions since 1982. It is headquartered in Magog, Quebec (Canada). Camso is a market leader in rubber tracks for farm equipment and ranks among the top three players in the construction market, in track and tire solutions for small heavy equipment.

By joining forces with Camso, Michelin will create the world's number one OTR market player. The transaction will enable Michelin to offer its OTR customers a comprehensive range of products, such as radial tires and tracks for farm equipment, and radial and bias tires and tracks for construction equipment. The deployment of the new entity's offer will be accelerated by the complementarity of both Michelin and Camso's distribution networks. In technology, cooperation between Camso and Michelin researchers will bolster the Group's innovation capacity in tracks and airless tires. In addition, Camso has a strong manufacturing presence in emerging markets, particularly in Sri Lanka and Vietnam.

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 Standards Board (ANC). 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. Brands have an indefinite life and are not amortized. Patents and other rights are amortized on a straight-line basis over seven years. If there is any indication that the value of brands, patents or other rights 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.

4.2. Property and equipment

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.

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

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.

The value in use of shares in subsidiaries and affiliates is estimated annually, based on the investee's net assets, profitability and outlook, and its value in use for the investor company. Shares in subsidiaries and affiliates are written down in the event of a lasting decline in value in use to below cost.

Investment acquisition costs are recorded as an expense on the transaction date.

4.3.2. Loans and advances to subsidiaries and affiliates

Loans and advances to subsidiaries and affiliates 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.

In accordance with regulation ANC 2015-5 dated September 1, 2017, separate accounting treatments are applied to commercial transactions in foreign currencies and financial transactions in foreign currencies:

- exchange gains and losses on commercial transactions are included in operating income and expenses;
- exchange gains and losses on financial transactions are included in financial income and expenses.

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.

4.8.2. Currency derivatives qualifying forhedge 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 has 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 2.1.

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 in the income statement includes current taxes due by the tax group and tax credits.

4.10. Other financial liabilities

Other financial liabilities are stated at their nominal value.

Debt issuance costs are recorded in deferred charges.

NOTE 5 NON-CURRENT ASSETS

(in € thousands)	Cost at January 1, 2018	Additions, new loans, increases in accrued interest	Disposals, decommissioning, reduction in loans and accrued interest	Cost at December 31, 2018
Intangible assets	449,410	0	0	449,410
Property and equipment	2,285	0	0	2,285
	451,695	**0**	**0**	**451,695**
Shares in subsidiaries and affiliates	6,145,995	1,677,636	0	7,823,631
Loans and advances to subsidiaries and affiliates	892,805	908,374	(650,000)	1,151,179
Loans	252,679	121,464	(110,600)	263,543
Other equity interests	2,860	80	(20)	2,920
	7,294,339	**2,707,554**	**(760,620)**	**9,241,273**
TOTAL	**7,746,034**	**2,707,554**	**(760,620)**	**9,692,968**

NOTE 6 DEPRECIATION, AMORTIZATION AND PROVISION EXPENSE

(in € thousands)	At January 1, 2018	Increases for the year	Decreases for the year	At December 31, 2018
Intangible assets	73,823	47,594	0	121,417
Property and equipment	2,183	0	0	2,183
	76,006	**47,594**	**0**	**123,600**
Provisions for impairment of shares in subsidiaries and affiliates and other equity interests(1)	67,269	94,670	(0)	161,939
Provisions for impairment of loans	600	325	(0)	925
TOTAL	**67,869**	**94,995**	**(0)**	**162,864**

(1) Including a €94,670 thousand provision for impairment of Spika SAS shares.

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	7,661,692	0	0	7,661,692
Loans and advances to subsidiaries and affiliates	1,151,179	0	0	1,151,179
Loans	263,543	0	0	262,618
Other equity interests	0	2,920	0	2,920
Receivables	475,076	0	252,114	727,190
Other financial liabilities	9,494	0	0	9,494
Other liabilities	403,683	0	14,037	417,720

NOTE 8 BONDS

USD 600 million 2017-2022 non-dilutive cash-settled convertible zero-coupon bonds. At December 31, 2018, 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 €32 million (see Note 4.8.3).

USD 600 million 2018-2023 non-dilutive cash-settled convertible zero-coupon bonds. At December 31, 2018, 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 €34 million (see Note 4.8.3).

€2.5 billion ordinary bond issue in three tranches:

- 2018-2025 tranche at 0.875%, nominal amount €750 million;
- 2018-2030 tranche at 1.75%, nominal amount €1 billion;
- 2018-2038 tranche at 2.50%, nominal amount €750 million.

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	1,151,179	835,179	316,000
Loans	263,543	1,543	262,000
Current assets			
Receivables	727,190	727,190	0
TOTAL	**2,141,912**	**1,563,912**	**578,000**

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	1,049,125	0	1,049,125	0
Ordinary bonds and other borrowings	2,707,845(1)	207,845	0	2,500,000
Other financial liabilities	9,494	9,494	0	0
Accrued taxes and payroll costs	7,092	7,092	0	0
Other liabilities	417,720(2)	417,720	0	0
TOTAL	**4,191,276**	**642,151**	**1,049,125**	**2,500,000**

(1) The commercial paper program totals €1.5 billion, with the nominal amounts outstanding as of December 31, 2018 standing at €181 million and GBP 12 million.
(2) Including €403,683 thousand in liabilities toward related companies and €14,037 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, 2018: 179,520,987 shares	**359,042**	**2,941,581**	**3,300,623**
Issuance of 396,237 shares (Note 13) in connection with performance share and stock option plans	792	10,246	11,038
Issuance of 578,639 shares (Note 13) in connection with the Group Savings Plan	1,157	45,573	46,730
Cancellation of 648,231 shares (Note 2.4) acquired under the share buyback program	(1,296)	(73,928)	(75,224)
AT DECEMBER 31, 2018: 179,847,632 SHARES	**359,695**	**2,923,472**	**3,283,167**

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, 2018	**624,772**	**1,284,255**	**1,037,347**	**1,029,300**	**61,598**	**4,037,272**
Appropriation of 2017 net income(1)			381,843	(1,029,300)		(647,457)
Dividends on treasury stock			608			608
Deduction for performance share issuance		(389)				(389)
2018 net income				813,150		813,150
AT DECEMBER 31, 2018	**624,772**	**1,283,866**	**1,419,798**	**813,150**	**61,598**	**4,203,184**
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		365,289				

(1) At the Annual Shareholders Meeting, shareholders approved the payment of €636 million in dividends, after deducting the €10 million share of profits attributed to the General Partners in accordance with the Bylaws.

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:

	2018		2017	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**53.81**	**360,951**	**54.35**	**672,028**
Granted	-	-	-	-
Cancelled	51.17	(47,596)	51.16	(2,098)
Exercised	52.73	(201,946)	55.00	(308,979)
AT DECEMBER 31	**56.87**	**111,409**	**53.81**	**360,951**

All of the 111,409 options outstanding at December 31, 2018, were exercisable at that date (2017: 360,951 out of 360,951).

Details of the stock option plans in progress at December 31, 2018 are as follows:

Grant date	Start of exercise period	End of exercise period	December 31, 2018		December 31, 2017	
			Exercise price *(in € per option)*	Number of options outstanding	Exercise price *(in € per option)*	Number of options outstanding
November 2009	November 2013	November 2018	51.16	-	51.16	177,748
May 2010	May 2014	May 2019	52.13	34,304	52.13	79,963
May 2011	May 2015	May 2020	66.00	40,637	66.00	59,127
June 2012	June 2016	June 2021	51.16	36,468	51.16	44,113
NUMBER OF OPTIONS OUTSTANDING				**111,409**		**360,951**

Performance share plans

The number of performance share rights outstanding may be analyzed as follows:

	2018	2017
	Number of performance share rights outstanding	Number of performance share rights outstanding
At January 1	**883,512**	**668,936**
Granted	129,270	296,440
Cancelled	(195,252)	(42,780)
Delivered	(194,291)	(39,084)
AT DECEMBER 31	**623,239**	**883,512**

In November 2018, 129,270 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 2022 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 €47.91, 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, 2018 are as follows:

Grant date	Vesting date		Lock-up period		Fair value at date of grant		December 31, 2018 Number of performance share rights outstanding	December 31, 2017 Number of performance share rights outstanding
	France	Other countries	France	Other countries	France	Other countries		
2014	2018	2018	None	None	63.05	63.05	-	276,168
2014	2018	2018	None	None	63.05	63.05	-	106,244
2015	2019	2019	None	None	82.24	82.24	83,464	84,140
2016	2020	2020	None	None	66.41	66.41	119,540	120,520
2017	2021	2021	None	None	66.84	66.84	290,965	296,440
2018	2022	2022	None	None	47.91	47.91	129,270	-
NUMBER OF PERFORMANCE SHARE RIGHTS OUTSTANDING							**623,239**	**883,512**

Employee share issues

In 2018, 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 shares at a discount to their market price, subject to a five-year lock-up.

The issue price was set at €82.31, a 20% mark down on the reference price of €102.89, which corresponded to the average of the opening prices quoted for the 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 four shares purchased, thus increasing the number of shares received by participating employees.

A total of 578,639 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	578,639
Reference price *(in €)*	102.89
Purchase price for employees *(in €)*	82.31

No new employee share issue was carried out in 2017.

NOTE 14 REVENUE

Revenue for the year totaled €895,113 thousand, consisting entirely of royalties received from:

France	61,967
Outside France	833,146
TOTAL	**895,113**

NOTE 15 INCOME TAX

Compagnie Générale des Établissements Michelin is the parent company of a tax group that also comprises 15 French subsidiaries that are at least 95%-owned directly or indirectly.

Under the terms of the group relief agreement, each subsidiary in the tax group continues to record the income tax expense that it would have paid if it had been taxed on a stand-alone basis and any group relief is recorded at the level of Compagnie Générale des Établissements Michelin.

The income tax that would be payable by the 15 subsidiaries if they were taxed on a stand-alone basis amounted to €3,748 thousand for 2018, before taking into account tax credits of €52,249 thousand.

Income tax recognized in the CGEM financial statements corresponds to current taxes.

Income tax reported in the income statement can be analyzed as follows:

Current tax due from CGEM alone	59,131
Group relief	(8,023)
Other	(3,178)
TOTAL	**47,930**

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, 2018, the Company had receivables corresponding to royalties with a net book value of €281 million. These receivables have been converted into euros at the year-end exchange rate. The policy is to hedge currency risk through currency futures. The futures are measured at fair value through profit or loss.

As explained in Note 2.1, the Company has 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. Currency derivatives qualify for hedge accounting.

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 options.

NOTE 17 MANAGEMENT COMPENSATION

As per its Bylaws, the Company is administered by one or several Managers. Managers who are General Partners are entitled to a share of the income distributed among all the General Partners in accordance with the provisions of the Bylaws. The Manager(s) do not receive any benefits in kind.

Manager(s) who are not General Partners are paid fixed and variable compensation and may also receive a long-term incentive bonus ("ILT").

The statutory share of 2017 profit allocated to Jean-Dominique Senard, Managing Chairman and Managing General Partner in 2018 amounted to €2.6 million (2017: €2.1 million in respect of 2016 profit).

In 2010, the Managing Chairman was awarded a long-term incentive bonus ("2010 ILT") corresponding to the average amount, in euros, 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. As allowed under 2010 ILT plan rules, in July 2018 Mr. Senard cashed in his 2010 ILT, representing a net amount of €736 thousand (€907 thousand before payroll tax deductions) based on the positive difference between the average Michelin share price for the quarter preceding the 2010 ILT award date and the average price for the quarter preceding the date when Mr. Senard elected to cash in the 2010 ILT.

The Annual Shareholders Meeting of May 18, 2018 approved the appointment of two new Managers, one of whom is a Managing General Partner and the other a General Manager.

The new Managing General Partner, Florent Menegaux, will receive a statutory share of profit as from 2019 (based on 2018 net income).

The compensation awarded to the new General Manager, Yves Chapot, amounted to €490 thousand (including payroll taxes) for the period from the date of his appointment to December 31, 2018. In addition, a €490 thousand accrual (including payroll taxes) was recorded at December 31, 2018 to cover his bonus payable in 2019 and his conditional entitlement to a long-term incentive bonus payable in 2021 after the Annual Shareholders Meeting.

NOTE 18 FEES PAID TO THE STATUTORY AUDITORS

These fees mainly concern the following services:

	Deloitte & Associés	PricewaterhouseCoopers Audit
Audit services	620	635
Non-audit services	37(1)	108(2)

(1) Issuance of a comfort letter in connection with a bond issue.
(2) Issuance of a comfort letter and an Independent Third Party engagement.

NOTE 19 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)										
10643793 Canada Incorporated 155 Wellington Street West, Toronto ON M5V 3J7 Number of shares held: 269,000,000	269,000	-	100.00	234,057	234,057	-	-	-	-	-
Compagnie Financière Michelin SCmA Route Louis-Braille 10, 1763 Granges-Paccot (Switzerland) Number of shares held: 25,023,553	2,502,355 *(in CHF thousands)*	7,725,825 *(in CHF thousands)*	100.00	4,325,680	4,325,680	681,043	-	-	2,482,388 *(in CHF thousands)*	626,733
Fenner Limited Hesslewood Country Office Park, Ferriby Road, East Yorkshire, HU13 0PW (United Kingdom) Number of shares held: 195,007,399	48,752	-	100.00	1,365,554	1,365,554	-	-	-	-	-
Manufacture Française des Pneumatiques Michelin Place des Carmes-Déchaux, 63000 Clermont-Ferrand Number of shares held: 13,263,156	504,000	1,219,188	99.99	1,614,309	1,614,309	442,980	-	5,330,685	(139,460)	-
Spika S.A. Place des Carmes-Déchaux, 63000 Clermont-Ferrand Number of shares held: 200,000	183,000	(68,628)	100.00	283,915	122,067	22,334	-	-	(10,175)	-
B. Aggregate information about other subsidiaries and affiliates										
1. Subsidiaries not listed under A:										
▶ French companies				25	25	3,897	-			-
▶ Foreign companies				91	-	-	-			
2. Affiliates not listed under A										
▶ French companies				2,920	2,920	-	-			-
▶ Foreign companies				-	-	-	-			-
TOTAL SHARES IN SUBSIDIARIES AND AFFILIATES AND OTHER EQUITY INTERESTS				**7,826,551**	**7,664,612**					

(1) In local currency.
(2) Year ended December 31, 2017.

NOTE 20 FINANCIAL COMMITMENTS

20.1 Lines of credit

	2018	2017
Lines of credit granted by the Company to related companies	640,900	940,700
Drawdowns	(176,900)	(800,600)
AVAILABLE AT DECEMBER 31	**464,000**	**140,100**

These lines of credit expire in 2019 (€900 thousand), 2020 (€190 thousand) and 2021 (€450 thousand).

20.2 Currency futures

At December 31, 2018, the value in euros of the currency futures was as follows:

- currency to be received €1,224,012 thousand;
- currency to be delivered €1,120,515 thousand.

NOTE 21 SUBSEQUENT EVENTS

On January 22, 2019, Michelin announced it had signed an agreement to acquire 80% of PT Multistrada Arah Sarana TBK ("Multistrada"), a tire manufacturer based in Indonesia. Upon closing, Michelin will pay USD 439 million for 80% of the Multistrada shares subject to certain closing adjustments. As Multistrada is a publicly listed company, and pursuant to Indonesian regulations, Michelin will subsequently launch a public offer for the remaining outstanding shares, at the same price per share as that offered to the 80% shareholder group.

8.3 STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

For the year ended December 31, 2018

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 includes information specifically required by French law, such as information about the appointment of Statutory Auditors or verification of the Managing Chairman' management report and other documents provided to the 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, 2018.

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 at December 31, 2018 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 these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the annual financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2018 to the date of our report, and, in particular, we did not provide any non audit services prohibited by Article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (Code de déontologie) 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 inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the annual financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the annual financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the annual financial statements.

Valuation of shares in subsidiaries and affiliates

Risk identified

(Notes 4.3.1, 5, 6, 7 and 19 to the annual financial statements)

At December 31, 2018, shares in subsidiaries and affiliates represented a net amount of €7,662 million in the balance sheet. They are recognized at historical cost, increased by the impact of adjustments in value made in accordance with the law where applicable.

They are measured based on value in use, which is generally estimated by Management based on the net asset value, profitability and future prospects of the investee as well as their utility for the company holding the shares. In the event of a lasting decline in value in use to below the net asset value, an impairment loss is recognized.

To estimate the value in use of the securities, Management exercises judgment when choosing the items to take into consideration, according to the relevant subsidiary or affiliate. These items may correspond, depending on the situation, to historical data (share of statutory or consolidated net assets), forecast data (profitability outlook) and the use for the company holding the shares.

Accordingly, due to the degree of judgment inherent in certain items, particularly as regards the probability of achieving the forecasts used by Management, we considered the valuation of shares in subsidiaries and affiliates to be a key audit matter.

How our audit addressed this risk

Our work consisted in verifying that the estimates made by Management were based on an appropriate justification of the valuation methods and items used and:

- for valuations based on historical data: verifying that the net asset figures used are consistent with the relevant entities' financial statements and that any adjustments made were based on probative documentation;

- for valuations based on forecast data: obtaining the cash flow and cash flow from operations projections prepared by Management for the relevant entities' operations and assessing the consistency of the assumptions with business trends (mainly net sales and margin rates).

Our work also consisted in assessing the items taken into consideration by Management to determine their utility for the company holding the shares.

/ Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company's 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 Managing Chairman's Management report, and in the other documents provided to the shareholders with respect to the Company's financial position and the annual financial statements.

We attest to the fair presentation and the consistency with the annual financial statements of the information given with respect to the payment terms referred to in Article D. 441-4 of the French Commercial Code.

Report on corporate governance

We attest that the Supervisory Board's report 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 remuneration and benefits received by the Managers and any other commitments made in their favor, we have verified its consistency with the annual financial statements, or with the underlying information used to prepare these annual financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Concerning the information given in accordance with the requirements of Article L. 225-37-5 of the French Commercial Code relating to those items your Company has deemed liable to have an impact in the event of a takeover bid or exchange offer, we have verified its consistency with the underlying documents that were disclosed to us. Based on this work, we have no matters to report with regard to this information.

Other information

In accordance with French law, we have verified that the required information concerning the acquisition of investments and controlling interests and the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

/ 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.

At December 31, 2018, PricewaterhouseCoopers Audit and Deloitte & Associés were in the 15th and 9th consecutive year of their engagement, respectively.

/ Responsibilities of Management and those charged with governance for the annual financial statements

Management is responsible for preparing annual financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of annual financial statements that are free of 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 expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The annual financial statements were approved by the Managing Chairman.

/ Responsibilities of the Statutory Auditors relating to 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 of 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 taken by users on the basis of these annual financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement in the annual financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their 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;
- obtain an understanding of the internal control procedures 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management and the related disclosures in the notes to the annual financial statements;
- assess 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 the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the annual financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the annual financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the annual financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in 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 any risks to our independence and the related safeguard measures with the Audit Committee.

Paris-La Défense and Neuilly-sur-Seine, February 11, 2019

The Statutory Auditors

Deloitte & Associés	**PricewaterhouseCoopers Audit**
Pascale Chastaing-Doblin	Jean-Christophe Georghiou

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, 2018

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 includes information specifically required by French law, such as information about the appointment of Statutory Auditors or verification of the Managing Chairman' management report and other documents provided to the shareholders. This report 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 and Paris-La Défense, February 11, 2019

The Statutory Auditors

Deloitte & Associés
Pascale Chastaing-Doblin

PricewaterhouseCoopers Audit
Jean-Christophe Georghiou

8.5 STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY

(in € thousands and € per share)	2018	2017
Net income		
Accounting profit		
Total: Net income/(loss)	813,150	1,029,300
Per share: Net income/(loss)	4.52	5.73
Recommended dividend		
TOTAL	**665,436(1)**	**637,300**
Per share	3.70(1)	3.55

Statement of changes in equity *(in € thousands)*	2018	2017
A) 1. Equity at December 31, 2018 before dividends	**7,337,895**	**6,986,562**
2. Dividend approved by the Annual Shareholders Meeting	(647,457)	(595,218)
B) Equity at January 1, 2018 after dividends	**6,690,438**	**6,391,344**
C) Movements for the year:		
1. Par value of shares issued during the year	653	(1,090)
2. Increase in paid-in capital in excess of par	(18,109)	(82,414)
3. Change in reserves and retained earnings(2)	219	755
4. Net income for the year	813,150	1,029,300
D) Equity at December 31, 2018 before dividends	**7,486,351**	**7,337,895**
E) TOTAL CHANGES IN EQUITY DURING THE YEAR	**795,913**	**946,551**
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	**795,913**	**946,551**
Notes:		
C3 – Amounts transferred to the revaluation reserve during the year	*0*	*0*
C6 – Dividends on treasury shares credited to retained earnings	*608*	*834*

(1) Subject to approval by shareholders at the Annual Meeting on May 17, 2019.
(2) Excluding appropriation of 2017 net income.

8.6 APPROPRIATION OF 2018 NET INCOME

(in € thousands)		
Amount to be appropriated		
Retained earnings brought forward from prior year		1,419,798
Net income for the year		813,150
Recommended appropriations		
Dividend	665,436(1)	
Statutory share of income attributed to the General Partners	9,958	
Retained earnings	1,557,554	
TOTAL	**2,232,948**	**2,232,948**

(1) Subject to approval by shareholders at the Annual Meeting on May 17, 2019.

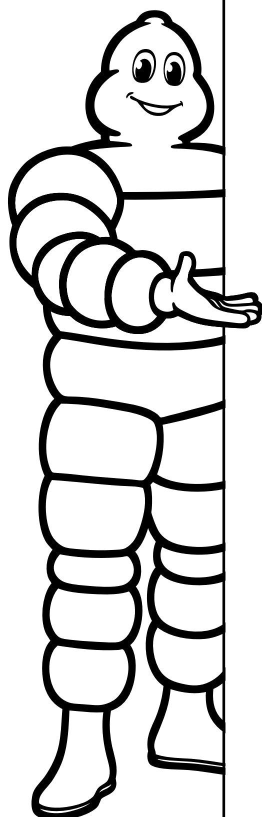
8.7 FIVE-YEAR FINANCIAL SUMMARY

(in € thousands and in € per share, unless otherwise specified)	2014	2015	2016	2017	2018
I. Capital at December 31					
a) Share capital	371,452	363,804	360,132	359,042	359,695
b) Number of common shares outstanding	185,726,200	181,902,182	180,066,121	179,520,987	179,847,632
II. Results of operations					
a) Net revenue	503,954	564,550	537,617	681,188	895,113
b) Earnings before tax, depreciation, amortization and provisions (EBTDA)	598,149	653,701	1,430,254	1,058,933	1,028,453
c) Income tax	22,365	40,511	24,284	(16,054)	47,930
d) Net income	555,428	589,684	1,415,894	1,029,300	813,150
III. Per share data					
a) Earnings per share after tax, before depreciation, amortization and provision expenses (EBDA)	3.10	3.37	7.80	5.99	5.45
b) Basic earnings per share	2.99	3.24	7.86	5.73	4.52
c) Dividend per share	2.50	2.80	3.25	3.55	3.70[1]
IV. Employee data					
a) Average number of employees	8	7	0	0	0
b) Total payroll	318	670	34	28	877
c) Total benefits	139	199	(4)	95	369

(1) 2018 dividend subject to approval by shareholders at the Annual Meeting on May 17, 2019.

9

ADDITIONAL INFORMATION



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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 19, 2019.

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 Jean-Christophe Georghiou, Partner
Substitute Statutory Auditor, Jean-Baptiste Deschryver, Partner, PricewaterhouseCoopers Audit

Deloitte & Associés

Registered member of the *Compagnie régionale des Commissaires aux Comptes de Versailles*

6, place de la Pyramide
92308 Paris La Défense

Represented by Pascale Chastaing-Doblin
Partner Substitute Statutory Auditor, BEAS

6, place de la Pyramide
92308 Paris La Défense

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 financial statements.

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 by the Statutory Auditors in respect of 2018:

	Deloitte				PricewaterhouseCoopers			
	Statutory Auditor (Deloitte & Associés)		Network		Statutory Auditor (PricewaterhouseCoopers Audit)		Network	
(in € thousands)	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit (including consolidated financial statements and half year review)								
▶ Public interest entity	620	48%	-	-	635	47%	-	-
▶ Controlled entities	660	52%	2,552	100%	716	53%	3,542	100%
Sub-total	**1,280**	**100%**	**2,552**	**100%**	**1,351**	**100%**	**3,542**	**100%**
Non-audit services								
▶ Public interest entity(1)	37	100%	579	49%	108	69%	-	-
▶ Controlled entities(2)	-	0%	588	51%	48	31%	1,522	100%
Sub-total	**37**	**100%**	**1,167**	**100%**	**156**	**100%**	**1,522**	**100%**
TOTAL	**1,317**		**3,719**		**1,507**		**5,064**	

(1) These services include the issuance of a comfort letter by the Statutory Auditors in connection with a bond issue and an Independent Third Party engagement performed by PricewaterhouseCoopers Audit.
(2) These services include due diligence carried out in connection with transactions or planned acquisitions and review engagements relating to tax compliance.

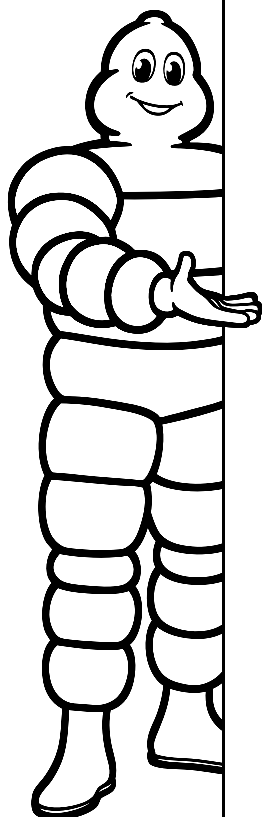
9.3 2016 AND 2017 FINANCIAL STATEMENTS INCORPORATED BY REFERENCE

The following information is incorporated by reference in this Registration Document:

- Consolidated financial statements for the period ended December 31, 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.
- Consolidated financial statements for the period ended December 31, 2017 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with the AMF on March 9, 2018 (D.18-0114) respectively on pages 231 to 303 and 304.

10

ANNUAL SHAREHOLDERS MEETING OF MAY 17, 2019



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10.1 REPORT OF THE MANAGING CHAIRMAN 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.

For each financial authorization submitted for approval at the Annual Shareholders Meeting, this report refers to the corresponding information sheet in the "Proposed resolutions submitted to the vote of shareholders of listed companies" prepared by MEDEF with input from AFEP and ANSA (January 2016 version)[(1)], which is available at www.medef.com/.

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 and 2nd resolutions

/ Approval of the Company financial statements for the year ended December 31, 2018

/ Appropriation of net income for the year ended December 31, 2018 and approval of the recommended dividend

The first and second resolutions concern approval of the Company's 2018 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 €813,150,345.81.

After deducting €9,957,765.14 attributable to the General Partners in accordance with the Bylaws, the balance of €803,192,580.67 plus €1,419,798,460.85 in retained earnings brought forward from prior years represents a total of €2,222,991,041.52 available for distribution to shareholders.

We are recommending paying a 2018 dividend of €3.70 per share.

In order to qualify for the dividend payment, beneficiaries must be shareholders of record at midnight (CET) on May 22, 2019 (the record date).

The ex-dividend date will be May 21, 2019.

The dividend will be paid as from May 23, 2019.

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, 2018)

Having considered the reports of the Managing Chairman, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the Company financial statements for the year ended December 31, 2018 which show net income for the period of €813,150,345.81.

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, 2018 and approval of the recommended dividend)

On the recommendation of the Managing Chairman (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: €813,150,345.81;
- Share of profits attributed to the General Partners in accordance with the Bylaws: €9,957,765.14;
- Balance: €803,192,580.67;
- Plus retained earnings brought forward from prior years: €1,419,798,460.85;
- Total amount available for distribution: €2,222,991,041.52,

And resolves:

- to pay an aggregate dividend of: €665,436,238.40; representing €3.70 per share;
- to appropriate the balance of: €1,557,554,803.12, to retained earnings.

The dividend will be paid as from May 23, 2019.

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;

(1) *In French only.*

- 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 €)*
2015	518,421,218.70	2.85
2016	585,214,893.25	3.25
2017	637,299,503.85	3.55

* *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, 2018

The purpose of the third resolution is to approve the consolidated financial statements for the year ended December 31, 2018, which show net income for the period of €1,659,628 thousand.

The Registration Document, which can be downloaded from Michelin's website (www.michelin.com), contains an analysis of the consolidated financial statements and year-on-year changes. This document can also be sent to shareholders on request.

Third resolution
(Approval of the consolidated financial statements for the year ended December 31, 2018)

Having considered the reports of the Managing Chairman, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the consolidated financial statements for the year ended December 31, 2018, which show net income for the period of €1,659,628 thousand.

4th resolution

/ Related-party agreements

As no related-party agreements were entered into during 2018, 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 2018.

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 2018.

5th resolution

/ Authorization for the Managers 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 maximum 10% of the total shares outstanding at the time of the transaction(s).

This new authorization would supersede the previous authorization granted for the same purpose at the Annual Shareholders Meeting of May 18, 2018.

During 2018, the Company used the previous authorization to buy back and cancel 648,231 shares, resulting in a corresponding capital reduction. For details of the buybacks, see section 5.5.6 of this 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" of the MEDEF Guide, "Proposed resolutions submitted to the vote of shareholders of listed companies" available (in French only) at www.medef.com/.

Fifth resolution
(Authorization for the Managers 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 Managing Chairman 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 Managers 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, 2018, the maximum amount invested in the program would not exceed €3,237,257,340 (three billion, two hundred and thirty-seven million, two hundred and fifty-seven thousand, three hundred and forty euros), corresponding to 10% (ten percent) of the Company's share capital, or 17,984,763 (seventeen million, nine hundred and eighty-four thousand, seven hundred and sixty-three) 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% (five percent) 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 Managers, 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 18, 2018.

6th resolution

/ Advisory vote on the components of the compensation due or awarded for 2018 to Jean-Dominique Senard, Managing Chairman

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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to each Manager[(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, 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 Managing Chairman 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 other General Partners on the allocation of the Profit Share, in the 6th resolution the Managing Chairman is asking shareholders to issue a positive advisory vote on the components of the compensation due or awarded for 2018 to Jean-Dominique Senard, Managing Chairman.

(1) *In line with the 2018 compensation policy described in the Corporate Governance Report (incorporated in section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126).*
(2) *Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.*

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 this Registration Document).

Compensation due or awarded for 2018	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 General Manager 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 section 4.4.3 a), Fixed compensation of this Registration Document, page 146, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
Annual variable compensation	1,762,524	**The structure of these components and their payment mechanisms are unchanged from 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 General Partners of CGEM – Jean-Dominique Senard, Florent Menegaux 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 17, 2019, amounts to €1,659,628 thousand. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2018 is €9,957,765.14. Given the mutually agreed division of the Profit Share between the General Partners, and the performance achieved in 2018 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Senard represents €1,762,524 (after rounding, before withholding tax), breaks down 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 €796,621.21 for 2018. **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).

(1) For reasons of confidentiality and business secrecy, and in more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage to these quantitative or quantifiable criteria, the Supervisory Board has elected not to disclose details of these performance targets.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Annual variable compensation	1 762 524	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 2018 variable compensation of the Executive Committee members and Group managers) was 62.90/100ths, with: ▶ annual growth in sales volumes (tons): 12.90/50ths; ▶ efficiency project (annual reduction in operating costs): 25/25ths; ▶ annual growth in free cash flow: 25/25ths. Concerning the four qualitative criteria, the Committee's conclusions were as follows: ▶ for the "Continued active deployment of the Group's digital strategy" criterion, the Committee noted that substantially all of the objectives based on quantifiable indicators had been met (12.08/12.50ths): – best operating practices have been deployed in production/digital manufacturing, – a technology and innovation center has been set up in Pune, India, that will be instrumental in helping the Group move up a gear in its digital transformation, – deployment of internal digital training for Group employees has been accelerated and global customer and employee relations have been transformed through the successful installation of dedicated platforms, – deployment of connected initiatives has also been accelerated, allowing the Group to become a leading provider of connected mobility services (connected vehicles, platform integration); ▶ for the "Corporate social responsibility and environmental responsibility" criterion (environment, human rights, CSR governance), the Committee noted that the objectives based on quantifiable indicators had been met (12.50/12.50ths): – Environment objective: the Group has set a Science-Based Target, – Human Rights objective: the Total Case Incident Rate (TCIR) has improved, – Group CSR Governance objective: dedicated governance structures have been deployed within the Group covering the environment, human rights and sustainable mobility; ▶ for the "Managers transition plan" criterion, the Committee noted that the objective concerning the transfer of powers to the new Managers had been met (12.50/12.50ths), as well as the objective of supporting Florent Menegaux as he prepares to take up the position of Managing Chairman; ▶ for the "Stabilization of the Group's organization" criterion, the Committee noted that Jean-Dominique Senard had met substantially all of the objectives defined (7.50/12.50ths) to ensure that the new organization in place since January 1, 2018 is both robust and stable. The objective concerning the organization's cohesiveness was considered to have been partly met. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 44.58/50ths. 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 107/150ths. Based on the Consolidated Calculation Base of €9,957,765.14, application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €965,903.22 for 2018. For more information see section 4.4.3 b), Variable compensation of this Registration Document, pages 146 and 147, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2018	No cash-settled deferred variable compensation was due for 2018	**The structure of these components and their payment mechanisms are unchanged from 2017, but the base amount is significantly lower.** The base amount used to calculate Jean-Dominique Senard's deferred compensation for 2018 is €1,080,000. This is significantly lower than that for 2017 due to the election during the year of a second Managing General Partner. This amount will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the three-year period: ▶ Michelin 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 2018 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. For 2018, the decision was made to set considerably tougher MEF targets. 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 the Company 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 2018, 2019 and 2020; ▶ paid out of the Profit Shares allocated to the General Partners in respect of 2020 and payable in 2021 after the 2020 financial statements have been approved: – subject to the availability of Profit Shares payable in 2021 out of 2020 profit, – up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2020. 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 the Managing Chairman ceases to hold office on the date his term expires (in May 2019), for reasons other than death or disability, and his term expires 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 until the end of 2020. The incentive bonus will be paid at the end of said three-year period, for an amount prorated to the actual period served as Managing Chairman during the period. As for the incentive bonus awarded in 2017, 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 2018 incentive bonus. He will be required to hold these shares for at least three years as from the date on which he steps down from the position of Managing Chairman, after which the shares may be sold on a phased basis. The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018. For more information, see section 4.4.3 c), Variable compensation in this Registration Document, page 151, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

(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 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2016 and due in 2019 in respect of 2018	1,362,465	**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).** 2018 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: the growth differential was 1.5 points, giving an achievement rate of 3.5% out of a possible 35%; ▶ improvement in the Michelin site Environmental Footprint (MEF): the average MEF was 52.93 giving an achievement rate of 15% out of 15% for this criterion; ▶ employee engagement ("Moving Forward Together" survey): the average engagement rate was 80%, giving an achievement rate of 15% out of 15% for this criterion; ▶ growth in operating income: the result was €223.33 million, giving an achievement rate of 35% out of 35% for this criterion. Based on the achievement rates for the bonus criteria observed by the Compensation and Appointments Committee (see above table), the Supervisory Board noted that the gross long-term incentive bonus payable in 2019 amounted to €1,362,465 (before 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, pages 149 and 150, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 124 and 125.
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 2018 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 2018	**The detailed information in this section is unchanged from 2017.** 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 4.4.1 a) 6. on compensation in the 2017 Registration Document, page 126 and section 4.4.2 m), page 145 of this Registration Document.
Non-compete indemnity	No indemnity was due under the non-compete clause in 2018	**The detailed information in this section is unchanged from 2017.** 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 4.4.1 a) 7. on compensation in the 2017 Registration Document, page 126 and section 4.4.2 m), page 145 of this Registration Document.

(1) Unlike for joint stock corporations (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 Managers (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 2018 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 2018	**The pension plan structure and rules are unchanged from 2017.** 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 General Manager 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 General Managers (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 (see section 4.4.3 a) of this Registration Document). Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €165,000. 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 2018 (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 corporations (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 Managers (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 2018 to Jean-Dominique Senard, Managing Chairman)

Having noted the agreement 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 2018 to Jean-Dominique Senard, Managing Chairman, as presented in sections 4.4.2, 4.4.3 and 4.4.4 of this Registration Document.

7th resolution

/ Advisory vote on the components of the compensation due or awarded for 2018 to Florent Menegaux, Managing General Partner

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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to each Manager[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, shareholders are asked to express an advisory "say-on-pay" vote on the components of compensation due or awarded for the previous year to each Manager. 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 other General Partners on the allocation of the Profit Share, in the 7th resolution the Managing Chairman is asking shareholders to issue a positive advisory vote on the components of the compensation due or awarded for 2018 to Florent Menegaux, Managing General Partner.

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 4.4.5 of this Registration Document).

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	554,672	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. Menegaux in his capacity as General Manager of that company. The 2018 compensation policy provides for the payment to Florent Menegaux of fixed compensation (i) in an amount that is significantly lower than that of the Managing Chairman, (ii) prorated based on the period served as Managing General Partner in fiscal 2018. For more information see section 4.4.5 a), Fixed compensation of this Registration Document, page 158, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
Annual variable compensation	668,479	**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 are paid out of the share of profit (Profit Shares) allocated to the General Partners of CGEM – Jean-Dominique Senard, Florent Menegaux 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 17, 2019, amounts to €1,659,628 thousand. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2018 is €9,957,765.14. Given the mutually agreed division of the Profit Share between the General Partners, and the performance achieved in 2018 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Menegaux represents €668,479 (after rounding, before withholding tax), as follows: **Single-Criterion Annual Variable Component** This component is equal to 5% of the Consolidated Calculation Base. The Compensation and Appointments Committee noted that the Single-Criterion Annual Variable Component amounts to €312,374 for 2018.

(1) *In line with the 2018 compensation policy described in the Corporate Governance Report (incorporated in section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126).*
(2) *Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.*

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Annual variable compensation (continued)	668 479	**Multi-Criteria Annual Variable Component** This component corresponds to between 0% and 8.50% 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 2018 variable compensation of the Executive Committee members and Group managers) was 62.90/100ths, with: ▶ annual growth in sales volumes (tons): 12.90/50ths; ▶ efficiency project (annual reduction in operating costs): 25/25ths; ▶ annual growth in free cash flow: 25/25ths. Concerning the four qualitative criteria, the Committee's conclusions were as follows: ▶ for the "Continued active deployment of the Group's digital strategy" criterion, the Committee noted that substantially all of the objectives based on quantifiable indicators had been met (12.08/12.50ths): – best operating practices have been deployed in production/digital manufacturing, – a technology and innovation center has been set up in Pune, India, that will be instrumental in helping the Group move up a gear in its digital transformation, – deployment of internal digital training for Group employees has been accelerated and global customer and employee relations have been transformed through the successful installation of dedicated platforms, – deployment of connected initiatives has also been accelerated, allowing the Group to become a leading provider of connected mobility services (connected vehicles, platform integration); ▶ for the "Corporate social responsibility and environmental responsibility" criterion (environment, human rights, CSR governance), the Committee noted that the objectives based on quantifiable indicators had been met (12.50/12.50ths): – Environment objective: the Group has set a Science-Based Target, – Human Rights objective: the Total Case Incident Rate (TCIR) has improved, – Group CSR Governance objective: dedicated governance structures have been deployed within the Group covering the environment, human rights and sustainable mobility; ▶ for the "Manager transition plan" criterion, the Committee noted that Florent Menegaux had met his objectives (12.50/12.50ths) concerning his integration, as future Managing Chairman, in the economic, social and media environment, gradual assertion of his leadership and presentation of the Group's strategic goals to the governance structures; ▶ for the "Stabilization of the Group's organization" criterion, the Committee noted that Florent Menegaux had met substantially all of the objectives defined (7.50/12.50ths) to ensure that the new organization in place since January 1, 2018 is both robust and stable. The objective concerning the organization's cohesiveness was considered to have been partly met. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 44.58/50ths. 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 107/150ths. Based on the Consolidated Calculation Base of €9,957,765.14, application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €356,106 for 2018. For more information see section 4.4.5 b), Variable compensation in this Registration Document, pages 158 and 159, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

(1) For reasons of confidentiality and business secrecy, and in more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage to these quantitative or quantifiable criteria, the Supervisory Board has elected not to disclose details of these performance targets.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2018	No cash-settled deferred variable compensation was due for 2018	This long-term incentive bonus is calculated using a reduced base amount of €720,000 due to the presence of two Managing General Partners during the management transition period. This amount will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the three-year period: ▶ Michelin 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 those applicable to the 2018 performance share plan for Group employees, which is not open to Mr. Menegaux. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. For 2018, the decision was made to set considerably tougher MEF targets. 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 the Company 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. Menegaux for 2018, 2019 and 2020; ▶ paid out of the Profit Shares allocated to the General Partners in respect of 2020 and payable in 2021 after the 2020 financial statements have been approved: – subject to the availability of Profit Shares payable in 2021 out of 2020 profit, – up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2020. If Mr. Menegaux 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. The incentive bonus will be paid at the end of said three-year period, for an amount prorated to the actual period served as Manager. As for the incentive bonus awarded to Jean-Dominique Senard, Florent Menegaux will be required to invest in Michelin shares 20% of the actual amounts received at the end of the three-year period for the 2018 incentive bonus. He will be required to hold these shares for at least four years as from the date on which he steps down from the position of Managing General Partner, after which the shares may be sold on a phased basis. The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018. For more information, see section 4.4.5 b), Variable compensation in this Registration Document, pages 159 to 161 and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
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. Menegaux does not receive any attendance fees
Value of fringe benefits	5,392	Company car

(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.

Components of compensation due or awarded for 2018 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 2018	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. Menegaux 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. Menegaux'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. The final compensation would be reduced, if applicable, so that any other severance payments 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 4.4.1 a) 6. on compensation in the 2017 Registration Document (page 126) and section 4.4.2 m) (page 145) of this Registration Document.
Non-compete indemnity	No indemnity was due under a non-compete clause in 2018	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. Menegaux is subject to a non-compete clause in his capacity as Manager of the subsidiary MFPM. The Supervisory Board 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. Menegaux the equivalent of up to 24 months' compensation based on the most recent fixed compensation paid to him by the subsidiary MFPM. The non-compete indemnity would be reduced or canceled, if necessary, so that Mr. Menegaux'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 4.4.1 a) 7 on compensation in the 2017 Registration Document (page 126) and section 4.4.2 m) (page 145) of this Registration Document.
Supplementary pension benefits	No supplementary pension benefits were due for 2018	This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Menegaux is not a member of any pension plan set up specifically for executive officers. In his capacity as General Manager of MFPM, Mr. Menegaux participates in the supplementary pension plan set up for MFPM and CGEM senior executives (the Michelin Executive Supplementary Pension Plan). This plan, which is governed by Article L. 137-11 of the French Social Security Code *(Code de la sécurité sociale)* and Article 39 of the French General Tax Code *(Code général des impôts),* 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. Menegaux's reference compensation for 2018 in his capacity as executive director was made up solely of the annual fixed compensation paid by MFPM[2]. Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €135,000. 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 corporations (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 Managers (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.

(2) See section 4.4.5 a) of this Registration Document.

Seventh resolution
(Advisory vote on the components of the compensation due or awarded for 2018 to Florent Menegaux, Managing General Partner)

Having noted the agreement 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 2018 to Florent Menegaux, Managing General Partner, as presented in sections 4.4.2, 4.4.5 and 4.4.6 of this Registration Document.

8th resolution

/ Advisory vote on the components of the compensation due or awarded for 2018 to Yves Chapot, General Manager

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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to each Manager(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, shareholders are asked to express an advisory "say-on-pay" vote on the components of compensation due or awarded for the previous year to each Manager. 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 General Partners on the allocation of the Profit Share, in the 8th resolution the Managing Chairman is asking shareholders to issue a positive advisory vote on the components of the compensation due or awarded for 2018 to Yves Chapot, General Manager.

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 4.4.7 of this Registration Document).

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	372,808	For the General Manager elected in 2018, the 2018 compensation policy provides for the payment of fixed compensation (i) in an amount that is significantly lower than that of the Managing Chairman, (ii) prorated based on the period served as General Manager in 2018. In line with this policy, Mr. Chapot's annual fixed compensation was set at €600,000. His prorated fixed compensation for the period from his election as Manager amounted to €372,808. For more information, see section 4.4.7 a), Fixed compensation in this Registration Document, page 166, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

(1) In line with the 2018 compensation policy described in the Corporate Governance Report (incorporated in section 4.4.1 a) of the 2017 Registration Document, pages 122 to 126).
(2) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

Compensation due or awarded for 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Annual variable compensation	263,763	Under the 2018 compensation policy, the General Manager elected in 2018 is entitled to Multi-Criteria Annual Variable Compensation equivalent to that awarded to the Managing Chairman and the Managing General Partner. This compensation (i) would be significantly less than that awarded to the Managing Chairman and the Managing General Partner, (ii) would not be deducted from the Profit Shares allocated to General Partners and (iii) would be prorated to the period served as General Manager during fiscal 2018. In line with this policy and based on the Supervisory Board's recommendation, the General Partners set the Multi-Criteria Annual Variable Compensation at a maximum of 120% of the fixed compensation received by Mr. Chapot in 2018 in his capacity as Manager. The actual compensation amount will depend on performance in relation to five criteria. Mr. Chapot will be awarded the maximum amount if the cumulative achievement rate for the five criteria is 100/100ths. 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 was 37.61/70ths, with: ▶ growth in consolidated operating income from recurring activities: 24.75/30ths; ▶ level of consolidated inventories of finished and semi-finished products: 12.86/20ths; ▶ annual level of tire sales volume by the unit comprising the Group's "Automotive" businesses: 0/20ths. Concerning the two qualitative criteria, the Committee defined that: ▶ for the "Organizational transition – Strategic goals" criterion, the Committee noted that the objective of presenting the organizational transition and the strategic goals to the Group's governance bodies had been met (15/15ths); ▶ for the "Deployment of the Customer Service initiative" criterion, the Committee noted that part of the objective related to the Net Promoter Score (NPS) indicator had been met (5.78/15ths). The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 20.78/30ths. In conclusion of its analysis, the Committee recommended to the Supervisory Board that cumulative actual performance in relation to these quantitative and qualitative criteria should be rated as 58.39/100ths. Given the Calculation Base of 120% of Mr. Chapot's annual fixed compensation (€600,000, prorated), the Multi-Criteria Annual Variable Component for 2018 amounts to €263,763. For more information, see section 4.4.7 b), Variable compensation in this Registration Document, pages 166 and 167, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.
Cash-settled deferred variable compensation awarded in 2018	- No cash-settled deferred variable compensation was due for 2008 - Amount: €94,200	This long-term incentive bonus is calculated on a base amount of €600,000. This amount will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the three-year period: ▶ Michelin 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[2]. These criteria are the same as the ones applicable to the 2018 performance share plan for Group employees, which is not open to Mr. Chapot. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. For 2018, the decision was made to set considerably tougher MEF targets. 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. Capped at 120% of the annual average of the Annual Variable Components paid for the years 2018-2020, as prorated to reflect the period served as Manager during the three years. The incentive bonus would be paid at the end of the three-year period, for an amount prorated to the actual period served as Manager during the three years. The Supervisory Board noted that, as this is a long-term incentive plan, no amount was due in respect of 2018. The liability recognized for the long-term incentive bonus in the Company's accounts at December 31, 2018 breaks down as follows: ▶ €60,000 corresponding to the theoretical bonus; ▶ €34,200 for payroll taxes, based on current rules and rates. For more information, see section 4.4.7 b), Variable compensation of this Registration Document, pages 167 and 168, and section 4.4.1 a) on compensation in the 2017 Registration Document, pages 122 to 126.

(1) For reasons of confidentiality and business secrecy, and in more particularly to avoid disclosing information about the Company's strategy that could be used by competitors for their advantage to these quantitative or quantifiable criteria, the Supervisory Board has elected not to disclose details of these performance targets.
(2) 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 2018	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
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. Chapot does not receive any attendance fees
Value of fringe benefits	4,352	Company car

Components of compensation due or awarded for 2018 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 2018	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. Chapot 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. Chapot'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. The final compensation would be reduced, if applicable, so that any other severance payments 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 4.4.1 a) 6 on compensation in the 2017 Registration Document (page 126) and the section 4.4.2 m) (page 145) of this Registration Document.
Non-compete indemnity	No indemnity was due under a non-compete clause in 2018	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. Chapot is subject to a non-compete clause under his suspended employment contract with the subsidiary MFPM. The Supervisory Board 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. Chapot the equivalent of up to 24 months' compensation based on the most recent fixed compensation paid to him by the subsidiary MFPM. The non-compete indemnity would be reduced or canceled, if necessary, so that Mr. Chapot'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 4.4.1 a) 7. on compensation in the 2017 Registration Document (page 126) and the section 4.4.2 m) (page 145) of this Registration Document.

(1) Unlike for joint stock corporations (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 Managers (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 2018 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 2018	This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Chapot is not a member of any pension plan set up specifically for executive officers. In his capacity as General Manager of CGEM, Yves Chapot participates in the supplementary pension plan set up for MFPM and CGEM 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, 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. Chapot's reference compensation for 2018 in his capacity as executive director was made up of his annual fixed compensation and his annual variable compensation[1]. Based on the assumptions set out in the Macron Act enabling legislation dated February 23, 2016, the estimated amount of annual income he will receive under this plan is €110,544. 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) See detailed disclosures in sections 4.4.7 a) and 4.4.7 b) of this Registration Document.

Eighth resolution
(Advisory vote on the components of the compensation due or awarded for 2018 to Yves Chapot, General Manager)

Having noted the agreement 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 2018 to Yves Chapot, General Manager, as presented in sections 4.4.2, 4.4.7 and 4.4.8 of this Registration Document.]

9th resolution

/ Advisory vote on the components of the compensation due or awarded for 2018 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 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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board have decided for 2019 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, 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 Managing Chairman 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 2018 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 4.4.9 and 4.4.10 of this Registration Document).

Compensation due or awarded for 2018	**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 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	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 2018. For more information, see section 4.4.9 of this Registration Document, page 173.
Value of fringe benefits	N/A	No fringe benefits

(1) In line with the compensation policy described in the Corporate Governance Report reproduced in section 4.4.1 b) of the 2017 Registration Document, pages 126 and 127.
(2) Recommendation applied by the Company since it came into effect and, in 2019, in compliance with the most recent version of the AFEP/MEDEF Code dated June 2018.

Components of compensation due or awarded for 2018 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

Ninth resolution
(Advisory vote on the components of the compensation due or awarded for 2018 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 2018 to Michel Rollier, Chairman of the Supervisory Board, as presented in sections 4.4.9 and 4.4.10 of this Registration Document.

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 and Monique Leroux, Olivier Bazil, Jean-Pierre Duprieu, Cyrille Poughon, Michel Rollier and Thierry Le Hénaff.

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 98.3% overall attendance rate for meetings held in 2018.

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 2018 is included in section 4.3.2 of the Corporate Governance Report reproduced in this 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 78% of whom are independent) who represent the shareholders.

With a view to clearly segregating management and supervisory powers, neither the Managing General Partners (who represent the Company's management body) nor the Non-Managing General Partner, SAGES (which is responsible for ensuring the Company's continuity of leadership), may play a role in the nomination process.

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 in section 4 of this Registration Document.

/ The Supervisory Board is recommending that shareholders re-elect two Supervisory Board members

The terms of Barbara Dalibard and Aruna Jayanthi are due to expire at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ended December 31, 2018.

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 2019 Annual Shareholders Meeting and section 10.2.1 of this Registration Document).

Following this process the Supervisory Board decided unanimously (with the exception of Barbara Dalibard and Aruna Jayanthi who were not consulted) to ask the Managing Chairman to recommend at the Annual Shareholders Meeting the re-election of Barbara Dalibard and Aruna Jayanthi to the 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, 2022.

Tenth resolution
(Re-election of Barbara Dalibard as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, the Ordinary Shareholders Meeting re-elects Barbara Dalibard 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, 2022.

Eleventh resolution
(Re-election of Aruna Jayanthi as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, the Ordinary Shareholders Meeting re-elects Aruna Jayanthi 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, 2022.

12th resolution: Supervisory Board compensation

The Managing Chairman is presenting to the Annual Shareholders Meeting a resolution proposed and supported by the Supervisory Board to increase the total compensation paid to the Supervisory Board in the form of attendance fees to €770,000 per year.

The reasons for the proposed increase are set out in the report of the Supervisory Board on the proposed resolutions (see the Notice of Meeting for the 2019 Annual Shareholders Meeting and section 10.2.4 of this Registration Document).

Twelfth resolution
(Supervisory Board compensation)

Having considered the reports of the Managing Chairman and the Supervisory Board, the Ordinary Shareholders Meeting sets the total annual compensation awarded to the Supervisory Board at €770,000 (seven hundred and seventy thousand euros), effective from the financial year beginning on January 1, 2019.

10.1.2 EXTRAORDINARY RESOLUTIONS

13th resolution

/ Authorization for the Managers to grant new or existing performance shares to employees of the Company and Group subsidiaries (other than the Managers), without pre-emptive subscription rights for existing shareholders

Approved by a majority of 99.60% of the votes cast, this resolution replaces the 25th resolution of the Annual Shareholders Meeting of May 13, 2016, which was used to launch three performance share plans in 2016, 2017 and 2018.

Details of these plans and the achievement rate for each performance criterion are presented in section 5.5.4 of this Registration Document.

An ex-post assessment of the results of the plans showed that performance criteria had been set at reasonably challenging levels given the prevailing environment. For each plan launched by the Group, at least one criterion was only very partially fulfilled with the result that a significant proportion of the performance share rights did not or will not vest.

For the 2018 plan, the trigger points for the environmental performance criterion have been raised significantly (see the table presenting the plan and the intermediate situation in section 5.5.4 c) of this Registration Document).

In the same way as the resolution approved in 2016, the 2019 resolution concerns the grant of new or existing shares, subject to performance conditions, to employees of the Company and French and foreign Group subsidiaries. The list of grantees, the number of shares to be granted to each one and the grant criteria would be decided by the Managers, based on the recommendation of the Compensation and Appointments Committee of the Supervisory Board.

No performance shares would be granted to the Managers, who are the Company's executive officers.

The performance shares would be subject to a vesting period of four years and fulfillment of performance objectives measured over three years.

The performance criteria would be structured in a similar manner to those in the authorization approved in 2016 and would be based on three objectives reflecting different aspects of the strategy implemented by Michelin as an extension of its Ambitions for 2020 described in section 2.1 of this Registration Document. These objectives are as follows:

- a financial performance objective: growth in the Michelin share price;
- a corporate social responsibility objective: improvements in the environmental performance of manufacturing operations and employee engagement rates;
- a profitability objective: growth in the segment' operating income.

These criteria would apply to all performance share grants, whatever the grantee's level of responsibility.

Provided that the grantee was still employed by the Group at the end of the vesting period (or qualified for an exemption from this requirement under French law or in the cases decided by management), then the achievement for all of the above criteria would condition the number of shares delivered.

The number of vested shares per grantee would not exceed the number of performance share rights initially granted.

The number of shares granted under this authorization would not exceed 0.7% of the Company's capital on the day of the decision (1,258,933 shares based on the capital at December 31, 2018). The very limited increase in the maximum of number of shares (0.2%) is designed to take into account the Group's recent business acquisitions by enabling performance shares to be offered to a greater number of employees.

This authorization would be given for a period of 38 months.

This type of proposed resolution is explained in detail in Information Sheet 6.2 "Grants of free shares" of the MEDEF Guide, "Proposed resolutions submitted to the vote of shareholders of listed companies" available (in French only) at www.medef.com/.

A financial performance criterion: growth in the Michelin share price

This criterion concerns Michelin's share performance compared with that of the CAC 40 index.

It falls under the third objective, "Secure our financial performance", of the Ambitions for 2020.

The CAC 40 index has once again been chosen due to the breakdown of the Group's operations between various product families (Truck tires, Passenger car and Light truck tires, Specialty businesses, High Technological Materials) and related services. These operations expose the Group to changes in consumer goods markets (around 43% of the Group's business), economic growth and industrial markets (around 25%), raw materials markets (around 19%). In this regard, automotive stocks alone (automotive markets account for around 13% of the Group's business) – and especially automotive equipment stocks – would be a less appropriate benchmark for measuring Michelin's performance.

This criterion has a 35% weighting.

If the gain in Michelin's share price is at least 15 points more than the gain in the CAC 40, the achievement rate would be 100% and the maximum 35% of the performance shares would vest.

If the gain in Michelin's share price is less than 15 points more than the gain in the CAC 40, the result would be: 35% x (gain in the Michelin share price – gain in the CAC 40 index)/15.

If the gain in Michelin's share price is less than the gain in the CAC 40, the achievement rate would be 0%.

This criterion would be assessed between the average of the closing prices quoted on Euronext Paris for the six-month period preceding the reference three-year period and the same average for the last six months of the three-year period. For example, for a performance share plan launched in 2019 with a three-year vesting period from 2019 to 2021, gains in the Michelin share price and the CAC 40 would be calculated by comparing the average price for the second half of 2018 and that for the second half of 2021.

As an example of past performance, comparing the average closing price between the second half of 2015 and the second half of 2018, the Michelin share (+10.5%) outperformed the CAC 40 (+9.0%) by 1.5 points (source: Euronext).

A corporate social responsibility criterion: improvements in the environmental performance of manufacturing operations and employee engagement rates

This criterion is based on two indicators: the environmental footprint of Michelin's manufacturing operations and the level of employee engagement.

As each of these indicators has a 15% weighting, the criterion's total weighting would be 30%.

To enable these indicators to be aligned more easily with changes affecting the Group in the period during which the authorization could be used (38 months), especially in the case of an accelerated improvement in the indicators or changes in the scope of the Group's businesses, performance would be calculated by reference to their rate of progression and not by reference to fixed values as was the case previously. The first indicator is still part of the second objective ("Set the industry standard for responsible manufacturing") and the fourth objective ("Work together to continuously improve employee well-being and personal growth") of the Ambitions for 2020.

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 site Environmental Footprint (MEF) indicator. The Group's goal for 2020 is to reduce the MEF by 50% compared with 2005.

The action taken and gains made to date are presented in section 6.6.1 b) of this Registration Document.

The environmental performance of the manufacturing indicator covers the Group's current business scope. It has a weighting of 15% and would be taken into account as follows:

- if the average reduction in the MEF over three years is less than 0.5 points, 0% of the performance shares for this objective will vest;
- if the average reduction in the MEF over three years is between 0.5 points and 1.0 point, 5% of the performance shares for this objective will vest;
- if the average reduction in the MEF over three years is between 1.1 points and 1.5 points, 10% of the performance shares for this objective will vest;
- if the average reduction in the MEF over three years is greater than 1.5 points, the maximum 15% of the performance shares for this objective will vest.

This indicator would be assessed as the average for a rolling three-year period starting from the year in which the plan is launched. For example, for a performance share plan launched in 2019 with a three-year vesting period from 2019 to 2021, the average reduction in MEF would be calculated based on the annual reduction for each of the three years 2019, 2020 and 2021.

As an example of past performance, the average annual reduction in MEF for the last three years was 4.5 points (based on the observed changes in absolute values reported in the corresponding Registration Documents; source: page 188 of the 2016 Registration Document, page 205 of the 2017 Registration Document and page 250 of this Registration Document).

The second indicator, employee engagement, is more than ever 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 6.6.4 a) of this Registration Document.

The employee engagement indicator covers the Group's current business scope. It has a weighting of 15% and would be taken into account as follows:

- if the average engagement rate improves by less than 0.1 points, 0% of the performance shares for this objective will vest;
- if the average engagement rate improves by between 0.1 points and 1.5 points, the performance shares for this objective will vest proportionately to the achievement rate;
- if the average engagement rate improves by more than 1.5 points, the maximum 15% of the performance shares for this objective will vest.

This indicator would be assessed as the average for a rolling three-year period starting from the year in which the plan was launched. For example, for a performance share plan launched in 2019 with a three-year vesting period from 2019 to 2021, the average improvement in the engagement rate would be calculated based on the annual improvement for each of the three years 2019, 2020 and 2021. As an example of past performance, the average annual improvement in the engagement rate for the last three years was 1.0 point (based on the observed changes in absolute values reported in this Registration Document, page 16).

A profitability criterion: growth in operating income

This criterion concerns growth in the Segment operating income[1] of the Group in € millions invalue (based on current business scope and accounting methods, excluding changes in exchange rates).

It falls under the third objective, "Secure our 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.

This criterion has a 35% weighting.

It would be taken into account as follows:

- if average annual growth in the Segment operating income exceeds €200 million, the achievement rate would be 100% and the maximum 35% of the performance shares for this objective will vest;
- if average annual growth in the Segment operating income is between €100 million and €200 million, the performance shares will vest proportionately to the improvement;
- if average annual growth in the Segment operating income is less than €100 million, the achievement rate would be 0% and none of the performance shares for this objective will vest.

This criterion would be assessed as the average for a rolling three-year period starting from the year in which the plan was launched. For example, for a performance share plan launched in 2019 with a three-year vesting period from 2019 to 2021, the average would be calculated based on the annual growth rate for each of the three years 2019, 2020 and 2021.

As an example of past performance, based on a €237 million increase in operating income from recurring activities for 2016, a €145 million increase for 2017 and a €265 million increase for 2018, average growth in operating income from recurring activities for the last three years was €216 million. Source: Registration Document 2016 (page 42), 2017 (page 44) and 2018 (page 46).

Thirteenth resolution
(Authorization for the Managers, or any one of them, to grant new or existing performance shares to employees of the Company and Group subsidiaries (other than the Managers), without pre-emptive subscription rights for existing shareholders)

Having considered the report of the Managing Chairman, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of the General Partners, the Extraordinary Shareholders Meeting resolves:

- to authorize the Managers, or any one of them, in accordance with Articles L. 225-197-1 *et seq.* of the French Commercial Code, to grant performance shares to selected employees of the Company and related entities within the meaning of Article L. 225-197-2 of said Code, other than the Company's executive officers, on the basis defined below;
- that existing or new shares granted pursuant to this authorization may not represent more than an aggregate 0.7% (zero point seven percent) of the Company's capital at the date of this Meeting. 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;
- that the Managers, or any one of them, shall draw up the list of grantees, and determine the number of shares to be granted and the grant conditions and criteria, which shall include performance criteria determined with the Supervisory Board's agreement;
- that the performance shares shall be subject to a vesting period set by the Managers, or any one of them, which shall be at least three years and may be followed by a lock-up period set by the Managers, or any one of them, for certain grantees;
- that the performance shares shall vest before the end of the above vesting period and that all restrictions on their sale shall be lifted in the event of the grantee's death or if the grantee is affected by a category 2 or 3 disability as defined in Article L. 341-4 of the French Social Security Code *(Code de la sécurité sociale);*
- that, if the decision is made to deliver new shares to grantees, the successive share issues carried out when the performance shares vest shall be paid up by capitalizing reserves, profit or additional paid-in capital, and that existing shareholders shall waive their pre-emptive right to subscribe for said new shares;
- that the Managers, or any one of them, shall have the broadest powers, within the above-defined limits and the limits resulting from the law, to:
  - provide for the possibility of temporarily suspending the performance share rights on the basis prescribed by the applicable laws and regulations,
  - place on record the dates on which the performance shares vest and the dates on which the restrictions on their sale are lifted, in accordance with this resolution and taking into account the legal restrictions,
  - record the performance shares in a registered share account in the grantee's name,
  - provide for the possibility of adjusting the number of performance shares during the vesting period in order to protect the rights of grantees following any corporate actions carried out by the Company,
  - generally, do everything useful or necessary to implement this authorization, carry out any and all filing and other formalities, place on record the resulting capital increases and amend the Bylaws to reflect the new capital.

This authorization shall be valid for a period of thirty-eight months from the date of this Meeting and supersedes any authorization previously granted for the same purpose.

(1) *Formerly known as operating income from recurring activities, segment operating income is the performance metric of the reporting segments. It is stated before the amortization of brands and customer lists recognized on the acquisition of the corresponding companies, which is included in other operating income and expenses.*

14th resolution

/ Authorization for the Managers to reduce the Company's capital by canceling shares

In the fourteenth resolution, shareholders are invited to authorize the Managers, or any one of them, for a period of 18 months, 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 18, 2018 (22nd resolution).

During 2018, the Company used the previous authorization to buy back and cancel 648,231 shares, resulting in a corresponding capital reduction. For details of the buybacks, see section 5.5.6 of this Registration Document.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.9, "Authorizations to carry out capital reductions", in the MEDEF Guide "Proposed resolutions submitted to the vote of shareholders of listed companies", available (in French only) at www.medef.com/.

Fourteenth resolution
(Authorization for the Managers or any one of them to reduce the Company's capital by canceling shares)

Having considered the report of the Managing Chairman, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of the General Partners, the Extraordinary Shareholders Meeting resolves:

- to authorize the Managers 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 Managers, 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.

15th resolution

/ Amendment to the Bylaws – Issuance of bonds

The purpose of the fifteenth resolution is to amend the Company's Bylaws in order to align the Managers' powers with the normal practice of French companies, including substantially all CAC 40 companies, which authorize their Board of Directors or equivalent to decide to issue bonds.

The amendment would not concern issues of potentially dilutive instruments, which would continue to be decided exclusively by shareholders in General Meeting, in accordance with the law.

The new powers would give the Group the necessary agility to raise funds on the bond markets. They would support the project to streamline with Group's legal structure and give the Company responsibility for raising funds on the market for its own needs and those of subsidiaries. At present, some subsidiaries are able to raise funds on the market without the prior formal authorization of the Company's shareholders in General Meeting, although the proposed issues are examined in advance by the Supervisory Board and its Audit Committee when the amounts involved are material at Group level, in accordance with the Supervisory Board's internal rules.

In terms of control procedures, the Supervisory Board review process would be extended to all bond issues.

Shareholders should note that in all cases, the Group would continue to adhere to the strict and disciplined financing policy implemented in recent years, as highlighted by the rating agencies, in order to maintain a robust financial position.

Fifteenth resolution
(Amendment of the Bylaws – Issuance of bonds)

Having considered the reports of the Managing Chairman and the Supervisory Board, and having noted the approval of the General Partners, the Extraordinary Shareholders Meeting resolves to amend Article 10-3 of the Bylaws as follows (amendments in bold and italic):

Old wording:	New wording:
Each Manager has the authority to enter into commitments with third parties in the Company's name, ***except in relation to bond issues*** and subject to the provisions set out below being applied.	Each Manager has the authority to enter into commitments with third parties in the Company's name and subject to the provisions set out below being applied.

16th resolution

/ Powers to carry out formalities

The purpose of the sixteenth resolution is to give powers to carry out the formalities related to the Annual Shareholders Meeting.

Sixteenth 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	Duration *(expiration date)*
Share buyback program *(5th resolution)*	Less than 18 million shares at a maximum purchase price of €180 per share	18 months *(November 2020)*
Performance share grants *(13th resolution)*	0.7% of issued capital Not open to Managers Subject to performance conditions	38 months *(July 2022)*
Capital reduction by canceling shares *(14th resolution)*	10% of the issued capital	18 months *(November 2020)*

10.2 REPORT OF THE SUPERVISORY BOARD: RECOMMENDATIONS CONCERNING THE VOTES ON THE PROPOSED RESOLUTIONS

10.2.1 RE-ELECTION OF SUPERVISORY BOARD MEMBERS (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 78% of whom are independent) who represent the shareholders.

With a view to clearly segregating management and supervisory powers, neither the Managing General Partners (who represent the Company's management body) nor the Non-Managing General Partner, SAGES (which is responsible for ensuring the Company's continuity of leadership), may play a role in the nomination process.

None of the three 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 Barbara Dalibard and Aruna Jayanthi are due to expire at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ended December 31, 2018.

Barbara Dalibard and Aruna Jayanthi have informed the other Supervisory Board members that they wish to stand for re-election, which is the purpose of the 10th and 11th resolutions.

/ Barbara Dalibard

SITA – 26, chemin de Joinville, PO Box 31, 1216 Cointrin, Geneva, Switzerland

Barbara Dalibard was born in 1958 and is a French national. She is currently Managing Chairman of SITA. Her previous positions included Managing Chairman 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.

Barbara Dalibard owned 485 Michelin shares as of December 31, 2018.

She was originally appointed to Michelin's Supervisory Board in 2008 and was most recently re-elected at the Annual Shareholders Meeting of May 22, 2015 by a majority of 99.27% of the votes cast.

She has been Chair of the Compensation and Appointments Committee since 2015, and the Supervisory Board's Senior Independent Member since 2017.

Barbara Dalibard was classified as independent following the Supervisory Board's latest review of its members' independence[1] because:

- she does not have any close family ties with either the Managing Chairman 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.

The Board examined Barbara Dalibard's candidature for re-election for a four-year term based on the above-mentioned criteria, taking into account:

- her excellent understanding of the challenges facing the Group;
- her broad international experience and exposure to global cultures;
- her knowledge of new technologies;
- her experience in the transport and mobility sectors, and her familiarity with the environmental issues facing these sectors;
- her grasp of the Group's specific governance structure and its expectations in terms of governance and management performance;
- her availability, attendance rate and engagement at meetings of the Supervisory Board and the Compensation and Appointments Committee. In 2018, her attendance rate at Board and Compensation and Appointments Committee meetings was 100%;
- the fact that she is an independent member of the Board and has no conflicts of interest.

In addition, the Chairman and all the members of the Supervisory Board consider that, as Chair of the Compensation and Appointments Committee and Senior Independent Member, she makes a vital contribution to the Board's governance and its relations with the Managers and General Partners, in particular as regards the implementation of the succession plans.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Barbara Dalibard be re-elected for a further four-year term. She did not take part in the Board's discussion or vote.

(1) *See the detailed review of Supervisory Board members' independence in the Corporate Governance Report in section 4.3.2 g) of the 2018 Registration Document.*

/ Aruna Jayanthi

Capgemini India Pvt. Ltd – Godrej & Boyce Compound, LBS Road, Vikhroli (West), Mumbai 400079 (India)

Aruna Jayanthi was born in 1962 in Visakhapatnam (India) and is an Indian national.

She speaks French fluently.

Since 2018, she has been Managing Director, Asia Pacific and Latin America Business Unit at Capgemini. She was previously Managing Chairman of a Business Services Unit providing BPO and Platform (integrated technology and operations) services (Capgemini & IGATE). From 2011 until the end of 2015, Aruna Jayanthi was Managing Chairman 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.

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.

Aruna Jayanthi owned 400 Michelin shares as of December 31, 2018.

Aruna Jayanthi was elected to the Supervisory Board for the first time at the Annual Shareholders Meeting of May 22, 2015, by a majority of 99.67% of the votes cast. She has been a member of the Compensation and Appointments Committee since 2018.

The Committee examined the business relationship between Michelin and the Capgemini group, whose Asia Pacific and Latin America Business Unit 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.

Aruna Jayanthi fulfills all the other independence criteria[1], because:

- she does not have any close family ties with either the Managing Chairman 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.

The Board examined Aruna Jayanthi's candidature for re-election (for the first time) 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;
- her expertise in new technologies and the digital environment;
- her managerial experience as a member of the Executive Committee of an international group;
- the skills and international experience she brings to the Board;
- her availability, attendance rate and engagement at meetings of the Supervisory Board and the Compensation and Appointments Committee. In 2018, her attendance rate at Board and Compensation and Appointments 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 Board's diversity.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Aruna Jayanthi be re-elected for a further four-year term. She did not take part in the Board's discussion or vote.

/ 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:

	2020 AGM	2021 AGM	2022 AGM	2023 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**	**3**	**2**

(1) See the detailed review of Supervisory Board members' independence in the Corporate Governance Report in section 4.3.2 g) of the 2018 Registration Document.

10.2.2 "SAY-ON-PAY" ADVISORY VOTE ON THE 2018 COMPENSATION OF THE MANAGING CHAIRMAN AND THE OTHER MANAGERS (6TH, 7TH AND 8TH RESOLUTIONS)

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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Managers[(1)], in line with the AFEP/MEDEF Code recommendation[(2)] which provides for a mandatory shareholder vote.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee and the Supervisory Board are described in the Managing Chairman's report on the sixth, seventh and eighth resolutions (section 10.1.1 of this Registration Document).

Consequently, the Supervisory Board recommends that shareholders issue a positive advisory vote on the components of the compensation due or awarded for 2018 to:

- Jean-Dominique Senard, Managing Chairman and Managing General Partner;
- Florent Menegaux, Managing General Partner since May 18, 2018;
- Yves Chapot, General Manager since May 18, 2018.

10.2.3 "SAY-ON-PAY" ADVISORY VOTE ON THE COMPENSATION OF THE CHAIRMAN OF THE SUPERVISORY BOARD FOR 2018 (9TH 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 said Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and continue to 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 Managing General Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2019 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.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee and the Supervisory Board are described in the Managing Chairman's report on the ninth resolution (section 10.1.1 of this Registration Document).

Consequently, the Supervisory Board recommends that shareholders issue a positive advisory vote on the components of the compensation due or awarded for 2018 to Michel Rollier, Chairman of the Supervisory Board and sole non-independent non-executive director.

(1) In line with the compensation policy described in section 4.4 of the Corporate Governance report reproduced in the 2017 Registration Document (page 122).
(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 June 2018.

10.2.4 APPROVAL OF THE FINANCIAL STATEMENTS, THE REVISED SUPERVISORY BOARD ATTENDANCE FEES, FINANCIAL AUTHORIZATIONS AND AN AMENDMENT TO THE BYLAWS (1ST TO 5TH RESOLUTIONS AND 12TH TO 15TH RESOLUTIONS)

Concerning the other ordinary resolutions, the accounting and financial information communicated to shareholders and the Managing Chairman's report present the Group's operations and results for 2018 (for the purposes of the first, second and third ordinary 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 2018, 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 robust performance and the faster deployment of the Group's strategy through the recent acquisitions and partnerships.

These good performances lead us to reaffirm our confidence in the Managers.

They also lead us to support the Managing Chairman's recommendation to set the dividend at €3.70 per share (second resolution).

The Company wishes to renew its share buyback program on the same terms as for the previous program (fifth ordinary 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 (14th extraordinary resolution).

At this year's Meeting, we intend to ask shareholders to approve an increase in the total attendance fees awarded to the Supervisory Board, to take into account:

- the growing demands placed on members in terms of professionalization, engagement and availability, particularly in connection with the activities of the Committees of the Board (Audit Committee, and Compensation and Appointments Committee) and the Senior Independent Member[1];
- the significant gap between the average fees paid to Supervisory Board members and the members of the Supervisory Boards and Boards of Directors of other CAC 40 companies;
- the increase in the number of Audit Committee members;
- the 50% increase in the number of Supervisory Board meetings between 2016 (date of the last attendance fee increase) and 2018;
- the need to retain and continue to attract Supervisory Board members with the recognized experience and first-rate skills required to represent shareholders in a group that has a broad international footprint following its recent acquisitions.

For these reasons, the Supervisory Board proposes that the total attendance fee budget should be increased from €555,000 to €770,000 for the 2019 fiscal year, payable in 2020 (12th resolution). In accordance with the Supervisory Board's internal rules, a substantial portion of the attendance fees allocated to its members is contingent on their actual attendance at Board and Committee meetings.

Shareholders will be asked to renew the authorization given at the May 13, 2016 Annual Shareholders Meeting to grant performance shares to Michelin employees (excluding corporate officers of the Company). The performance conditions have been reviewed and are supported by the Compensation and Appointments Committee[2].

Lastly, shareholders will be asked to approve an amendment to the Bylaws aligning the Managers' powers with those granted to the boards of directors or equivalent of other CAC 40 companies concerning the issuance of bonds. Issues representing material amounts would continue to be subject to the Supervisory Board's prior review[3] and the Group would continue to adhere to its strict and disciplined financing policy.

We recommend that shareholders adopt the proposals submitted by the Managing Chairman for their approval by voting in favor of the corresponding ordinary and extraordinary resolutions.

February 11, 2019

The Supervisory Board

(1) A summary of the work carried out by the Supervisory Board, the Board Committees and the Senior Independent Member in 2018 is included in section 4.3.2 of this Registration Document.

(2) See the detailed presentation of the 13th proposed resolution in section 10.1.1 of this Registration Document.

(3) See the detailed presentation of the 14th proposed resolution in section 10.1.1 of this Registration Document.

10.3 STATUTORY AUDITORS' REPORTS

10.3.1 STATUTORY AUDITORS' REPORT ON THE AUTHORIZATION TO GRANT PERFORMANCE SHARES, EXISTING OR TO BE ISSUED

Combined Shareholders' Meeting of May 17, 2019 – 13th resolution

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 includes information specifically required by French law, such as information about the appointment of Statutory Auditors or verification of the Managing Chairman' management report and other documents provided to the 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,

In our capacity as statutory auditors of your Company and pursuant to Article L. 225-197-1 of the French Commercial Code (Code de commerce), we hereby report to you on the authorization sought to grant performance shares, existing or to be issued, to selected employees of your company and the companies affiliated to it within the meaning of Article L. 225-197-2 of the French Commercial Code, with the exception of corporate officers of your company, on which you are asked to vote.

The number of shares, existing or to be issued, granted in accordance with this authorization will not represent more than 0,7% of share capital at the date of this shareholders' meeting.

Your Managing Chairman recommends that, based on his report and for a period of 38 months as of the date of this meeting, you authorize him to grant performance shares, existing or to be issued.

The Managing Chairman is responsible for preparing a report on the proposed operation. Our role is to report to you on the information provided to you on the proposed operation.

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 primarily consisted in verifying that the terms proposed and the information included in the Managing Chairman's report comply with the applicable legal provisions.

We have nothing to report concerning the information included in the Managing Chairman's report on the proposed authorization to grant performance shares.

Neuilly-sur-Seine and Paris-La Défense, March 7, 2019

The Statutory Auditors

Deloitte & Associés	**PricewaterhouseCoopers Audit**
Pascale Chastaing-Doblin	Jean-Christophe Georghiou

10.3.2 STATUTORY AUDITORS' REPORT ON THE CAPITAL REDUCTION

Combined Shareholders' meeting of May 17, 2019 – 14th resolution

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 includes information specifically required by French law, such as information about the appointment of Statutory Auditors or verification of the Managing Chairman' management report and other documents provided to the 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,

In our capacity as Statutory Auditors of your Company 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 Managers, 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).

Paris-La Défense and Neuilly-sur-Seine, March 7, 2019

The Statutory Auditors

Deloitte & Associés	**PricewaterhouseCoopers Audit**
Pascale Chastaing-Doblin	Jean-Christophe Georghiou

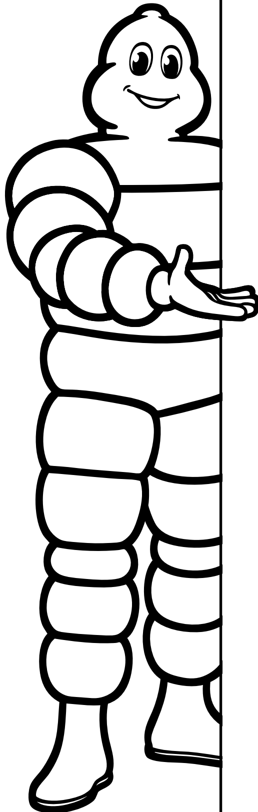
10.3.3 OTHER STATUTORY AUDITORS' REPORTS

The Statutory Auditors' reports to the Annual Shareholders Meeting of May 17, 2019 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 6.7.

11

TABLES OF CONCORDANCE



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	Workplace accidents, and more specifically frequency and severity rates, and occupational illnesses	6.4.2 a 6.4.2 b

		Sections
d) Employee relations	Organizing the social dialogue process, and in particular information and employee consultation procedures, as well as collective bargaining with employees	6.4.4 a
	Overview of collective bargaining agreements, in particular related to workplace health and safety	6.4.2 a); 6.4.2 b); 6.4.2 c) (principaux accords)
e) Training	Implemented training policies, especially on protecting the environment	6.4.3; 6.6.1 a)
	Total amount of training hours	6.4.3 d)
f) Equal treatment	Measures taken to promote gender equality	6.3.3.c)
	Measures taken to promote the employment and integration of people with disabilities	6.3.3.d)
	Anti-discrimination policy	6.3.3 b)
SOCIETAL INFORMATION		
a) General environmental policy	How the company addresses environmental issues and, if applicable, environmental audit and certification procedures	6.6.1
	Resources allocated to preventing environmental risks and pollution	6.6.1 a)
	Provisions and guarantees for environmental risks, unless such information could seriously harm the company in any pending litigation	6.6.1 a)
b) Pollution	Deploying measures to prevent, abate or remediate air, water and soil pollution severely affecting the environment	6.6.1. b) 6.6.2
	Managing noise and other types of pollution caused by operations	6.6.1. b)
c) Circular economy	**i) Avoiding and managing waste**	
	Measures implemented for waste prevention, recyling, reuse and other types of waste recovery and disposal solutions Initiatives to reduce food waste	6.6.1. b); 6.6.3
	ii) Using resources sustainably	
	Water consumption and water supply with respect to local hydric stress	6.6.1 b)
	Raw materials consumption and measures taken to use them more efficiently	6.6.1. b); 6.6.3
	Energy consumption and measures taken to improve energy efficiency and the use of renewable energies	6.6.1 b
	Land use	6.6.1 b
d) Climate change	Greenhouse gas emissions produced by the company's operations, particularly those emitted from the use of its goods and services	6.6.1 b); 6.6.2
	Measures taken to adapt to climate change	6.6.1 b); 6.6.2
	Medium and long-term objectives set voluntarily by the company to reduce greenhouse gas emissions, and the resources mobilized to that end	6.6.1 b); 6.6.2
e) Protecting biodiversity	Measures taken to preserve biodiversity	6.6.1. c)

		Sections
SOCIETAL INFORMATION		
a) Social commitments to supporting sustainable development	Impact of the company's operations in terms of jobs and local development	6.5.4 a)
	Impact of the company's operations on local and neighboring communities	6.5.4.b)
	Relations with stakeholders and the procedures in place for maintaining dialogue with them	6.5.3
	Partnership and philanthropic initiatives	6.5.4 c);6.5.4 d)
b) Subcontractors and suppliers	Addressing social and environmental issues in purchasing policy	6.5.2 b)
	Integration of CSR performance standards into relationships with suppliers and subcontractors	6.5.2.a)
c) Fair, honest business practices	Measures taken to support consumers' health and safety	6.5.1
INFORMATION ON ANTI-CORRUPTION INITIATIVES		6.3.1 b)
INFORMATION ON HUMAN RIGHTS INITIATIVES		6.3.2
OTHER INFORMATION PRESENTED IN COMPLIANCE WITH ARTICLE L. 225-102-1 III OF THE FRENCH COMMERCIAL CODE		
Impacts on climate change	▶ of the company's business operations	6.6.1; 6.6.2
	▶ of the use of its products and services	6.6.2
Social commitments to supporting	▶ sustainable development	6.5.4
	▶ the circular economy	6.6.3
Information on collective bargaining agreements signed in the company and their impact on business performance and working conditions		6.4.4
Information on initiatives to prevent discrimination and promote diversity, and measures taken in favor of the disabled		6.3.3
Social commitments to reducing food waste, combating food insecurity, respecting animal welfare and fostering responsible, fair, sustainable food systems	(1) Given the nature of the Michelin Group's manufacturing operations, this information does not correspond to a main risk factor. However, related initiatives are undertaken by the Group's food service providers at the local level. In its Maps & Guides business, Michelin has created the Sustainable Fine Dining Prize (*Prix de la Gastronomie Durable*), which will be awarded for the first time in 2019. The Group intends to use the prize to draw attention to initiatives taken by chefs in France to encourage balanced regional development as well as natural resource conservation. Candidates are those who encourage sustainable development through their practices: e.g., locavorism (eating better, locally), energy efficiency, responsible and organic farm product sourcing, sustainable fishing and a zero-waste objective.	

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

Le présent tableau signale les indications contenues dans le rapport qui s'avèrent ainsi en cohérence avec les indicateurs de la GRI, selon les standards publiés en 2016.

Disclosure	Description	Section	Cross-reference (or reason for omission)	Page
GRI 102: GENERAL DISCLOSURES				
1. Organizational profile				
102-01	Name of the organization	5.1	Information about the company	186
102-02	Activities, brands, products, and services	1.1.3 1.1.4 1.2	Creating value in four areas Leveraging our core strengths Company profile	8 9 18-19
102-03	Location of headquarters	1.6.2 a)	Headquarters – Offices – Research Centers	28
102-04	Location of operations	1.6	Facilities	26, 27, 28
102-05	Ownership and legal form	5.1	Information about the company	186
102-06	Markets served	2.1	Tire markets	34
102-07	Scale of the organization	6.4.1 1.6 1.3.1 2.14 3.2 5.2.1	Approach, workforce and movements Facilities Financial performance Ownership structure and voting rights Sales The Michelin share	218-219 26, 27, 28 20 81 94-95 186
102-08	Information on employees and other workers	6.4.1 6.4.5	Approach, workforce and movements Summary table of 2018 employee data	218-219 235-236
102-09	Supply chain	6.5.2	Responsible procurement	240-242
102-10	Significant changes to the organization and its supply chain	2.13 6.4.4 c)	Material changes in the company's business or financial position Redundancy plans, job retention initiatives and retraining, placement and support programs during the year	81 232-234
102-11	Precautionary principle or approach	2.9 6.8.1	Risk factors Duty of care plan	68-80 271
102-12	External initiatives	6.1 6.2 6.3.2 6.3.3 b) 6.4.1 6.4.2	Methodology Business and value creation model Respect for human rights Programs and tools to attenuate the risk of discrimination Approach, workforce and movements Workplace health, safety and well being	204 208 213 214 218-219 221
102-13	Membership of associations		https://www.michelin.com/developpement-mobilite-durables/performance-transparence/lobbying-affaires-publiques/ Main transparency registers in which Michelin is registered https://www.hatvp.fr/fiche-organisation/?organisation=855200507##	
2. Strategy				
102-14	Statement from senior decision-maker		Interview with Jean-Dominique Senard, Managing Chairman	2-4
102-15	Key impacts, risks, and opportunities	6.1 6.3, 6.4, 6.5, 6.6 2.9 6.8	Methodology/Materiality and main risks Non-financial information statement Risk factors Duty of care plan	204 211-268 68-80 271-280

Disclosure	Description	Section	Cross-reference (or reason for omission)	Page
3. Ethics and integrity				
102-16	Values, principles, standards, and norms of behavior	1 6.3.1 6.3.2 6.3.3 6.8	Offering everyone a better way forward Fair, honest business practices Respect for human rights Employee diversity and non discrimination Duty of care plan	6 211 213 214 271
102-17	Mechanisms for advice and concerns about ethics	6.3.1 6.8.6	Fair, honest business practices Early warning and report compilation mechanisms	211 280
4. Governance				
102-18	Governance structure	4.1	Administrative, management and supervisory bodies	114-119
102-19	Delegating authority	4.8	Delegations of authority Financial authorizations	179-182
102-20	Executive-level responsibility for economic, environmental, and social topics	4.1 2.15	Administrative, management and supervisory bodies	114-119 84-88
102-21	Consulting stakeholders on economic, environmental, and social topics	6.5.3	Stakeholder dialogue	243-244
102-22	Composition of the highest governance body and its committees	4.1 2.15	Administrative, management and supervisory bodies Independent supervisory bodies reporting directly to shareholders	114-119 82-88
102-23	Chair of the highest governance body	2.15	Administrative, management and supervisory bodies	82-88
102-26	Role of highest governance body in setting purpose, values, and strategy	2.15	Role and responsibilities	82-88
102-29	Review of economic, environmental, and social topics	2.9 6.1	Risk factors Methodology/Materiality and main risks	68-80 205
102-35	Remuneration policies	4.3	Management and Supervisory Board compensation	134-137
102-36	Process for determining remuneration	4.3	Management and Supervisory Board compensation	134-137
102-37	Stakeholders' involvement in remuneration	4.3.4, 4.4.6, 4.4.8, 4.4.10	Advisory vote by shareholders on compensation components Advisory vote by shareholders on compensation components due	153 162 169 173
5. Stakeholder engagement				
102-40	List of stakeholder groups	6.5.3	Stakeholder dialogue	243-244
102-41	Collective bargaining agreements	6.4.4 a)	An assertive social dialogue process	228-229
102-42	Identifying and selecting stakeholders	6.5.3	Stakeholder dialogue	243-244
102-43	Approach to stakeholder engagement	6.5.3	Stakeholder dialogue	243-244
102-44	Key topics and concerns raised	6.5.3 6.1	Stakeholder dialogue Methodology/Materiality and main risks	243-244
6. Reporting practice				
102-45	Entities included in the consolidated financial statements	7. Note 36	Note 36 to the consolidated financial statements	281 355
102-46	Defining report content and topic boundaries	6.1	Methodology/Definition of content and scope of reporting	204
102-47	List of material topics	6.1	Reporting methodology/ Materiality and main risks	205
102-48	Restatements of information	6.1	Methodology/ Definition of content and scope of reporting	204

Disclosure	Description	Section	Cross-reference (or reason for omission)	Page
102-49	Changes in reporting	6.1	Methodology/ Definition of content and scope of reporting/ Indicators	204 206
102-50	Reporting period	6.1 7.1	Methodology/Reporting cycle and period Consolidated Financial Statements for the year ended December 31, 2018	204 282
102-51	Date of most recent report	6.1	Methodology/Indicators	204
102-52	Reporting cycle	6.1	Methodology/Reporting cycle and period	204
102-53	Contact point for questions regarding the report			4e de couverture
102-54	Claims of reporting in accordance with the GRI Standards	6.1	Methodology	204
102-55	GRI content index	11.3	Global Reporting Initiative cross-reference table	433
102-56	External assurance	6.7	Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated environmental, labor and social information presented in the management report	269-271
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 benefit costs and number of employees Income tax Share information	20 45 49 52 186
GRI 201-2	Financial implications and other risks and opportunities due to climate change	2.9.3 c)	Financial risks associated with climate change and the low-carbon strategy	72
GRI 202 - Market presence				
GRI 202-2	Proportion of senior management hired from the local community	6.3.3 e)	Focusing on local management sensitive to host community cultures	217
GRI 203 - Indirect Economic Impacts				
GRI 203-1	Infrastructure investments and services supported	6.5.4 c) 6.5.4 b)	Demonstrating the Group's culture and values through corporate philanthropy Participating harmoniously in local community life	246 245-246
GRI 204 - Procurement practices				
GRI 204-1	Proportion of spending on local suppliers	6.5.2 a)	Responsible procurement Supporting responsible purchasing	211 212
Reason for omission of the figure: Not applicable – Group procurement is managed globally. While operating globally and purchasing from major international suppliers who meet its exacting standards and embrace the principles of sustainable development, Michelin, in line with its Purchasing Principles, also strives to source locally, as well as from sheltered work centers and social enterprises. These local purchases are not tracked by a Group-wide KPI.				
GRI 205 - Anti-corruption				
GRI 205-1	Operations assessed for risks related to corruption	6.3.1 a) 6.3.1 b)	Establishing a global ethical framework Taking an active approach to corruption prevention	211 212
Reason for omission of certain data: Lack of information/Confidentiality – All of the Group's host regions have been reviewed and assessed for corruption risks. The findings are not available at the site or facility level. / For confidentiality reasons, Michelin does not publicly disclose the material risks of corruption identified during the assessments.				
GRI 205-2	Communication and training about anti-corruption policies and procedures	6.3.1 a) 6.3.1 b)	Establishing a global ethical framework Taking a firm stand against corruption	211 212
GRI 205-3	Confirmed incidents of corruption and actions taken	-	**Reason for omission:** Confidentiality issues	
GRI 206 - Anti-competitive behavior				
GRI 206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	-	**Reason for omission:** Confidentiality issues – the requested information is highly sensitive and its disclosure could be detrimental to trade secrets	

Disclosure	Description	Section	Cross-reference (or reason for omission)	Page
GRI 300: ENVIRONMENTAL				
GRI 301 - Materials				
GRI 301-2	Recycled input materials used	1.1.9	Progress on ambitions for 2020/ Ambition 4 - Product performance	16
GRI 302 - Energy				
GRI 302-1	Energy consumption within the organization	6.6.1 b)	Reducing the environmental footprint of the production plants/ Performance of the Michelin Environmental Footprint (MEF) indicator	250
GRI 302-3	Energy intensity	6.6.1 b)	Reducing the environmental footprint of the production plants/ Performance of the Michelin Environmental Footprint (MEF) indicator/ Summary table of environmental data for the Group	250-251
GRI 302-4	Reduction of energy consumption	6.6.1 b)	Reducing the environmental footprint of the production plants/ Performance of the Michelin Environmental Footprint (MEF) indicator/ Summary table of environmental data for the Group	250-251
GRI 303 - Water				
GRI 303-1	Water withdrawal by source	6.6.1 b)	Reducing the environmental footprint of the production plants/ Performance of the Michelin Environmental Footprint (MEF) indicator	250
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	6.6.1 b) 6.6.1 c)	Reducing the environmental footprint of the production plants/ Summary table of environmental data for the Group Preserving biodiversity	251 256
GRI 305 - Emissions				
GRI 305-1	Direct (Scope 1) GHG emissions 7	6.6.1 b)	Reducing the environmental footprint of the production plants Performance of the Michelin Environmental Footprint (MEF) indicator	250
GRI 305-2	Energy indirect (Scope 2) GHG emissions	6.6.1 b)	Reducing the environmental footprint of the production plants Performance of the Michelin Environmental Footprint (MEF) indicator	250
GRI 305-3	Other indirect (Scope 3) GHG emissions	6.6.2 d)	Reducing the carbon footprint of our products	261
GRI 305-4	GHG emissions intensity	6.6.1 b)	Reducing the environmental footprint of the production plants Performance of the Michelin Environmental Footprint (MEF) indicator Summary table of environmental data for the Group	250-251
GRI 305-5	Reduction of GHG emissions	6.6.1 b)	Reducing the environmental footprint of the production plants Performance of the Michelin Environmental Footprint (MEF) indicator Summary table of environmental data for the Group	250-251
GRI 305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	6.6.1 b)	Reducing the environmental footprint of the production plants Performance of the Michelin Environmental Footprint (MEF) indicator Summary table of environmental data for the Group	250-251
GRI 306 - Effluents and waste				
GRI 306-2	Waste by type and disposal method	6.6.1 a)	Guaranteeing compliance with environmental management fundamentals	251
GRI 307 - Environmental compliance				
GRI 307-1	Non-compliance with environmental laws and regulations	6.6.1 b)	Reducing the environmental footprint of the production plants Summary table of environmental data for the Group	251
GRI 308 - Supplier environmental assessment				
GRI 308-2	Negative environmental impacts in the supply chain and actions taken	6.5.2 6.5.2 b)	Responsible procurement Addressing social and environmental issues in purchasing policy	240-241

Disclosure	Description	Section	Cross-reference (or reason for omission)	Page
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GRI 401 - Employment				
GRI 401-1	New employee hires and employee turnover	6.4.1	Approach, workforce and movements	219-220
GRI 402 - Labor/Management relations				
GRI 402-1	Minimum notice periods regarding operational changes	6.4.4 a)	An assertive social dialogue process	229
GRI 403 - Occupational health and safety				
GRI 403-1	Workers representation in formal joint management – worker health and safety committees	6.4.2 a) 6.4.2 c)	Safeguarding employee health Well-being in the workplace: improving work-life balance/ Improvement plans to address employee needs	222 225
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	6.4.2 b) 6.4.5	Measuring and tracking occupational accidents and illnesses Assessing and preventing workplace safety and security risks Summary table of 2018 employee data	223-224 223 235
GRI 404 - Training and education				
GRI 404-1	Average hours of training per year per employee	6.4.3 d) 6.4.5	Enhancing skills through training Summary table of 2018 employee data	227 235
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	6.4.3 6.4.3 e)	Employability and employee development A new division of roles to support the process	226 228
GRI 405 - Diversity and equal opportunity				
GRI 405-1	Diversity of governance bodies and employees	6.3.3 c)	Making all positions accessible to women and ensuring gender wage parity	215-216
GRI 405-2	Ratio of basic salary and remuneration of women to men	6.3.3 c)	Making all positions accessible to women and ensuring gender wage parity/ Ensuring wage equality worldwide	216
GRI 406 - Non-discrimination				
GRI 406-1	Incidents of discrimination and corrective actions taken	6.3.3 b)	Programs and tools to attenuate the risk of discrimination The system for consolidating the various ethics hotlines is now being revamped. Based on a single outside service provider, the new system will be able to manage and track all types of alerts in real time, while guaranteeing data confidentiality and respecting people's privacy	214-215
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	6.4.4 a) 6.3.1 c) 6.5.2 b)	An assertive social dialogue process Special measures governing procurement Addressing social and environmental issues in purchasing policy	229 212 241
GRI 408 - Child labor				
GRI 408-1	Operations and suppliers at significant risk for incidents of child labor	6.3.2 6.8.4 a/b) 6.8.5 a/b)	Respect for human rights Human rights risks Supplier risks	213 274-276 277-279
GRI 409 - Forced or compulsory labor				
GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	6.3.2 6.8.4 b) 6.8.5 a)	Respect for human rights Human rights risks – forced labor Supplier risks – General approach	213 275-276 277
GRI 410 - Security practices				
GRI 410-1	Security personnel trained in human rights policies or procedures	6.8.4 b)	Human rights risks – Impact on local communities	276

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GRI 411 - Rights of indigenous peoples				
GRI 411-1	Incidents of violations involving rights of indigenous peoples	6.8.4 b)	Human rights risks – Impact on local communities	276
GRI 412 - Human rights assessment				
GRI 412-1	Operations that have been subject to human rights reviews or impact assessments	6.3.2 6.8.4 a)	Respect for human rights/ Impact studies and risk analysis Human rights risks/ Governance and indicators	213 274-275
GRI 413 - Local communities				
GRI 413-1	Operations with local community engagement, impact assessments, and development programs	6.5.4 6.5.3 6.6.3 b)	Social commitments to supporting sustainable development Stakeholder dialogue The circular economy	244-246 243 266-268
GRI 414 - Supplier social assessment				
GRI 414-1	New suppliers that were screened using social criteria	6.5.2 b)	Addressing social and environmental issues in purchasing policy	241
GRI 414-2	Negative social impacts in the supply chain and actions taken	6.5.2 b) 6.6.1 b)	Addressing social and environmental issues in purchasing policy Reducing the environmental footprint of the production plants/ Abating odors and noise pollution	241 256
GRI 415 - Public policy				
GRI 415-1	Political contributions	Code of Ethics	"The Michelin vocation is not to support a political candidate in order to hopefully obtain further advantages for the Company. The Michelin Group maintains a neutrality principle. However, in countries/jurisdictions where it is legal and commonly accepted, the Michelin Group can provide support to a candidate, who works for sustainable mobility. These donations and political contributions will be published, as required by law."	
GRI 416 - Customer health and safety				
GRI 416-1	Assessment of the health and safety impacts of product and service categories	6.5.1	Safety and performance of products and services/ The Michelin Quality Process	237
GRI 417 - Marketing and labeling				
GRI 417-2	Incidents of non-compliance concerning product and service information and labeling	6.5.1	Safety and performance of products and services/ Tire labeling	238
GRI 418 - Customer privacy				
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	6.3.1 a) 6.8.4.b)	Establishing a global ethical framework Human rights risks – Protecting employee privacy and personal data	211 276
GRI 419 - Socioeconomic compliance				
GRI 419-1	Non-compliance with laws and regulations in the social and economic area	6.3.1 a)	Establishing a global ethical framework	211

11.4 TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT

Afin de faciliter la lecture du Document de Référence, la table thématique suivante permet d'identifier les principales informations requises par le règlement européen n° 809/2004 de la Commission du 29 avril 2004.

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4.	**Risk factors**		2.9	68
5.	**Information about the issuer**			
	5.1	History and development of the Company	1.5	25
	5.1.1	Legal and trade name of the issuer	5.1	186
	5.1.2	Place of registration of the issuer and registration number	5.1	186
	5.1.3	Date of incorporation and the length of life of the issuer	5.1	186
	5.1.4	The domicile and legal form of the issuer, the legislation under which the issuer operates	5.1	186
	5.2	Investments	2.5.2	58
6.	**Business overview**			
	6.1	Principal activities	1; 2.8	6; 64
	6.2	Principal markets	2.1; 2.2	34; 41
	6.3	Exceptional events that have influenced the information provided pursuant to points 6.1 and 6.2	None	None
	6.4	Degree of issuer dependence upon patents, licenses, industrial, commercial and financial contracts and upon manufacturing processes	None	None
	6.5	Basis of issuer statements concerning its competitive position	2.1	34
7.	**Organizational structure**			
	7.1	Summary organizational chart	1.4	24
	7.2	List of subsidiaries and affiliates	7.1 - (note 36); 8.2 - (note 19)	355; 385
8.	**Property, plant and equipment**			
	8.1	Existing or planned material tangible fixed assets	1.6; 7.1 - (note 14)	26; 314
	8.2	Environmental issues that may affect the issuer's utilization of tangible fixed assets	6.6	247
9.	**Operating and financial review**			
	9.1	Financial situation	2.2; 2.3; 2.4; 2.5; 2.6	41; 45; 53; 58; 61
	9.2	Operating result	2.3	45
	9.2.1	Factors materially affecting the issuer's income from operations	2.2	41
	9.2.2	Reasons for material changes in net sales or revenues	2.; 2.2; 2.3	34; 41; 45
	9.2.3	Governmental, economic, fiscal, monetary or political factors that have materially affected the issuer's operations	2.1; 2.2	34; 41
10.	**Liquidity and capital resources**			
	10.1	Capital resources	2.4; 2.6; 5.5.1; 7.1	53; 61; 189; 281
	10.2	Cash flows	2.4; 2.5; 7.1	53; 58; 281
	10.3	Borrowing requirements and funding structure	2.4; 7.1 - (note 26)	53; 326
	10.4	Restrictions on the use of capital resources	None	None
	10.5	Anticipated sources of funds to meet the commitments covered in points 5.2.3 and 8.1	None	None
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12.	**Trend information**		2.7	61
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16.	**Board practices**			
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	16.2	Service contracts	4.1.3	119
	16.3	Audit and Compensation Committees	4.3.2 k); 4.3.2 l)	129; 131
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17	**Employees**			
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	17.2	Shareholdings and stock options	5.5.3; 6.4.1	191; 218
	17.3	Arrangements for involving the employees in the capital of the issuer	5.5.5; 6.4.1	199; 218
18.	**Major shareholders**			
	18.1	Provisions governing the ownership threshold above which shareholder ownership must be disclosed	4.7	178
	18.2	Voting rights	4.7; 5.2.4	178; 188
	18.3	Control	4.7	178
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19.	**Related party transactions**		7.1 - (note 34)	354
20.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**			
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	20.8	Legal and arbitration proceedings	2.9.3 k)	79
	20.9	Significant change in the issuer's financial or trading position	2.12	81
21.	**Additional information**			
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	21.1.2	Shares not representing capital	None	None
	21.1.3	Shares in the issuer held by or on behalf of the issuer itself or by subsidiaries of the issuer	5.5.6	199
	21.1.4	Convertible securities, exchangeable securities or securities with warrants	5.5.2	190
	21.1.5	Authorized but unissued capital	None	None
	21.1.6	Stock options	5.5.3	191
	21.1.7	A history of share capital	5.5.1	189
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