

FEBRUARY 12, 2018

# **2017 ANNUAL RESULTS**

## 2017: another year of progress, in line with the 2020 objectives and the expected scenario

	H1 2017	H2 2017	2017 actual	2016
Volumes	+3.6%	+1.6%	<b>+2.6%</b>	+2.1%
Price mix	+1.4%	+4.9%	<b>+3.2%</b>	-1.8%
Operating income from recurring activities	-49	+194	<b>€2,742m</b> <b>up €145m</b> at constant exchange rates	€2,692m
Structural FCF	N/A	N/A	<b>€1,509m</b>	€961m

# Strong €1.5bn in structural FCF and €145m increase in operating income\* at constant exchange rates

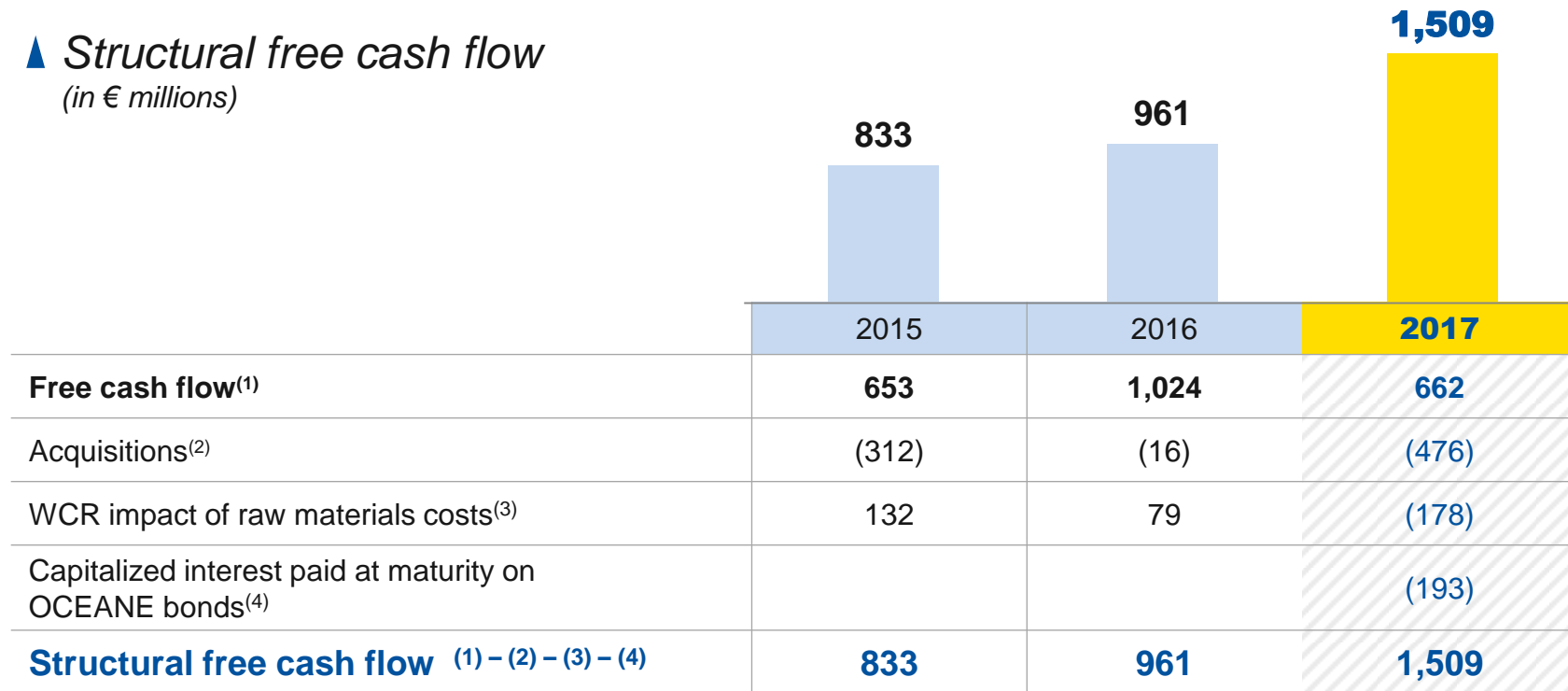
- Strong structural free cash flow of €1.5bn
- €2,742m in operating income\*, offsetting the more than €700m increase in raw materials costs and nearly €100m negative currency effect
  - Determined Group strategy to offset the more than €700m increase in raw materials costs, resulting in a neutral impact versus raw materials headwind on the non-indexed businesses
  - Sustained market share gains in ≥18" tires (MICHELIN brand sales up 19% in a segment up 13%), with a price positioning in line with the brand reputation
  - Competitiveness plan gains exceeded inflation by €36m, in line with objectives
  - Highly competitive markets, especially in Europe, which are weighing on the dealership operations
- Specialty businesses: operating income\* up more than 30% and strong growth across every division
- €1,693m in net income, a historic high
- Proposed dividend of €3.55\*\* per share, representing a payout of 36% of consolidated net income excluding non-recurring items

*\*from recurring activities*

*\*\*subject to shareholder approval at the Annual Meeting on May 18, 2018*

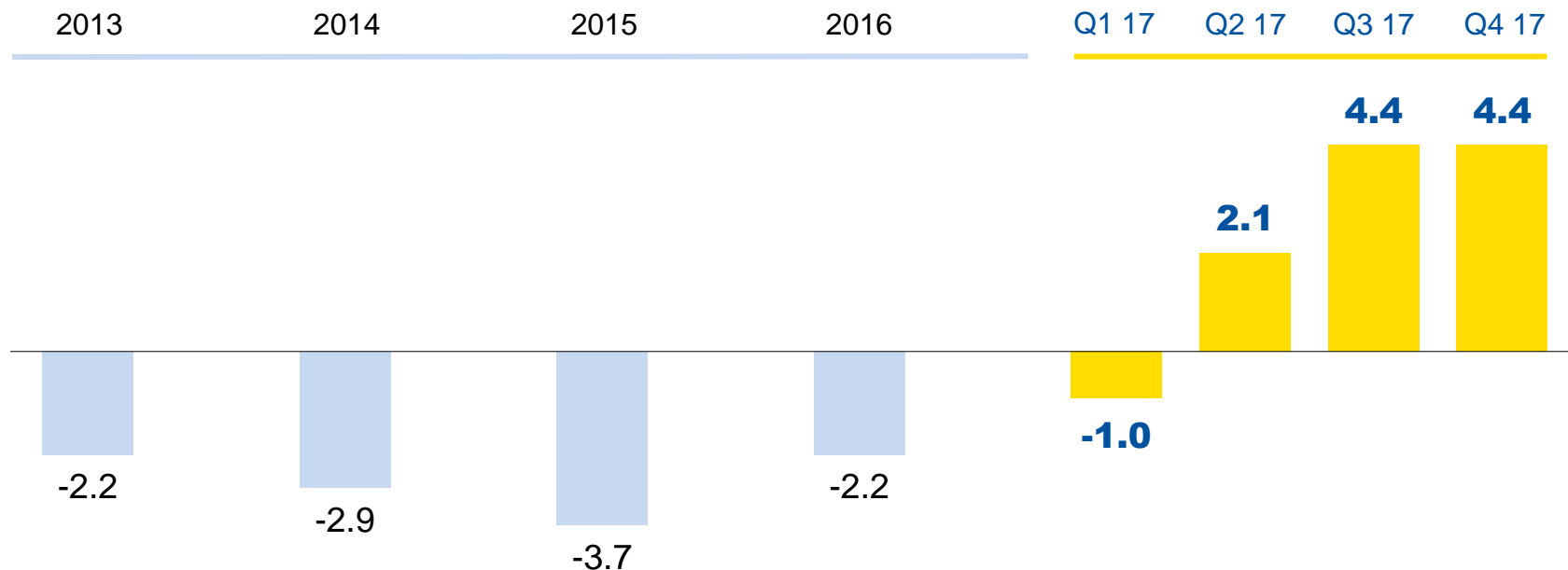
# A business that structurally generates free cash flow, supported in 2017 by WCR monitoring

▲ *Structural free cash flow*  
(in € millions)



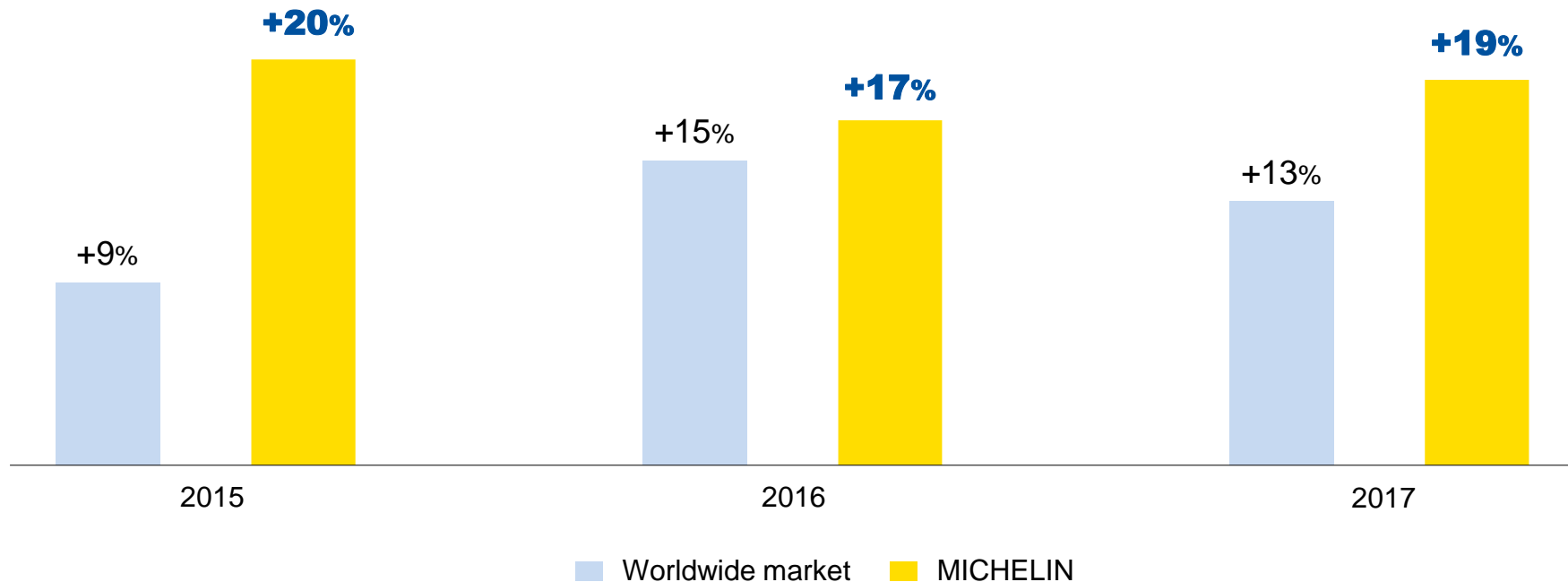
# Still strong price effect in Q4, as announced, led by RT price increases and the application of indexation clauses

▲ (as a % of net sales)













# ≥18" tires: the market recognizes the power of MICHELIN's line-up in the premium segment

▲ Growth in 18" and larger tire sales  
(YoY change, markets in units and sales in kt)

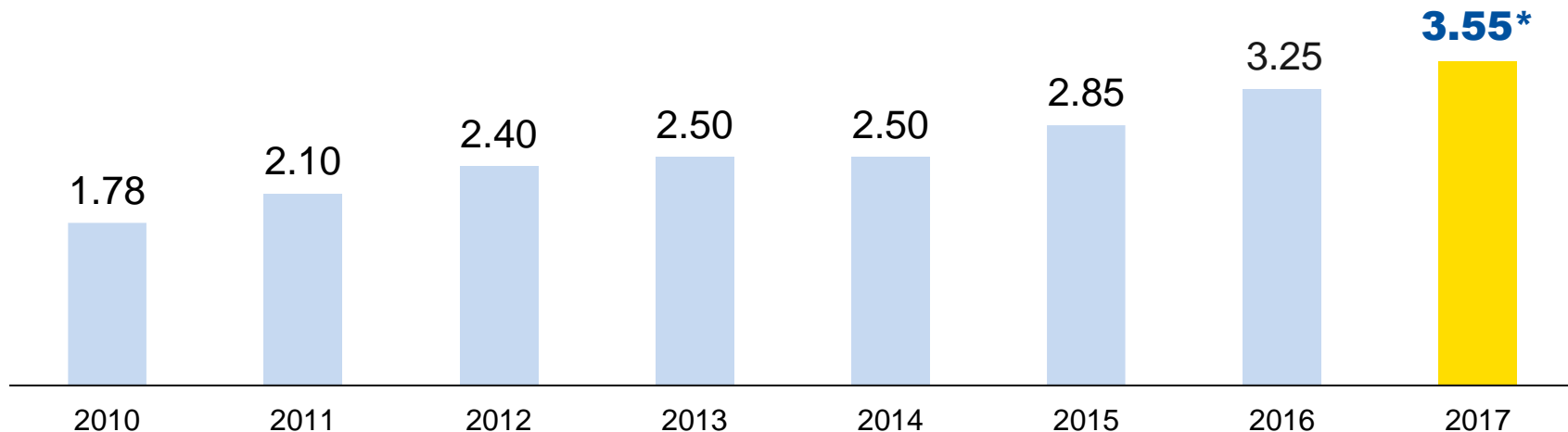


# Partnerships and acquisitions to support our growth and value creation strategy

	Tires	Services	Experiences	Materials
2015-2020 objectives	Net Sales +20%	Net Sales x2	Net Sales x3	Capitalize on our leadership
Recent partnerships and acquisitions	  	    	    	  

# Dividend increase in line with Group gains

▲ Per share data (in €)



**2013-2020 payout ratio:  $\geq 35\%$  of consolidated net income**  
(excluding non-recurring items)

*\*subject to shareholder approval at the Annual Meeting on May 18, 2018*



# 2018 guidance: on the road to our 2020 objectives

	2018
Volumes	Growth in line with the markets
Operating income from recurring activities at constant exchange rates	> 2017
Structural FCF	> €1,100m

February 12, 2018

# 2017 ANNUAL RESULTS

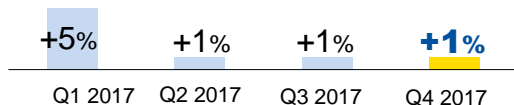


**2017: Growth in operating income  
from recurring activities, in line  
with the business plan**

# Q4: PC and RT Truck tire markets in line with Q3, robust Specialty and OE Truck tire markets



## 2017 PC tires: +3%

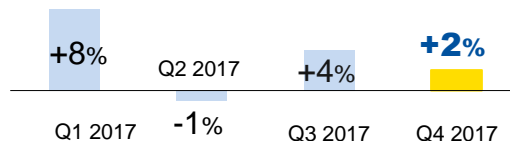


### Fourth quarter:

- Europe RT: return to long-term trends after surge in early buying in Q1
- North America: Stable, strong demand in RT and faster decline in OE
- Sharp 8% growth in RT demand in China
- Sustained recovery in South America and Eastern Europe



## 2017 Truck tires: +4%



### Fourth quarter:

- Robust 20% growth in OE demand, particularly in China and South America
- RT markets down 1%, dampened by the strong gains in OE

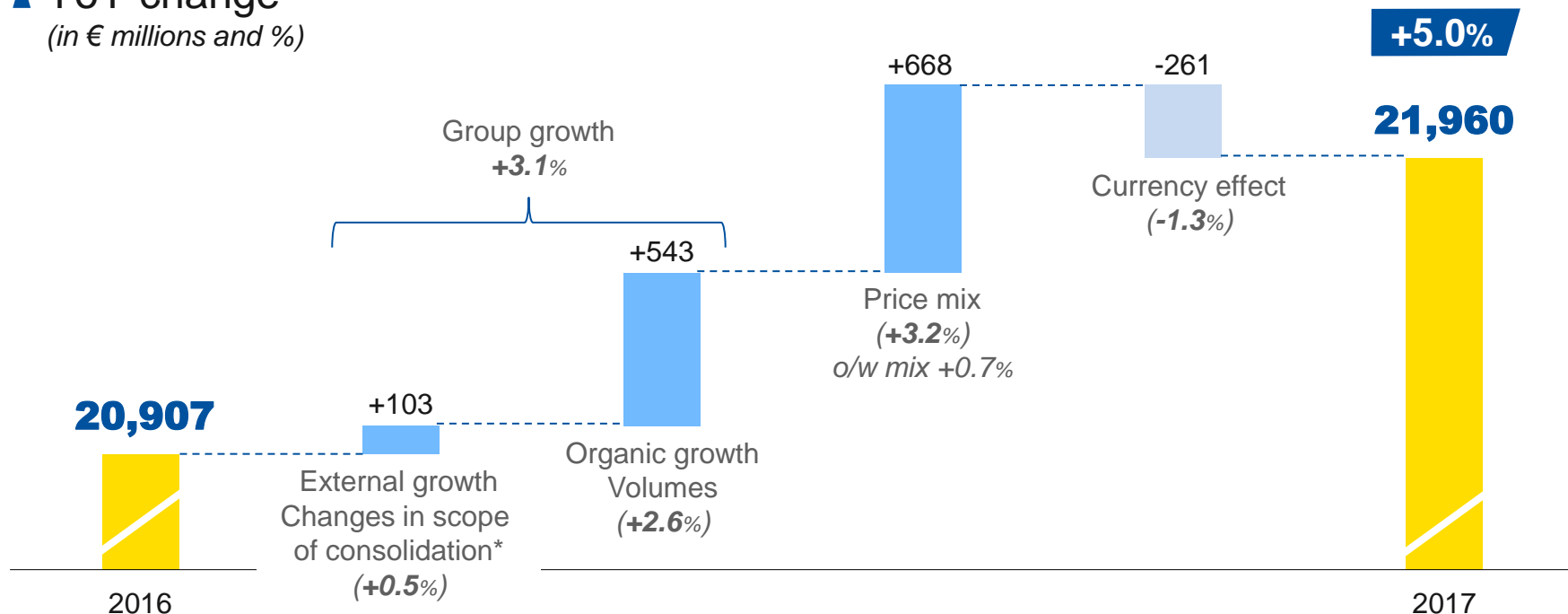


## 2017 Specialty tires: +10%

- Mining tires: +15%
- Earthmover tires: sharp 25% upturn in OE, excluding China
- Agricultural tires: rebounding in both OE (+10%)
- Growth in demand in the other businesses

# Net sales supported by growth in volumes and price increases

▲ YoY change  
(in € millions and %)

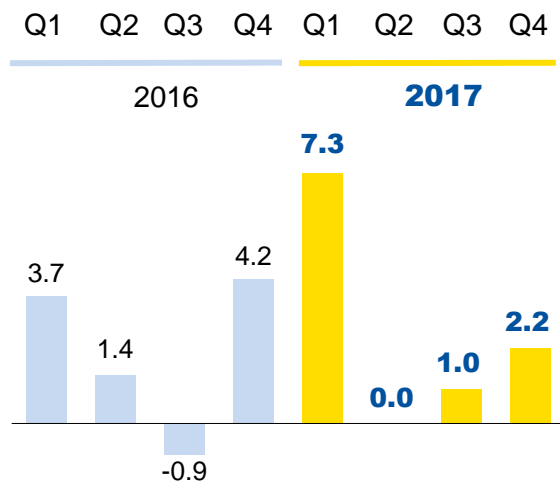


\*Levorin, NexTraq

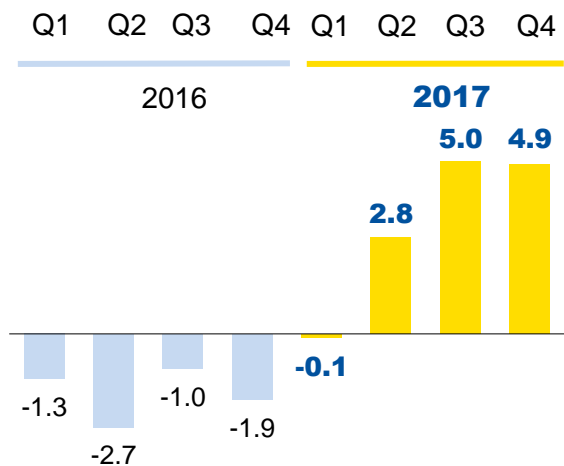
## Q4: Still robust price mix with higher volumes

▲ YoY quarterly change 2017/2016  
(in %)

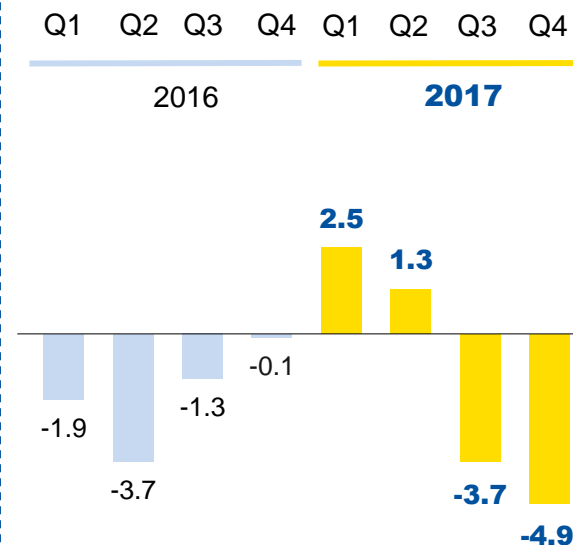
### Volumes



### Price mix

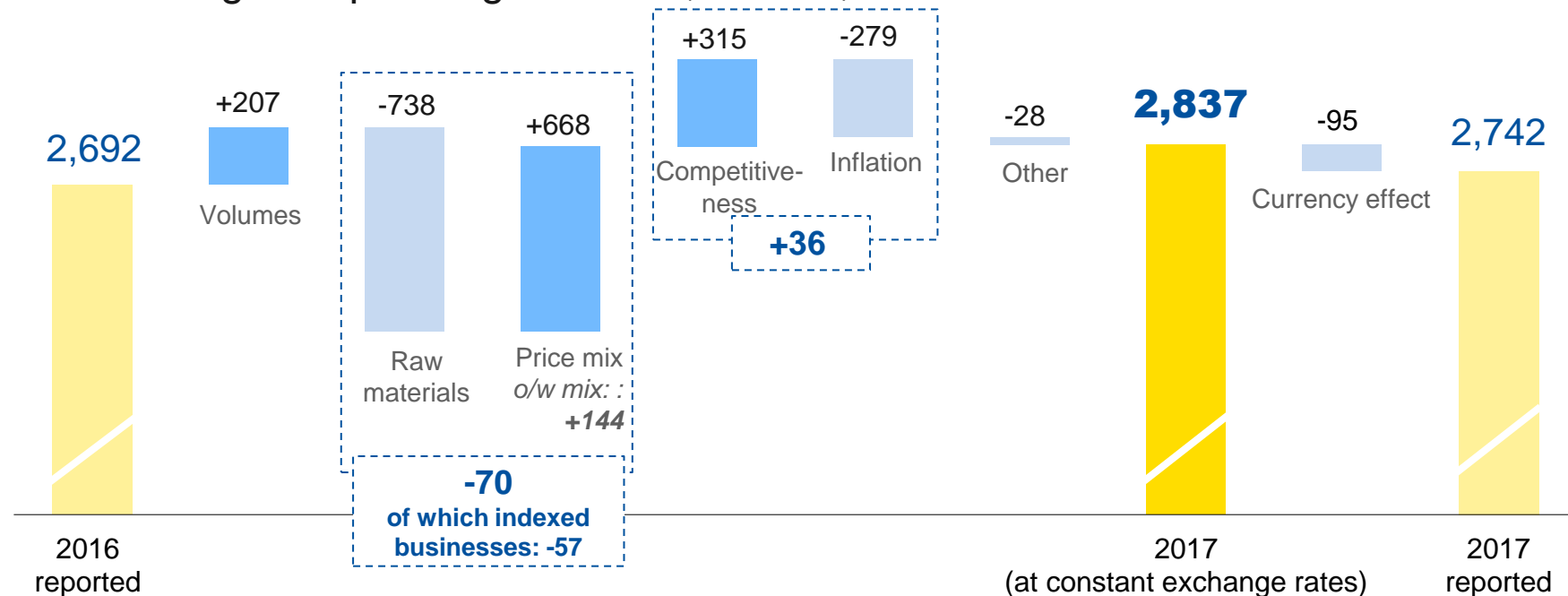


### Currency effect



# €2,837m in operating income\* at constant exchange rates, led by volume gains, in line with the Group's roadmap

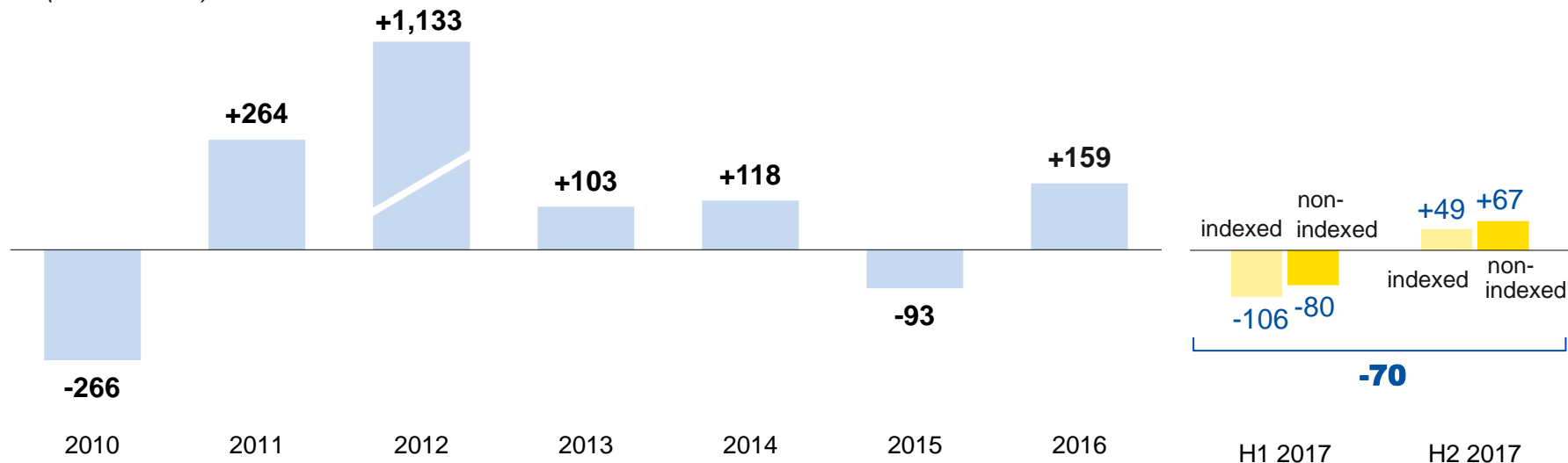
## ▲ YoY change in operating income\* (in € millions)



\*from recurring activities

# An assertive pricing policy, as announced




▲ Net impact of price mix and raw materials prices on operating income\*  
(in € millions)



- 2017: Net negative €57m impact of price mix and raw materials prices on indexed businesses

\*from recurring activities

# 2017 saw a strong rebound in the Specialty businesses

(in € millions)		2017	2016	Variation
	<b>RS1 Net sales</b>	<b>12,479</b>	12,105	+3%
	<b>Operating income*</b>	<b>1,552</b>	1,585	-2%
	Operating margin*	12.4%	13.1%	-0.7 pts
	<b>RS2 Net sales</b>	<b>6,123</b>	5,966	+3%
	<b>Operating income*</b>	<b>497</b>	580	-14%
	Operating margin*	8.1%	9.7%	-1.6 pts
	<b>RS3 Net sales</b>	<b>3,358</b>	2,836	+18%
	<b>Operating income*</b>	<b>693</b>	527	+31%
	Operating margin*	20.6%	18.6%	+2 pts

- RS1 offset the impact of RM prices and currency movements, neutral impact from changes in price mix and RM prices in RS2, remarkable improvements in RS3

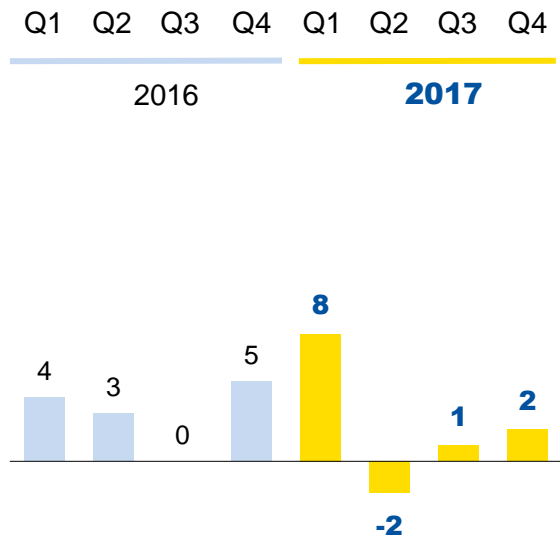
\*from recurring activities



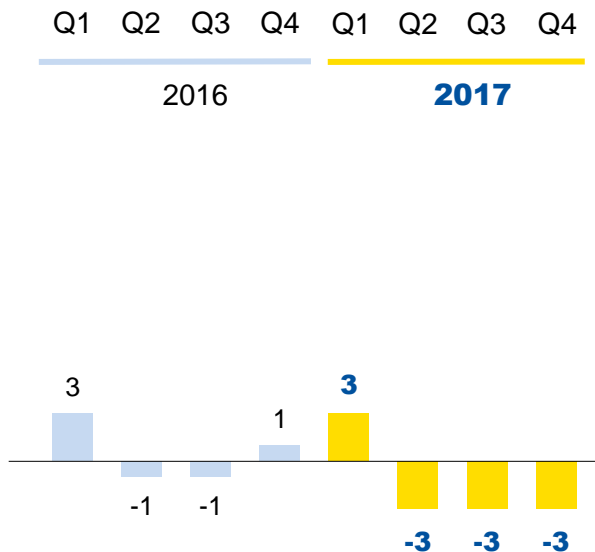
# Q4 volumes: good performance in PC in a cooling market and brisk gains in Specialty tires off of rebounding comparatives

## ▲ YoY quarterly change in volumes (in % and tonnes)

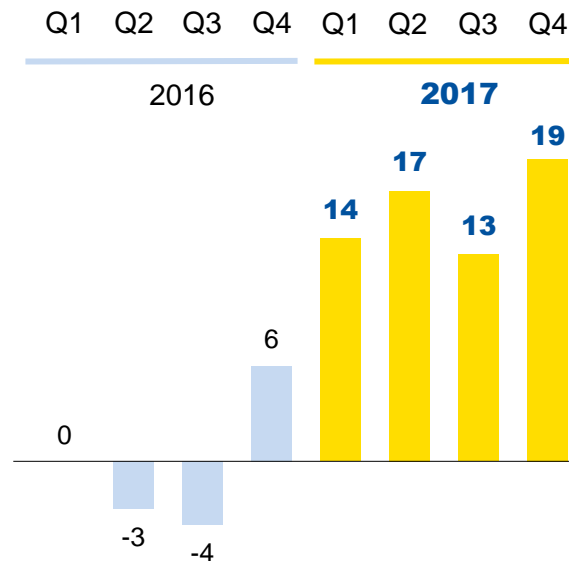
### Passenger car tires\*



### Truck tires\*



### Specialty tires

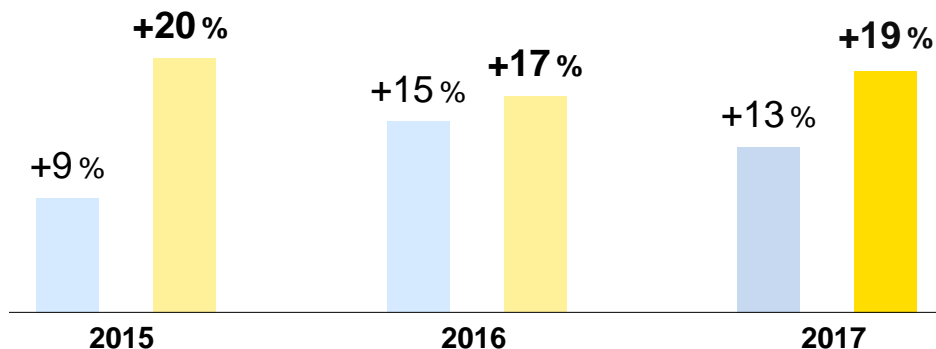


\*and related distribution

# ≥18" tires: the market recognizes the power of Michelin's line-up in the premium segment

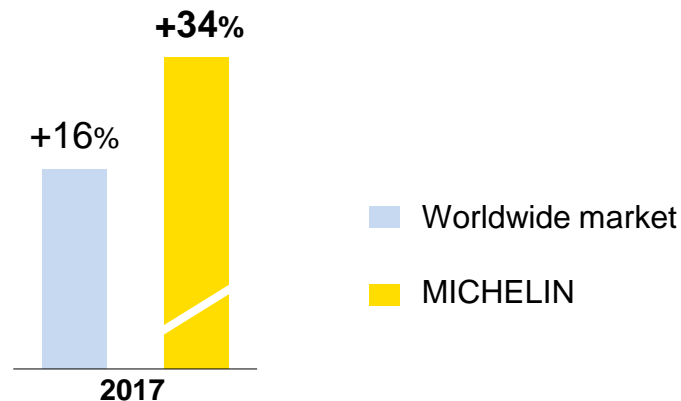
## ▲ Growth in ≥18" tire sales

(YoY change, markets in units and sales in kt)



## ▲ Growth in ≥19" tire sales

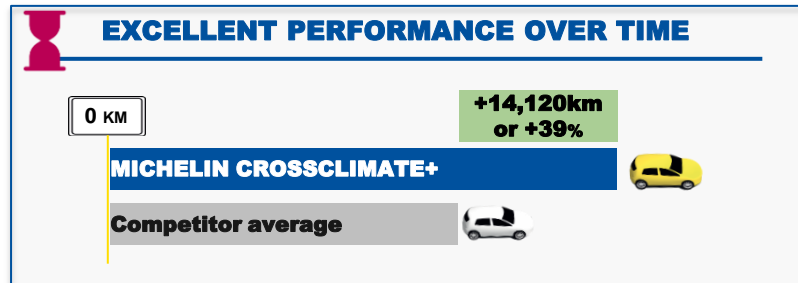
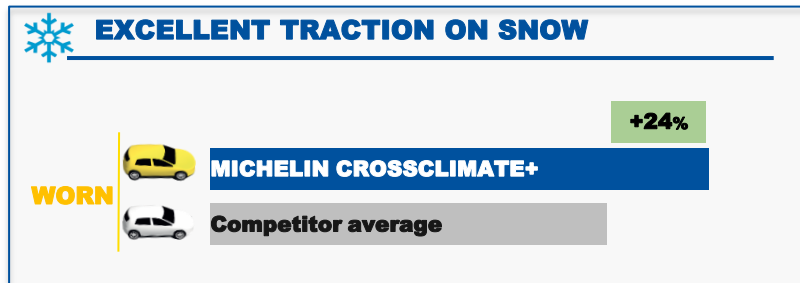
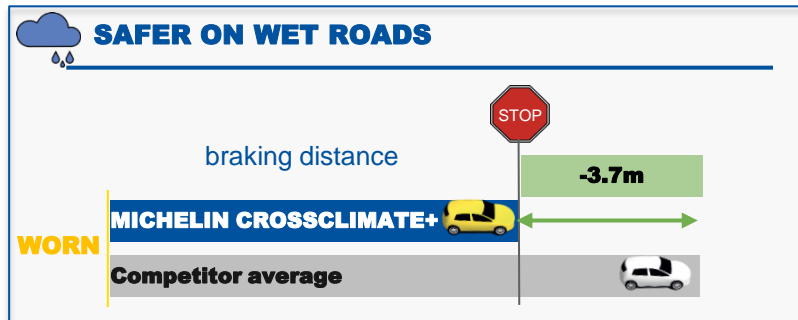
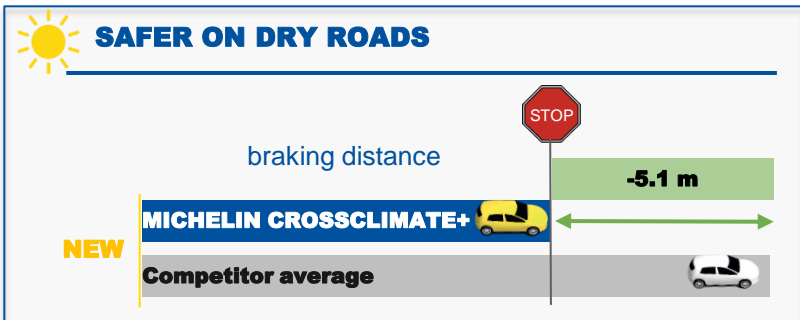
(YoY change, markets in units and sales in kt)



- Customers who value the MICHELIN brand and its product performance: price positioning in line with the reputation of the MICHELIN brand
- Sustained growth momentum, made possible by adapting production capacity

# Addressing planned obsolescence: MICHELIN CrossClimate+ offers top performance regardless of new or worn tread

▲ Results of the Auto Bild all-season tire tests\*, November 2017



\*Comparative tests conducted by Auto Bild on 185/65 R15 tires, published on November 24, 2017. Competitors: GOODYEAR VECTOR 4S GEN-2, PIRELLI Cinturato all season, VREDESTEIN Quatrac 5, NOKIAN Weatherproof, HANKOOK Kinergy 4 S.

Scales on the graphs are adjusted to improve readability.



# Truck: innovative tires and solutions that meet customer needs, to drive a return to growth

## MICHELIN X Multi Energy

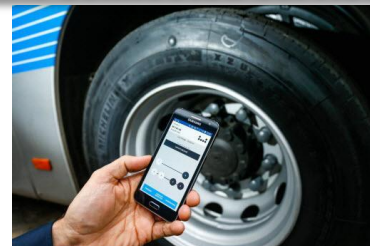
70 launches scheduled for 2018



**BF Goodrich**  
Tires



## Convoy TripleA and connected services



## MICHELIN X Guard



Ashok Leyland

India

**COPILOTO SATELITAL**  
una empresa del grupo Michelin



**sascar**  
PAIXÃO PELA INOVAÇÃO

Indonesia



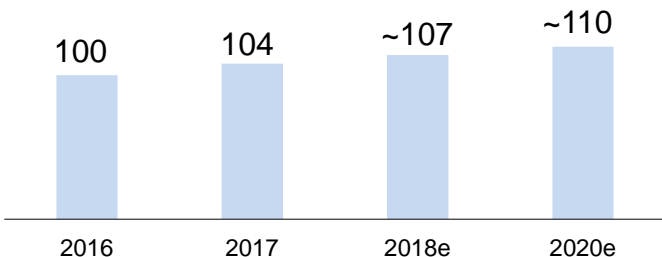
# Specialty tires: customer-aligned solutions in expanding markets



**MICHELIN EVOBIB**  
2 in 1 technology



## ● Agricultural tires\* (base 100 in 2016, in tonnes)



\*OE & RT in Europe and North America



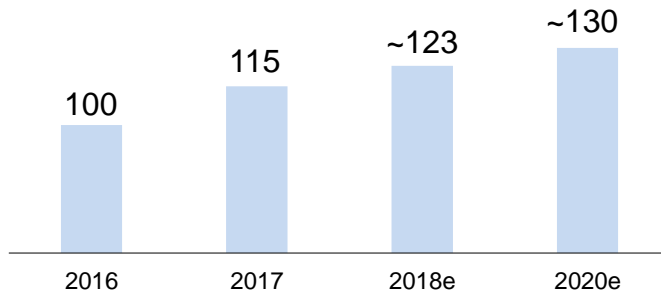
**MICHELIN  
XDR 3**



**MICHELIN MEMS  
Evolution 4**

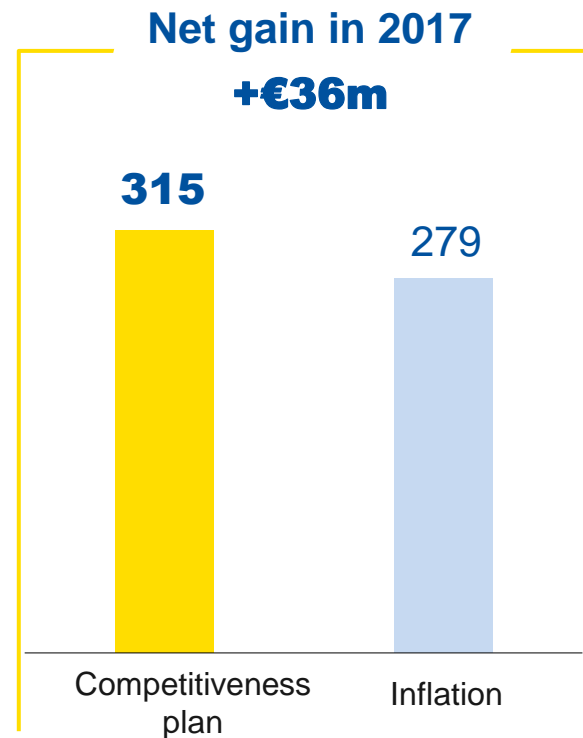
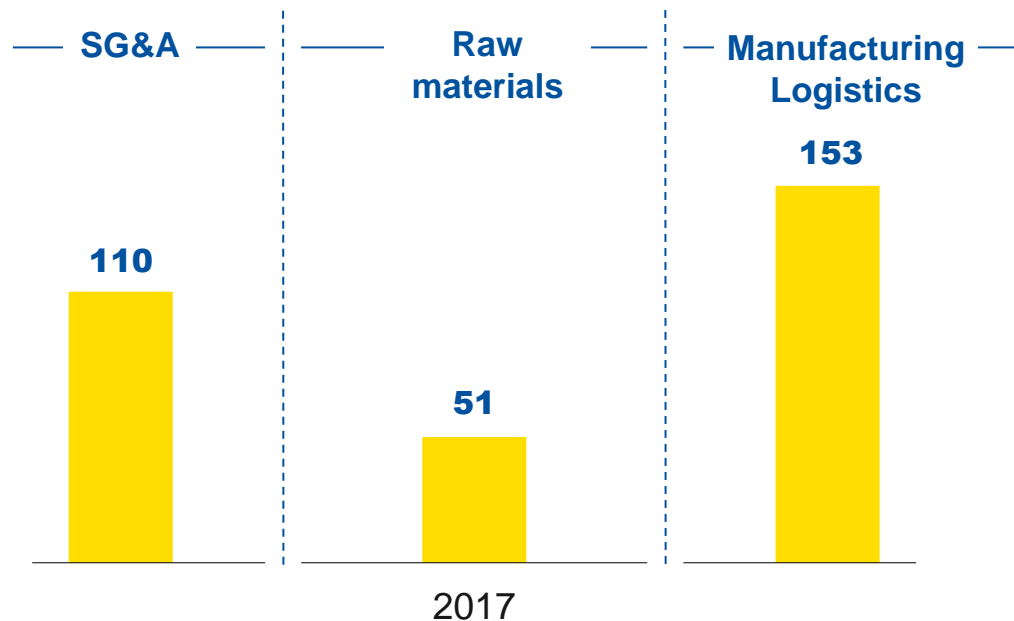


## ● Mining tires (base 100 in 2016, in tonnes)



# 2017-2020 competitiveness plan on track to deliver targeted €1.2bn in gains

▲ Target: €300m in average annual gains\*



\*before inflation and including avoided costs.

# Investing to create value

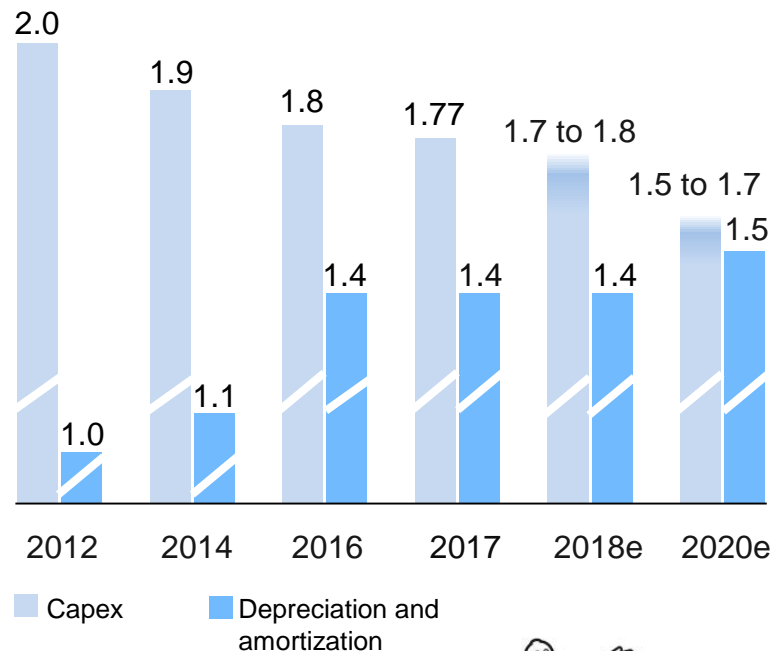
## ▲ Successfully deploy our priority Capex and M&A projects to drive expansion:

- In growing markets: Premium PC, North America and Asia
- In digital services
- In the dealerships
- In high-tech materials



## ▲ Closing the gap between Capex and depreciation:

(in € billions, at current exchange rates)





# Michelin and Sumitomo Corporation to Create Second-Largest Wholesale Player in the US and Mexico



**To create a joint venture owned 50%/50% by Michelin and Sumitomo Corporation of Americas**

- Creating a best-in-class distributor with
  - expanded geographic footprint,
  - better availability of products at all price points, across all product categories
  - e-commerce initiatives
  - shorter delivery and higher efficiency
- Focusing on the growing service and tire needs for fleets and personal vehicles
- Taking advantage of TBC's expertise in the import of Tier 3&4 brands
- Michelin to contribute USD 630m and TCi wholesale business

## KEY FIGURES TBC Corporation

- **31m** tires in 2016, o/w **25m** PC tires
- Net sales 2016: **\$3,234m**
- EBITDA 2016: **\$166m**
- **2,411** retail points of sales US & Canada
- **102** WH distribution centers



# Mobivia partners with Michelin to expand its A.T.U chain, the German automotive services market leader



- Mobivia: the largest chain of auto service and repair centers in Europe with more than 2,030 workshops and retail outlets, more than 20,000 employees and €2.7bn in revenue
- A.T.U (Auto-Teile-Unger), Germany's leading nationwide network of auto service centers, joined Mobivia in December 2016
- Mobivia and Michelin will combine their expertise, each in their traditional markets, to improve the customer experience and support the development of the A.T.U brand in Germany, Austria and Switzerland

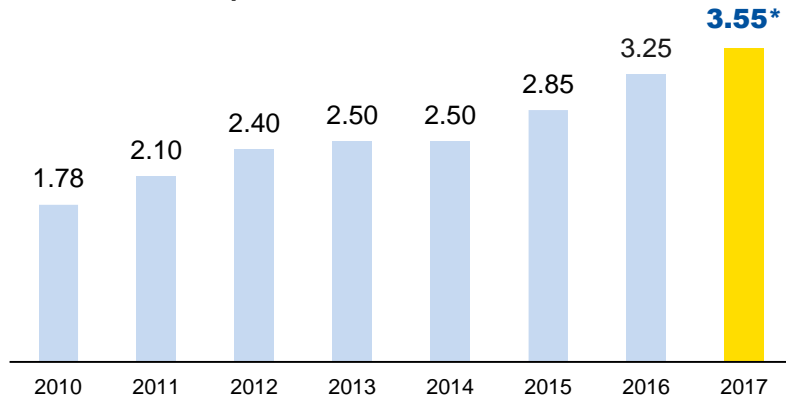
## KEY FIGURES A.T.U

- **20%** minority stake for **€60m**
- **600** auto centers in Germany, Austria and Switzerland
- **10,000** employees

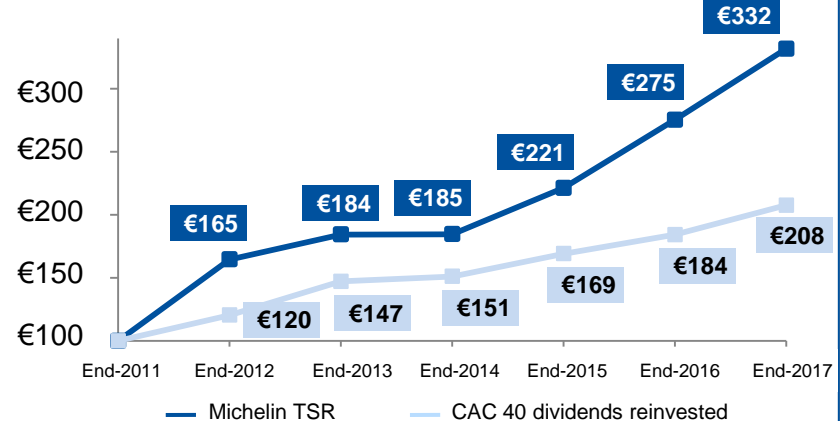
# Sustained shareholder return policy: dividends and share buybacks

- 2017 dividend: €3.55\* per share, representing a payout ratio of 36%\*\*
- Share buyback programs
  - 2015-2016: €750m committed and cancellation of 4.5% of outstanding shares
  - 2017: €101m committed and cancellation of 0.5% of outstanding shares
  - 2018 : €75m program to offset the dilution from share-based compensation

## ● Dividend per share (in €)



## ● Total Shareholder Return



\*subject to shareholder approval at the Annual Meeting on May 18, 2018 - \*\* of consolidated net income excluding non-recurring items

February 12, 2018

# 2017 ANNUAL RESULTS



**2018 guidance  
in line with 2020 objectives**

# 2018 markets: demand down in Q1 from high prior-year comparatives, before picking up in Q2 and beyond



## PASSENGER CAR: +1.5%/+2.5%

- Strong demand stabilizing in the mature markets
- Still buoyant demand in China
- Trending upwards in the other regions



## TRUCK: +0%/+1%

- Freight demand buoyed by the global economy
- OE: demand outside China leveling off; steep falloff in China following new 2016 legislation
- RT: demand lifted by a favorable economic environment



## SPECIALTY : +5%/+7%

- Mining tires: sustained strong demand, led by 5-10% growth in the global economy
- OE Earthmover + OE Agricultural tires: steady positive trend

# 2018 guidance: on the road to our 2020 objectives

	2018
Volumes	Growth in line with the markets
Operating income from recurring activities at constant exchange rates	> 2017
Structural FCF	> €1,100m

## 2018 scenario\*

	2018
Impact from raw materials costs	A negative €50-100m
Currency effect	Approx. a negative €300m based on January 2018 rates**
Impact of US tax reform on the effective tax rate	Standard ETR reduced to 28%***
Net impact of price mix and raw materials prices	Positive
Competitiveness plan gains vs. inflation	Positive

\*2018 average prices: Natural rubber: \$1.86/kg; butadiene (US and Europe): \$1,176/t; Brent: \$65/bbl; EUR/USD: 1.21

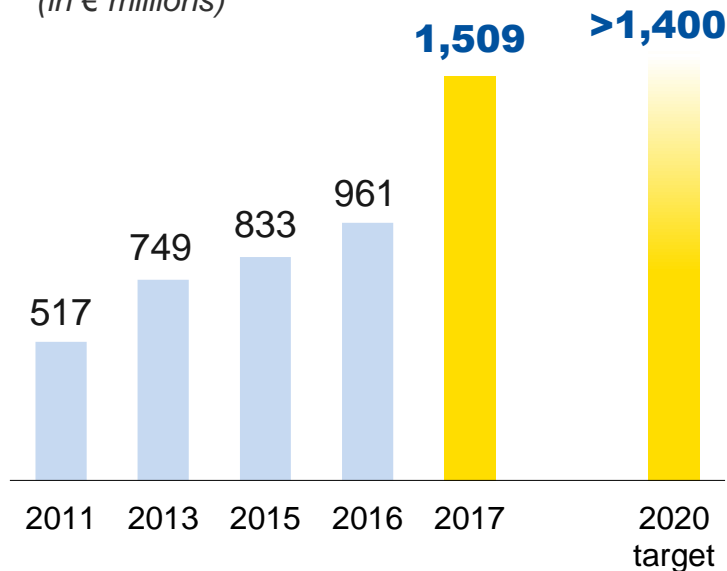
\*\*see slide 40

\*\*\*based on currently available information

# 2018: on the road to our 2020 objectives

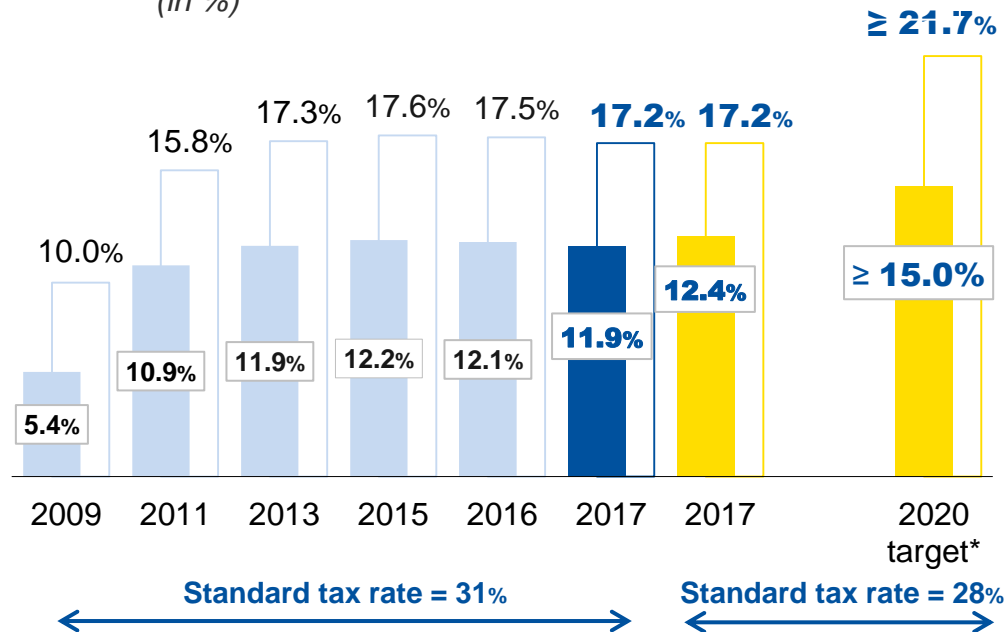
▲ Deliver structural FCF > €1,400m  
as from 2020

(in € millions)



▲ Deliver an after-tax ROCE ≥ 15%  
as from 2020

(in %)



\*at constant scope of consolidation excluding goodwill



# MICHELIN ***PRIMACY 4***





# Investor calendar

- **Coming events:**

- **April 23, 2018 (after close of trading):** First-quarter 2018 net sales
- **May 18, 2018:** Annual Shareholders Meeting
- **July 23, 2018 (after close of trading):** First-half 2018 results
- **October 22, 2018 (after close of trading):** Third-quarter 2018 net sales

- **Dividend dates:**

- **May 22, 2018:** Ex-dividend date
- **May 23, 2018:** Record date
- **May 24, 2018:** Payment date

February 12, 2018

# 2017 ANNUAL RESULTS



## Appendices

# Reported 2017 and 2016 financial highlights

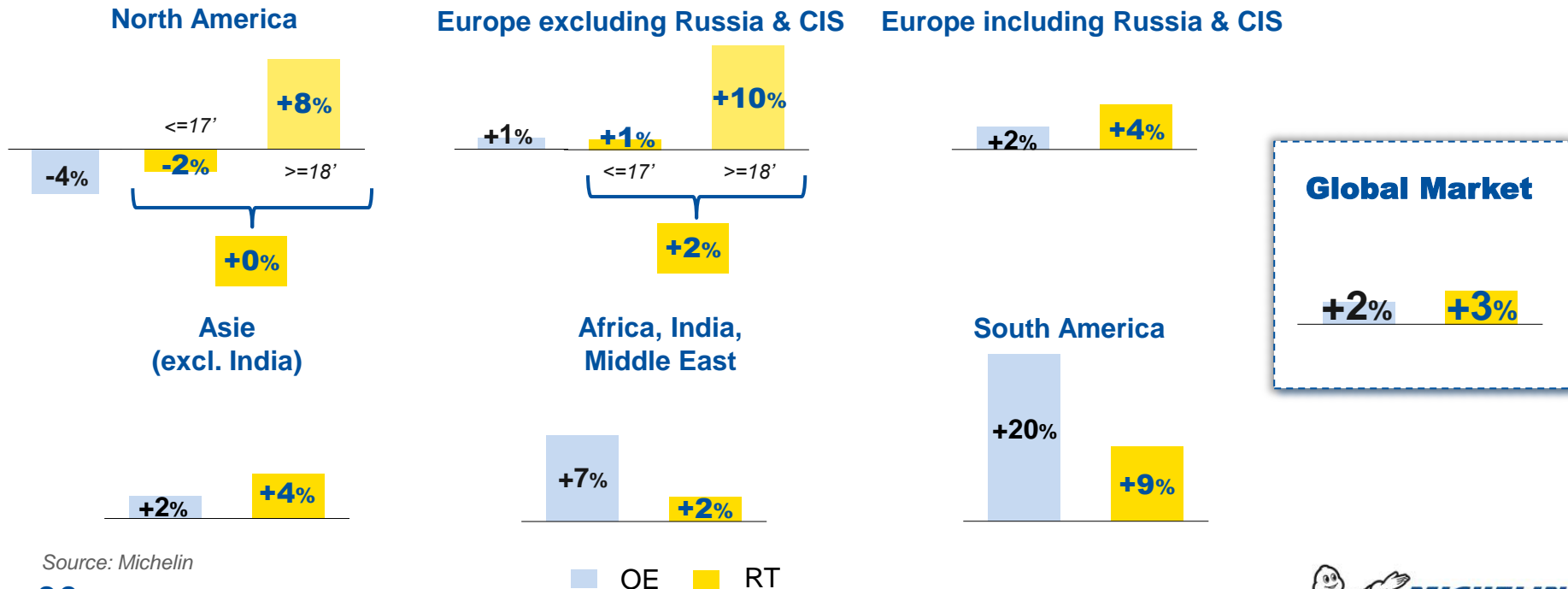
<i>(in € millions )</i>	<b>2017</b>	2016
Net sales	<b>21,960</b>	<b>20,907</b>
EBITDA from recurring activities	<b>4,087</b>	<b>4,084</b>
EBITDA margin on recurring activities	<b>18.6%</b>	<b>19.5%</b>
Operating income from recurring activities	<b>2,742</b>	<b>2,692</b>
Operating margin on recurring activities	<b>12.5%</b>	<b>12.9%</b>
Operating income/(loss) from non-recurring activities	<b>(111)</b>	<b>99</b>
Net income	<b>1,693</b>	<b>1,667</b>
Basic earnings per share (in €)	<b>9.39</b>	<b>9.21</b>
Capital expenditure	<b>1,771</b>	<b>1,811</b>
Free cash flow*	<b>+662</b>	<b>+1,024</b>
Gearing	<b>6%</b>	<b>9%</b>

*\*Net cash from operating activities less net cash used in investing activities less net cash from other current financial assets, before distributions.*

# PC: Sustained OE demand worldwide except in North America; RT markets led by early buying in Q1



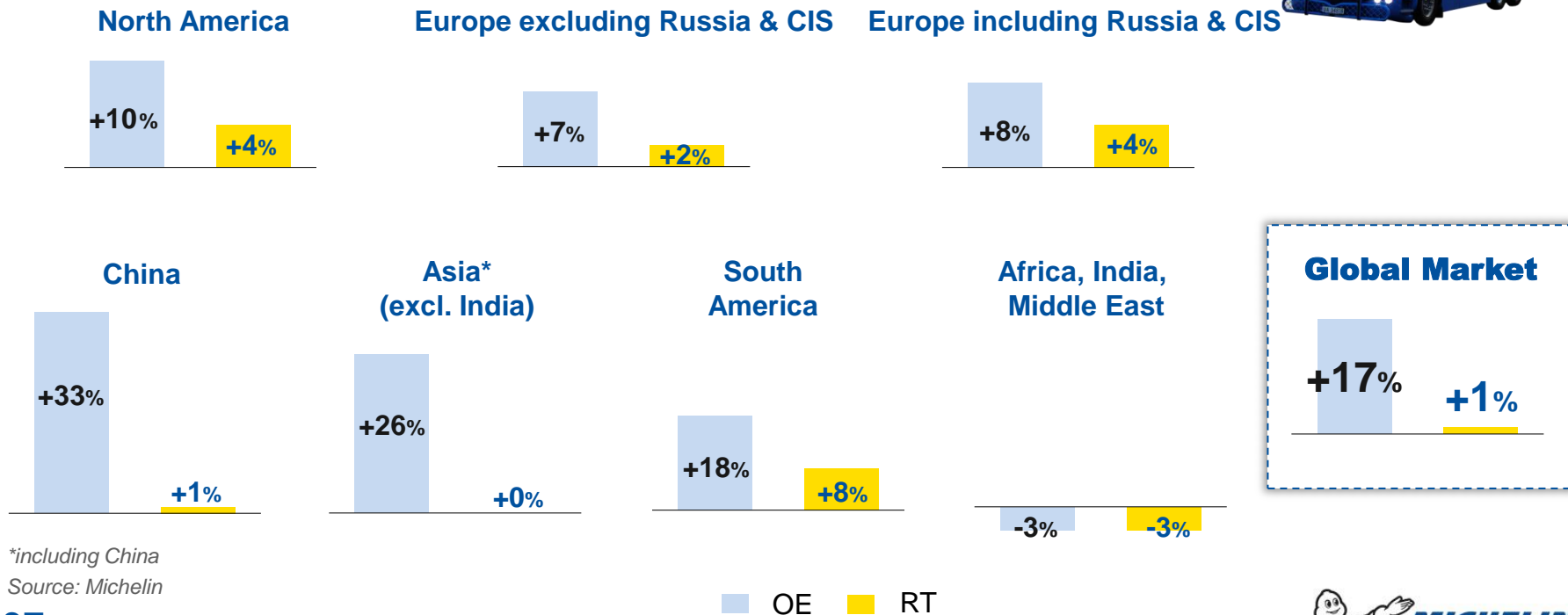
## ▲ Passenger car tire market in 2017 (% change YoY, in number of tires)



Source: Michelin

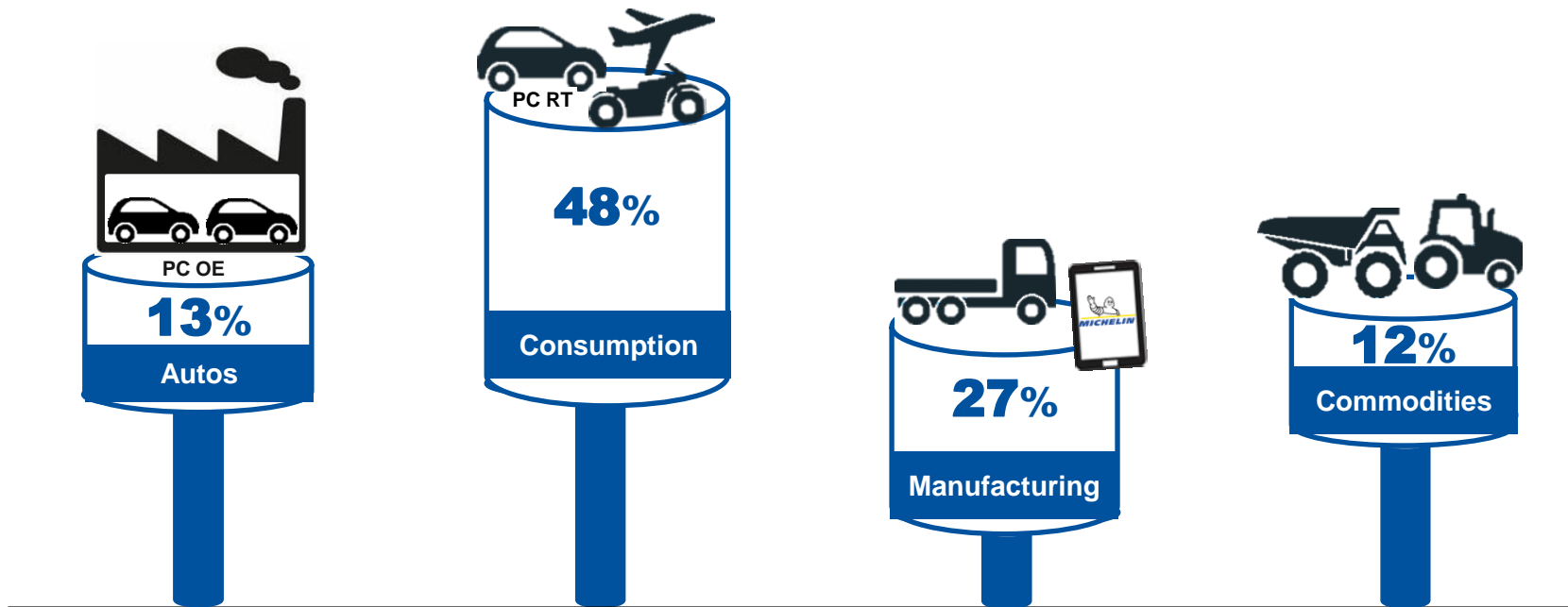
**Truck:** in a favorable economic environment, robust OE demand and a surge in early buying in Q1

▲ Truck and bus tire markets in 2017  
(% change YoY, in number of tires)



# A business model strongly linked to consumption

## ▲ Net sales by drivers



2017 net sales by sector



# Leading positions with prestige automakers

© 2017 BUGATTI AUTOMOBILES S.A.S.



**Bugatti Chiron**

0-400-0 km/h in 42 seconds!

These two supercars are fitted with

**MICHELIN**  
*Pilot Sport Cup 2*



**Porsche GT2 RS**

broke the lap record on the Nürburgring  
Nordschleife circuit



**FERRARI**



# 2017 net sales by currency and EBIT impact

	% of net sales		2017 FY € change vs. currency	Droptthrough Net sales/EBIT*
	ARS	1%	+14%	80% - 85%
	AUD	2%	-1%	80% - 85%
	BRL	4%	-6%	-20% / - 30%
	CAD	3%	-0%	25% - 30%
	CNY	6%	4%	25% - 30%
	EUR	34%	NA	-
	GBP	3 %	+7%	25% - 30%
	INR	1%	-1%	25% - 30%
	JPY	1%	+5%	80% - 85%

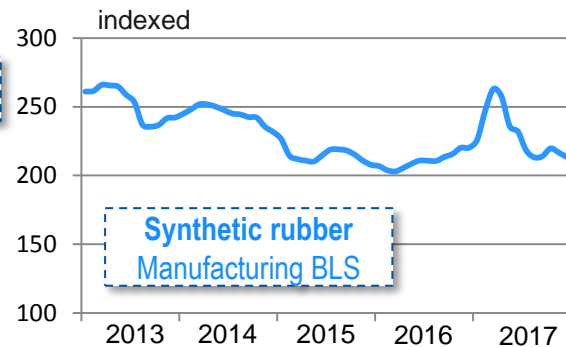
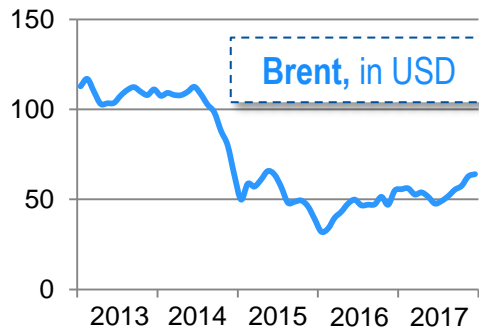
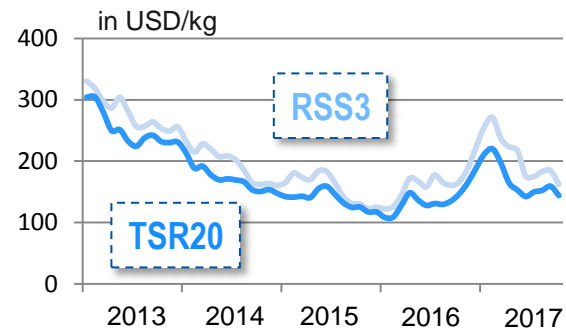
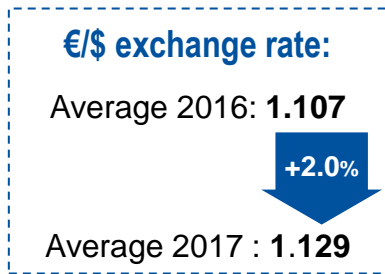
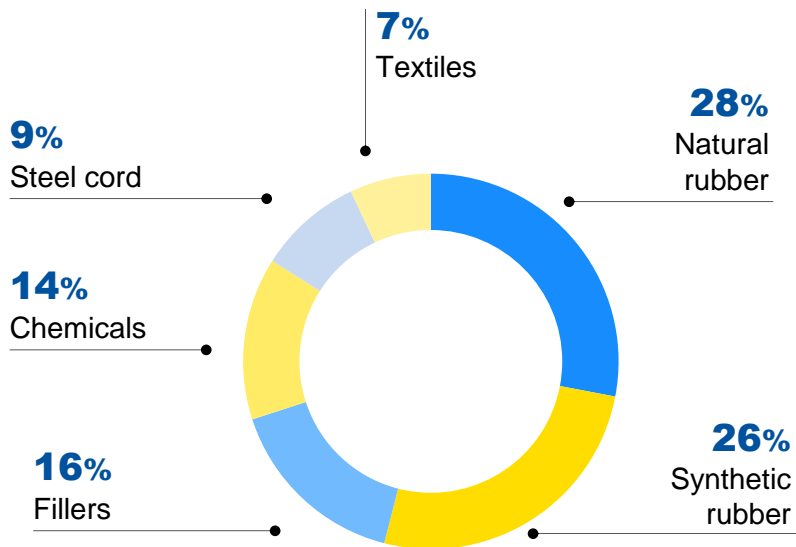
	% of net sales		2017 FY € change vs. currency	Droptthrough Net sales/EBIT*
	MXN	2%	+3%	25% - 30%
	PLN	1%	-2%	25% - 30%
	RUB	1%	-11%	25% - 30%
	THB	1%	-2%	-100% / -130%
	TRY	1%	+23%	80% - 85%
	TWD	1%	-4%	80% - 85%
	USD	37%	+2%	25% - 30%
	Other	1%		80% - 85%

\*actual droptthrough linked to the export/manufacturing/sales base



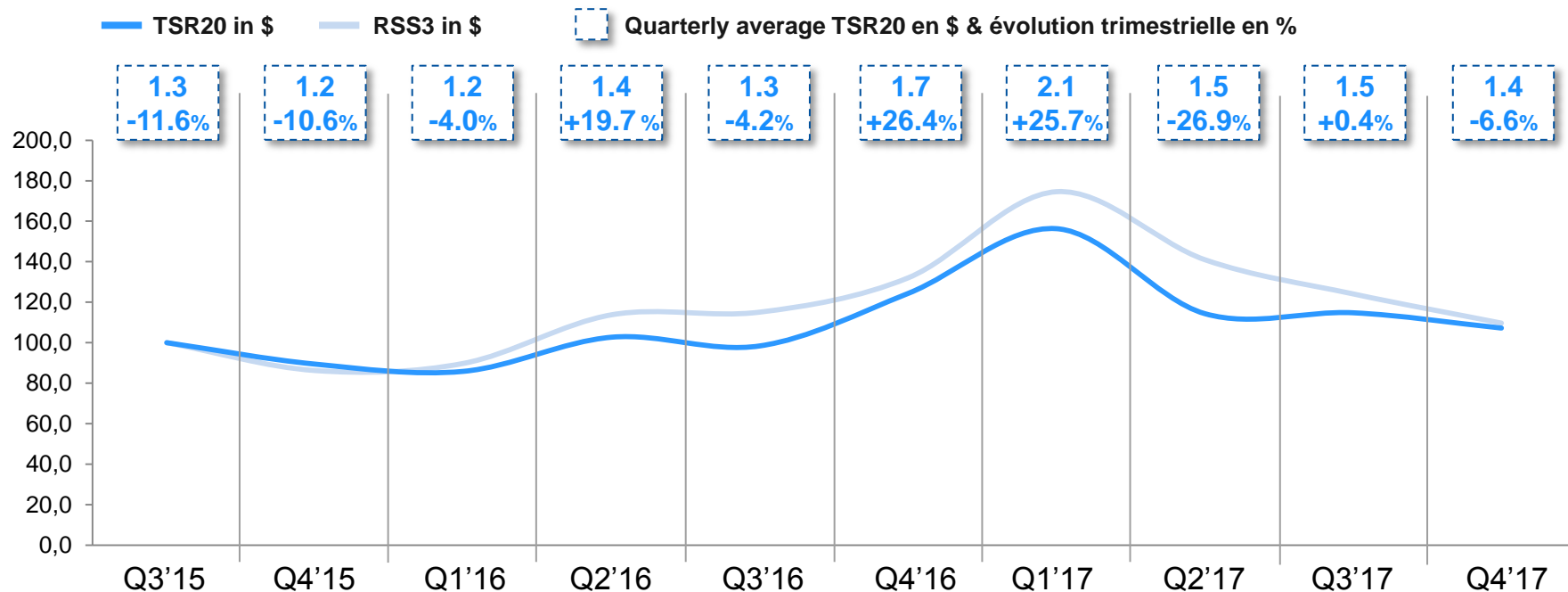
# Raw materials in 2017

## ▲ Raw material purchases in 2017 (€5.2bn)



# Natural Rubber price trend

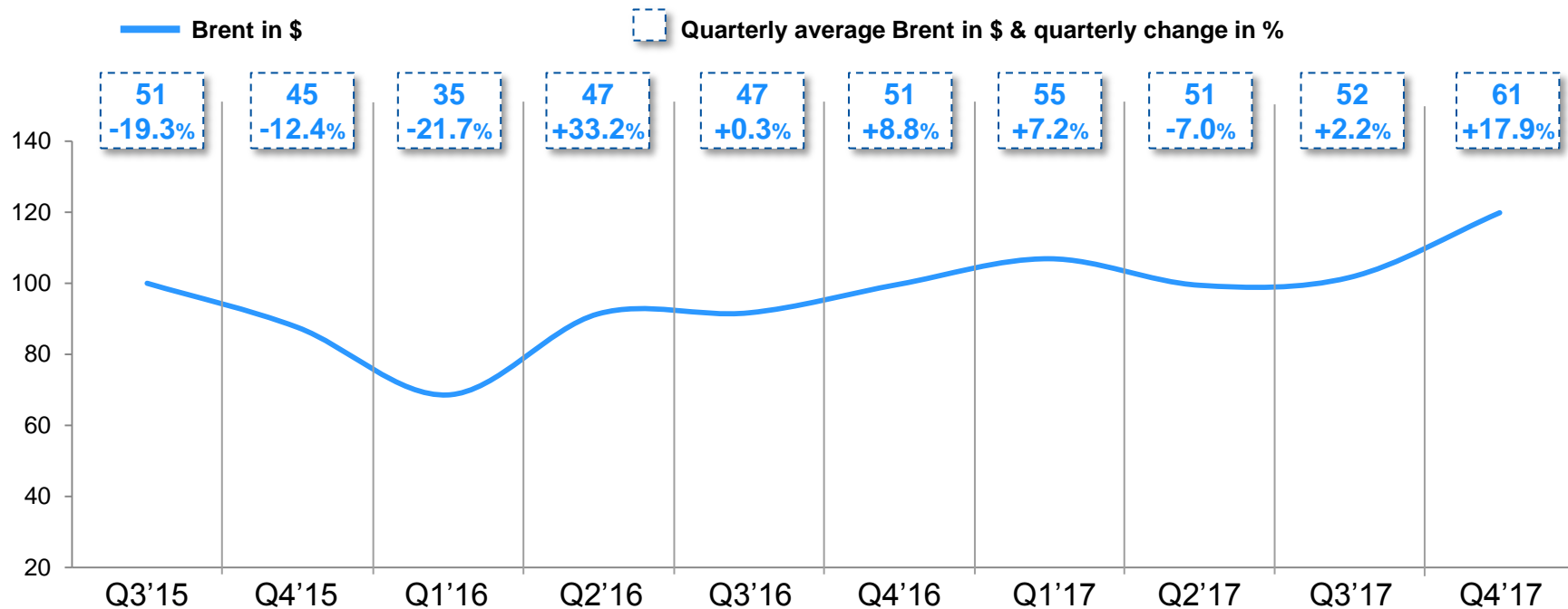
▲ At end of December 2017 (per kg, base 100 in Q3'15)



Source: SICOM

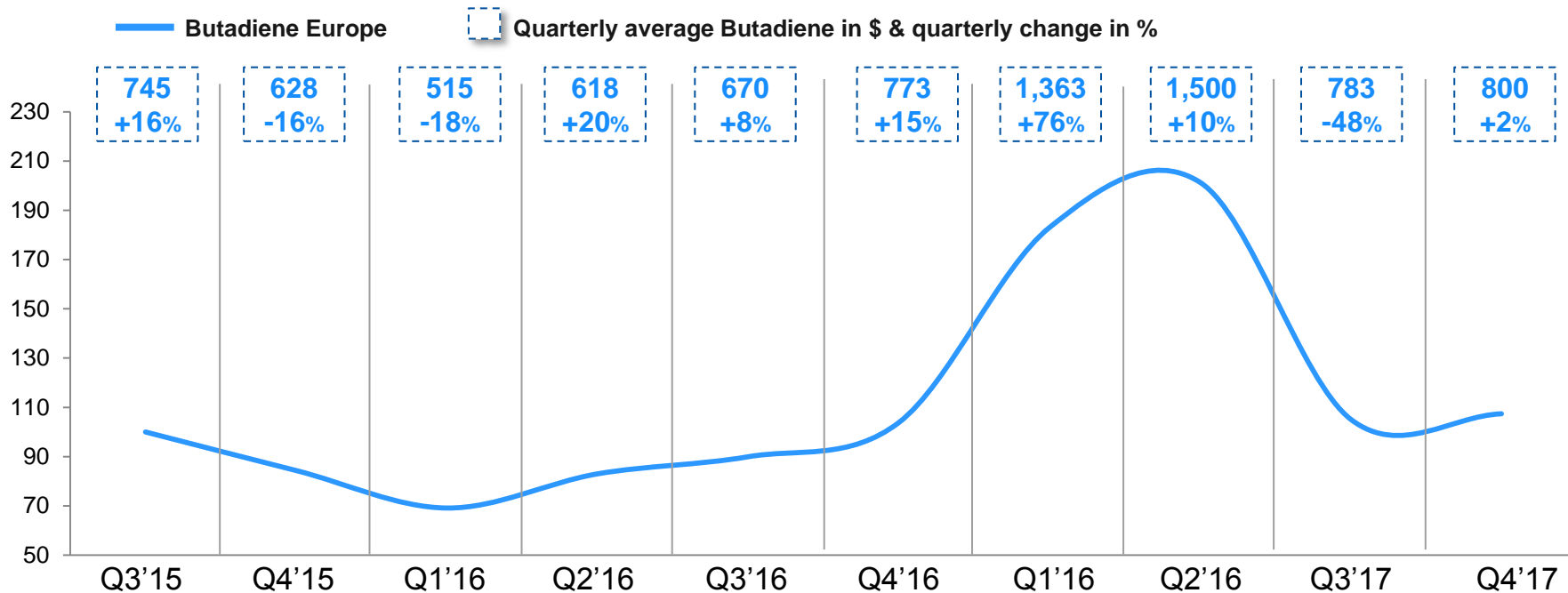
# Brent price trend

▲ At end of December 2017 (per barrel, base 100 au Q3'15)



# Butadiene price trend

▲ At end of December 2017 (per ton, base 100 in Q3'15)

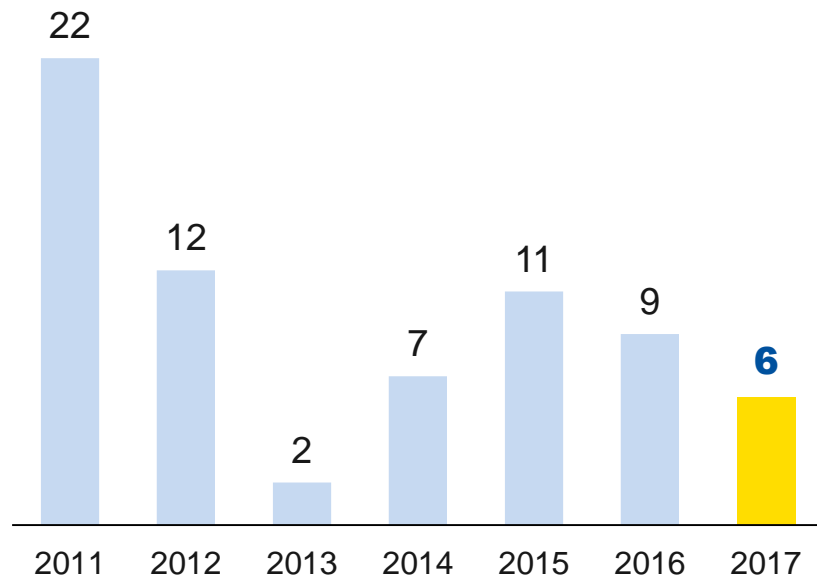


Source: IHS

# A robust balance sheet after the share buybacks, confirmed by the rating agencies

## ▲ Gearing

Net debt/equity, in %

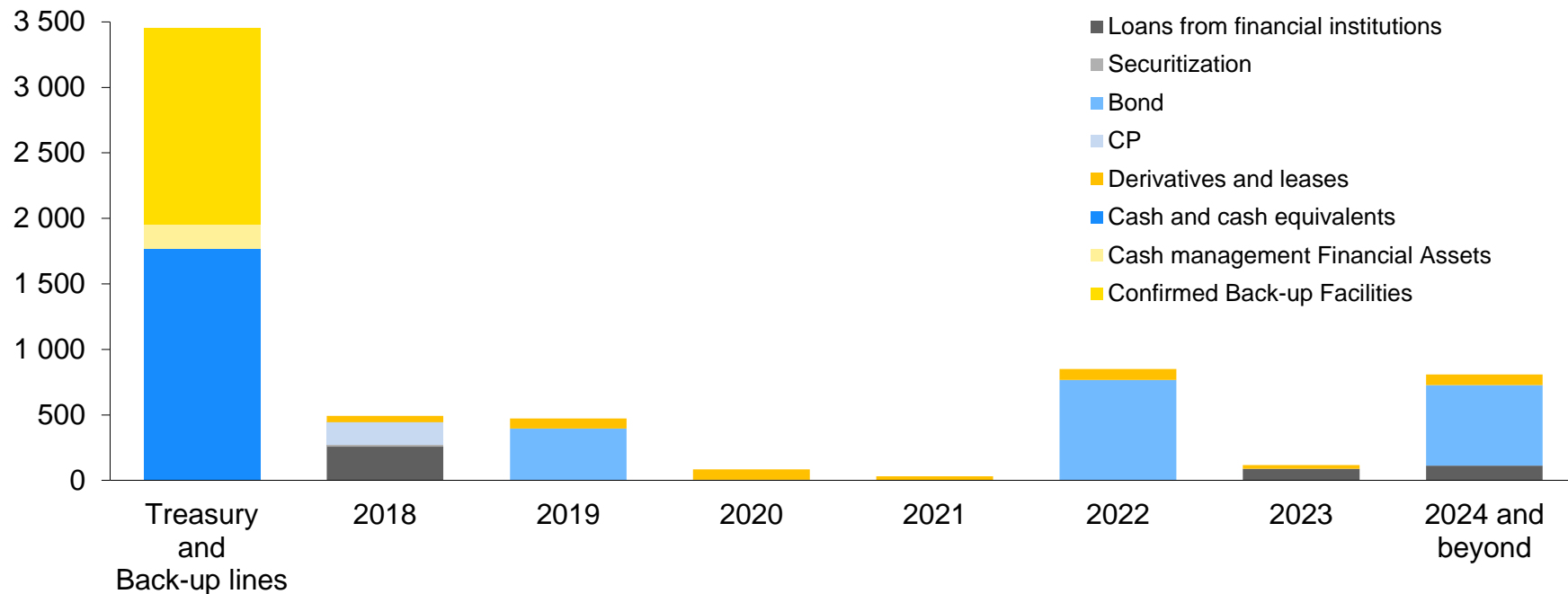


## ▲ Solid long-term ratings

Short term	S&P Moody's	A-2 P-2
Long term	S&P Moody's	A- A3
Outlook	S&P Moody's	Stable Stable

## A comfortable cash position

### ▲ Debt maturities at Dec. 31, 2017 *(carrying amount, in € millions)*

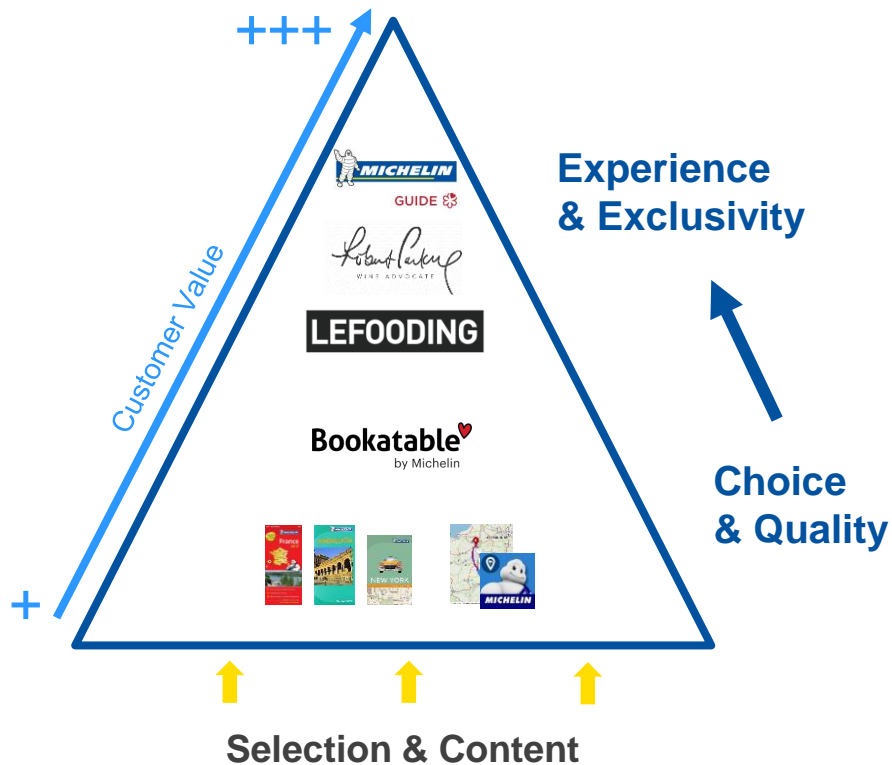


# Outstanding bond issues (as of February 9, 2018)

Issuer	MICHELIN Luxembourg	Compagnie Générale des Etablissements MICHELIN	MICHELIN Luxembourg	Compagnie Générale des Etablissements MICHELIN	MICHELIN Luxembourg	MICHELIN Luxembourg
<b>Issue</b>	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note
<b>Type</b>	Bond	Convertible	Bond	Convertible	Bond	Bond
<b>Principal Amount</b>	€ 400 mn	\$ 500 mn + TAP \$100 mn	€ 300 mn	\$ 600 mn	€ 300 mn	€ 302 mn
<b>Offering price</b>	99,912%	100% & 103,85%	99,967%	95,50%	99,081%	98,926%
<b>Rating corporation at Issuance date</b>	BBB+ (S&P) Baa1 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)
<b>Current coporation rating</b>	A- (S&P) ; A3 (Moody's) ; unsolicited A- (Fitch)					
<b>Coupon</b>	2,75% p.a	ZERO Conv premium 128%	1,125% p.a	ZERO Conv premium 130%	1,75% p.a	3,25% p.a
<b>Issue Date</b>	11-juin-12	05/jan/2017 & 25/apr/2017	19-mai-15	05/jan/2018	19-mai-15	21/sep/2015 & 27/sep/2016
<b>Maturity</b>	20-juin-19	10-janv.-22	28-mai-22	10-nov.-23	28-mai-27	30-sept.-45
<b>Interest payment</b>	Annual June 20	N/A	Annual May 28	N/A	Annual May 28	Annual Sept 30
<b>ISIN</b>	XS0794392588	FR0013230745	XS1233732194	FR0013309184	XS1233734562	XS1298728707
<b>Denomination</b>	€ 1'000 with min. tradable amount € 1'000	\$ 200'000 with min. tradable amount \$ 200'000	€ 1'000 with min. tradable amount € 1'000	\$ 200'000 with min. tradable amount \$ 200'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000



# Michelin Experiences: Become the global “Selection” benchmark in the world of gourmet dining and travel services



- Capitalize on the **MICHELIN Guide**’s worldwide reputation in the field of fine dining
- Expand the **geographic and segment footprint** with **aligned brands/solutions** for our customers
  - Destinations
  - Professionals (chefs, winemakers, hoteliers, etc.)
  - Advertisers
  - High-income consumers
- Create and engage a broad, qualified, committed audience in the **digital** world to benefit all of our businesses

# Optimizing Working Capital Requirements

- Inventory:

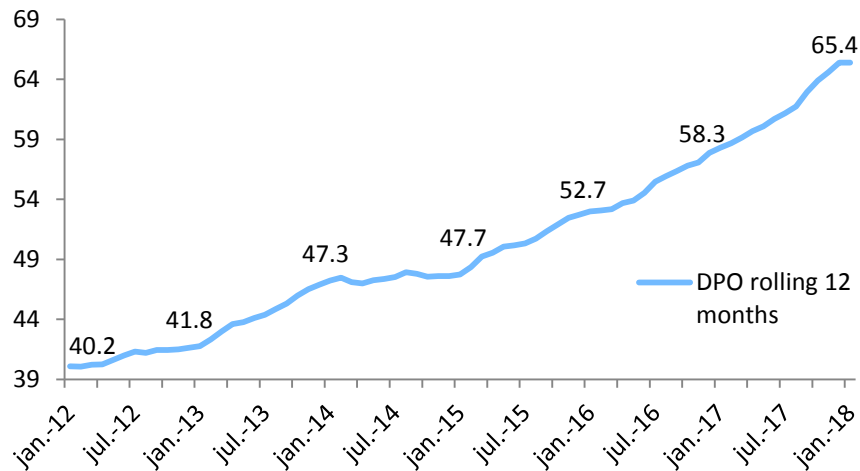
- At least a €250m reduction expected from OPE by 2020 from 2016

- Receivables:

- From 13% to 14% of Net sales

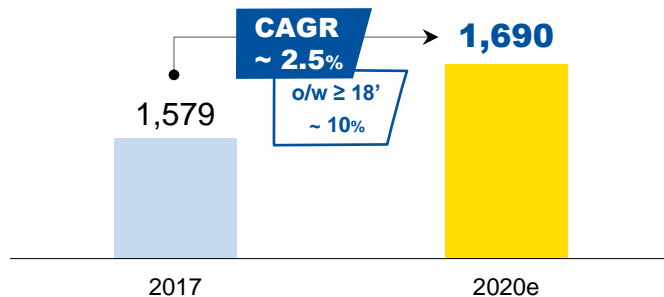
- Payables:

- Further improvement through terms of payment and reverse factoring

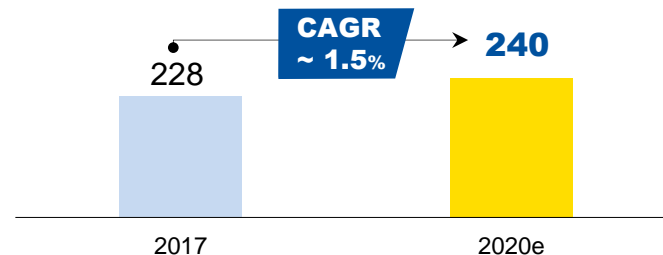


# 2016-2020 projections: growing worldwide demand

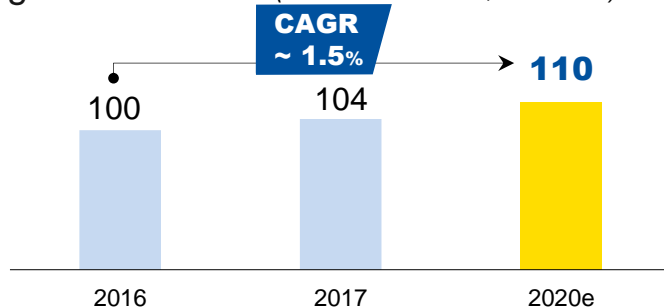
- PC OE&RT market projection (in millions of units)



- TB OE&RT market projection (Radial & Bias in millions of units)

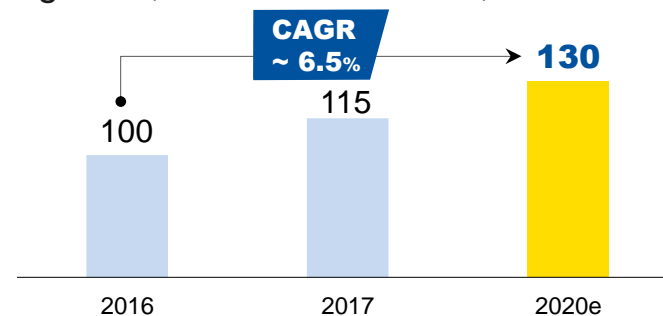


- Agricultural tires\* (base 100 in 2016, in tonnes)

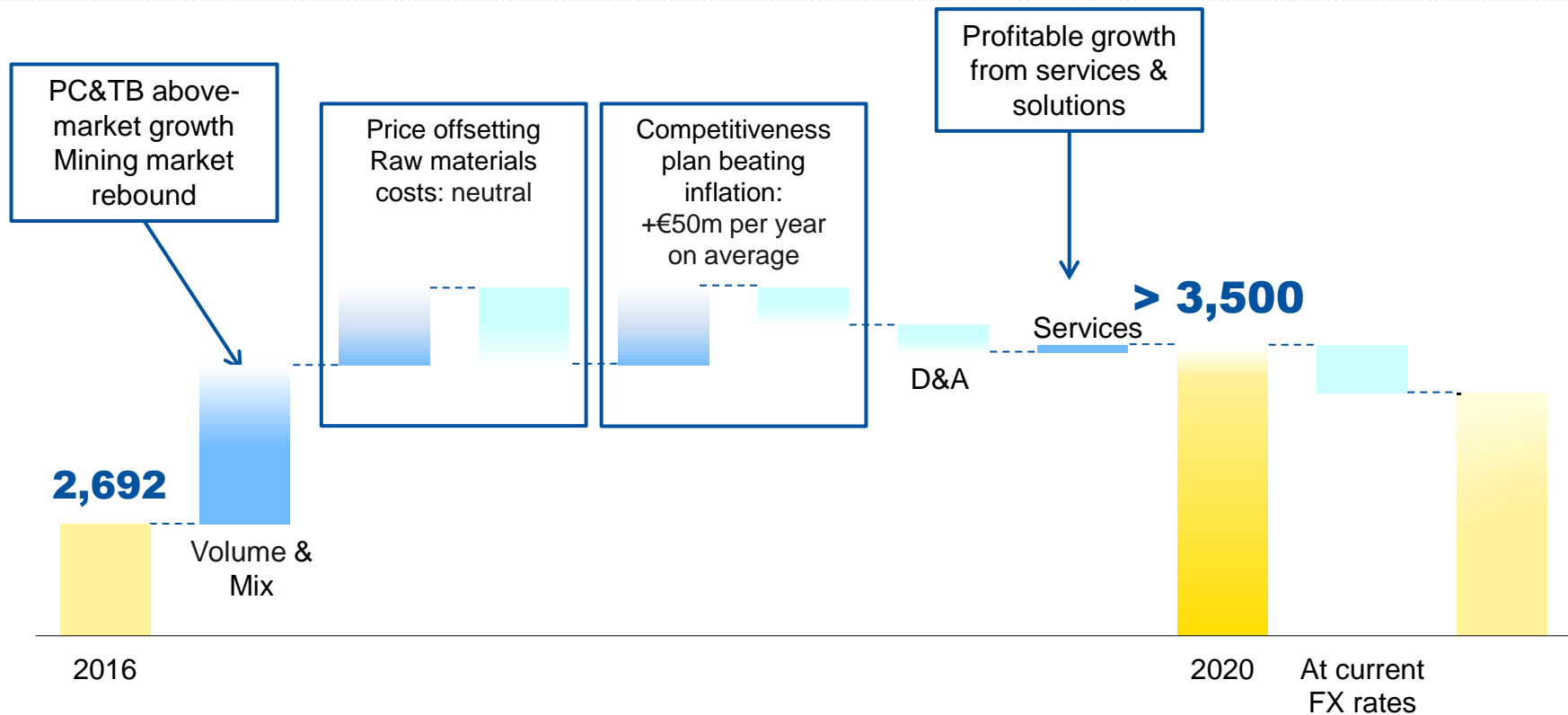


\* OE & RT in Europe and North America

- Mining tires (base 100 in 2016, in tonnes)

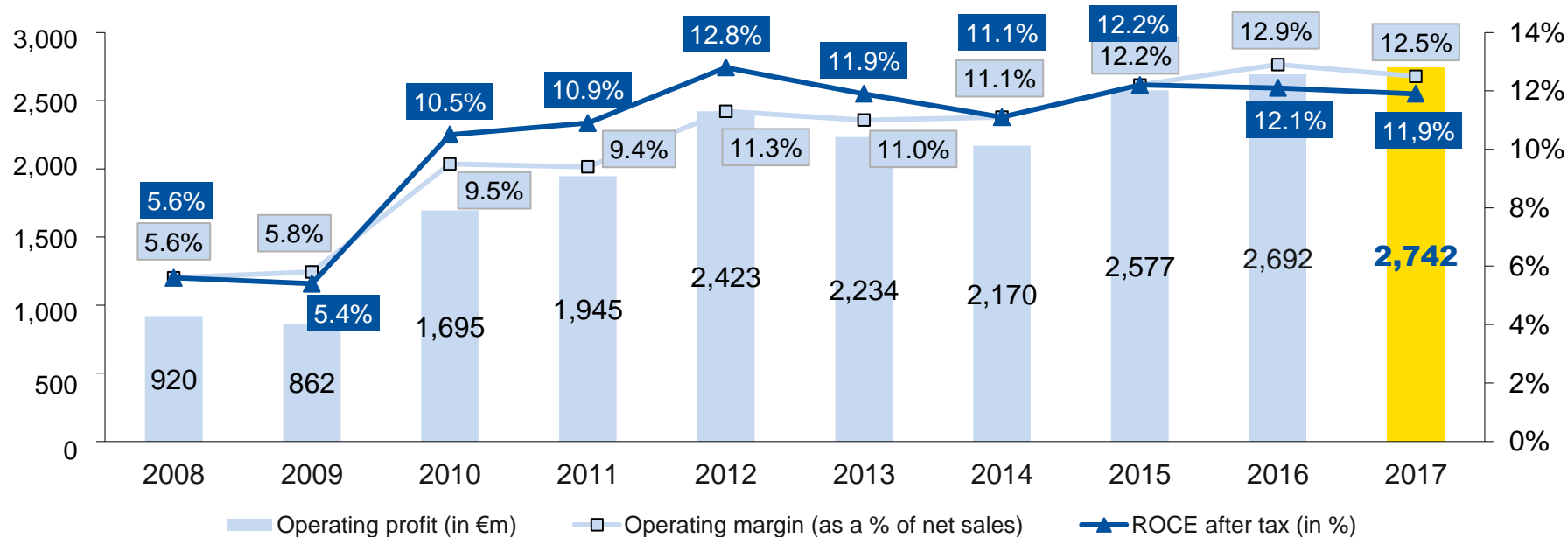


# 2016-2020 organic scenario: profitability levers



# 2017: another year in line with our 2020 roadmap

## ▲ Group operating income and margin\* & ROCE

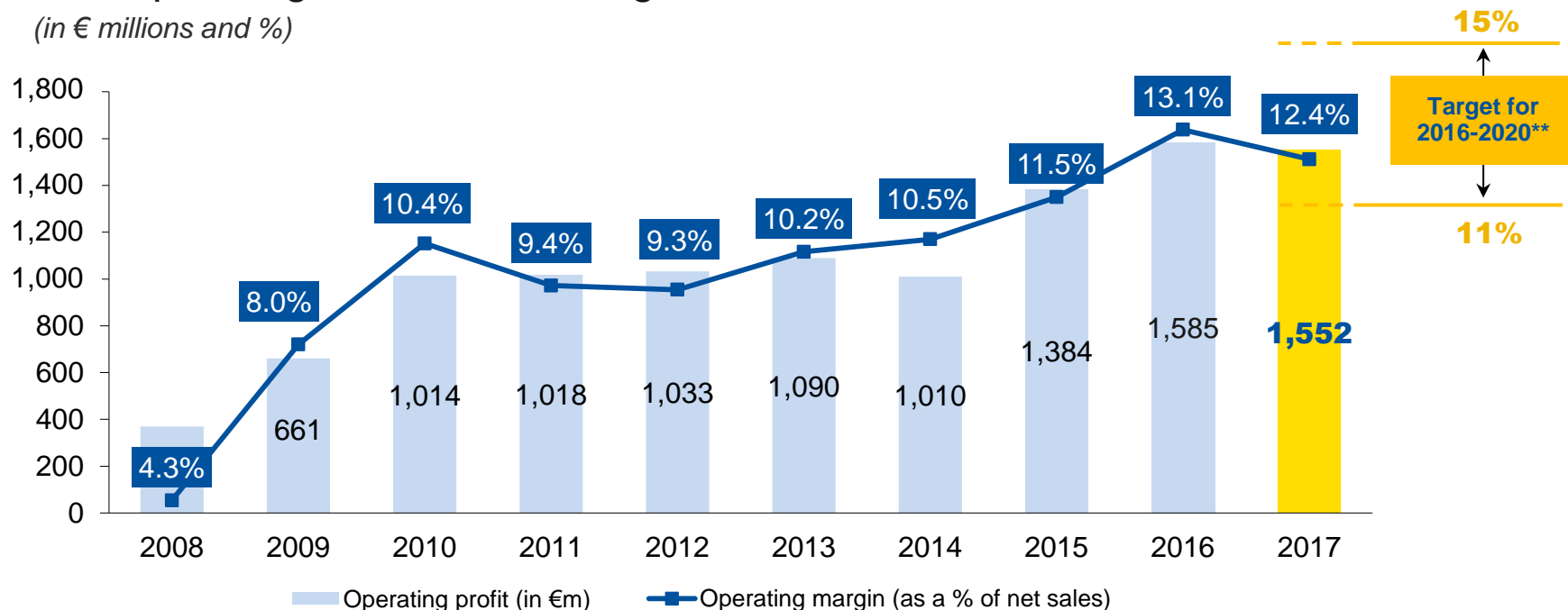


\*from recurring activities

# Levers for improved PC margins: product innovation, contribution from the 18" and over strategy, better customer service

## ▲ RS1 operating income and margin\*

(in € millions and %)

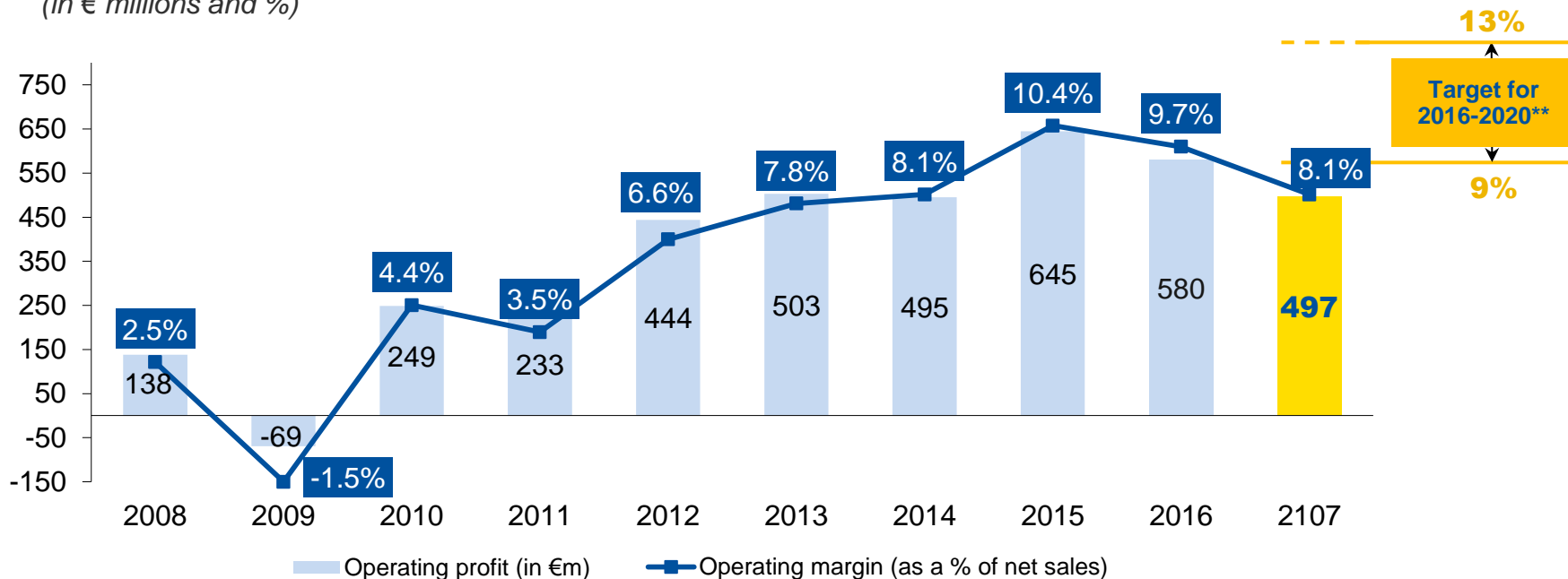


\*from recurring activities

\*\*at constant scope of consolidation and raw materials prices, and with markets expanding at a +2.5% CAGR

# Truck: priority on competitiveness, product innovation and customer satisfaction

## ▲ RS2 operating income and margin\* (in € millions and %)



\*from recurring activities

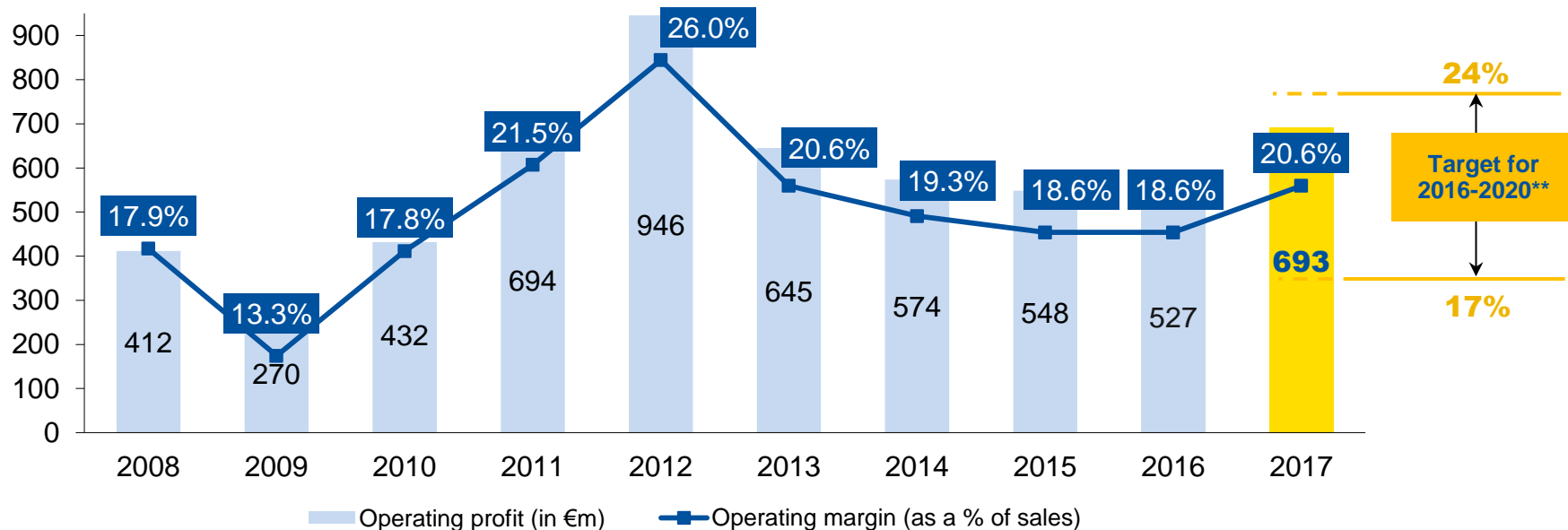
\*\*at constant scope of consolidation and raw materials prices, and with markets expanding at a +1.5% CAGR



# Specialty businesses: all divisions contributing in recovery markets

## ▲ RS3 operating income and margin\*

(in € millions and %)



\*from recurring activities.

\*\*at constant scope of consolidation and raw materials prices, and with markets expanding

## Disclaimer

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**Valérie MAGLOIRE**  
**Edouard de PEUFEILHOUX**  
**Matthieu DEWAVRIN**  
**Humbert de FEYDEAU**

**+33 (0)4 15 39 84 68**

27, cours de l'île Seguin  
92100 Boulogne-Billancourt - France

*[investor-relations@michelin.com](mailto:investor-relations@michelin.com)*