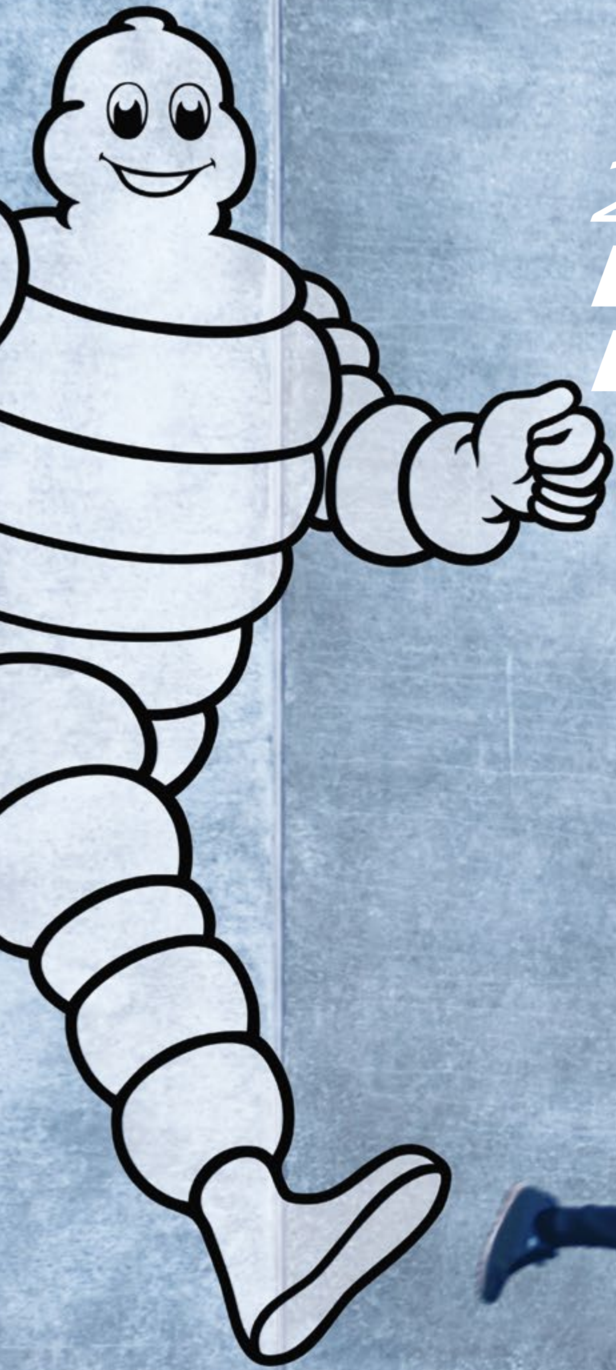
2016

REGISTRATION DOCUMENT



CONTENTS

INTERVIEW WITH JEAN-DOMINIQUE SENARD 2

1 / MICHELIN AT A GLANCE RFA 5
1.1 Ambitions for 2020 6
1.2 Company Profile 16
1.3 Financial Highlights 17
1.4 Summary Organization Chart 21
1.5 History and Development of the Company 22
1.6 Facilities 23
1.7 Risk Factors 26
1.8 Governance 27

2 / REPORT OF THE MANAGING PARTNERS RFA 28
2.1 Tire markets 30
2.2 Net sales 37
2.3 Consolidated Income Statement Review 41
2.4 Consolidated Balance Sheet review 49
2.5 Consolidated cash flow statement review 54
2.6 Return on capital employed (ROCE) 56
2.7 Trend Information 57
2.8 Operating highlights 58
2.9 Risk factors 61
2.10 Material contracts 71
2.11 Change of control 71
2.12 Information Concerning Supplier Payments 71
2.13 Material changes in the Company's business or financial position 71
2.14 Ownership structure and voting rights 72
2.15 Information disclosed in compliance with France's Grenelle 2 Act 72

3 / FINANCIAL HIGHLIGHTS 73
3.1 Markets 74
3.2 Sales 76
3.3 Earnings 78
3.4 Reporting segments 80
3.5 Cost structure 83
3.6 Cash flow and balance sheet 88
3.7 Consolidated key figures and ratios 92

4 / CORPORATE GOVERNANCE 94
4.1 Administrative, Management and Supervisory Bodies, and Executive Management 96
4.2 Practices of the Administrative, Management and Supervisory Bodies 104
4.3 Management and Supervisory Board Compensation 109
4.4 Trading in Michelin shares by Managing Partners, General Partners and Supervisory Board members and their close relatives in 2016 124
4.5 Report of the Chairman of the Supervisory Board on the Membership of the Supervisory Board, the Application of the Principle of Gender Equality, the Supervisory Board's Practices and the Company's Internal Control and Risk Management Procedures 125
4.6 Statutory Auditors' report, prepared in accordance with Article L. 226-10-1 of the French Commercial Code on the report prepared by the Chairman of the Supervisory Board 140

5 / INVESTOR RELATIONS 141
5.1 Information about the Company 142
5.2 Share information 143
5.3 Investor relations 145
5.4 Documents on display 146
5.5 Share information 146

6 / 2016 EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION RFA 159
6.1 Employee information 160
6.2 Societal information 179
6.3 Environmental information 186
6.4 Report by one of the statutory auditors, appointed as an Independent Third Party, on the consolidated employee, societal and environmental information included in the management report 203

7 / CONSOLIDATED FINANCIAL STATEMENTS RFA 205
7.1 Consolidated Financial Statements as at December 31, 2016 206
7.2 Statutory Auditors' report on the consolidated financial statements 274

8 / COMPANY FINANCIAL STATEMENTS 275
8.1 Review of the Financial Statements of Compagnie Générale des Établissements Michelin RFA 276
8.2 Financial Statements of Compagnie Générale des Établissements Michelin (Parent Company) RFA 277
8.3 Statutory Auditors' report on the financial statements 290
8.4 Statutory Auditors' special report on regulated agreements and commitments with third parties 291
8.5 Statement of Changes in Equity 292
8.6 Appropriation of 2016 Net Income 292
8.7 Five-Year Financial Summary 293

9 / ADDITIONAL INFORMATION 295
9.1 Person responsible for the Registration Document and the Annual Financial Report RFA 296
9.2 Statutory Auditors 296
9.3 2014 and 2015 Financial Statements incorporated by reference RFA 297

10 / ANNUAL SHAREHOLDERS MEETING OF MAY 19, 2017 299
10.1 Report of the Chief Executive Officer and proposed resolutions 300
10.2 Report of the Supervisory Board 310
10.3 Statutory Auditor's reports 317

11 / TABLES OF CONCORDANCE 319
11.1 Table of Concordance with the French Commercial Code 320
11.2 Cross-Reference Table for Employee, Societal and Environmental Information 321
11.3 Table of Concordance for the Registration Document 323

RFA

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

REGISTRATION DOCUMENT

2016

The original French version of this Registration Document was filed with the Autorité des marchés financiers (AMF) on March 7, 2017, 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.

INTERVIEW
Jean-Dominique Senard

Chief executive officer

"BEING THE LEADER IN SUSTAINABLE MOBILITY HAS BEEN OUR CORPORATE MISSION SINCE THE BEGINNING"

HOW WOULD YOU DESCRIBE 2016?

We delivered good results and met all our objectives. I'd like to thank all of our employees, whose commitment and professionalism made this performance possible. Our volumes increased by 2.1%, outpacing the market in all our product lines, including Truck, Earthmover and Agricultural tires, whose markets contracted over the year.

Our growth was profitable at a time of declining market prices. Despite the negative currency effect, operating income rose by nearly 5% to €2.7 billion, or 12.9% of net sales.

This performance was achieved on the strength of the MICHELIN brand, supported by dynamic innovation in products and services, which our customers highly appreciate, as well as the success of the intermediate lines deployed in every segment to beat back the competition. It attests to our ability to satisfy customer demand more effectively, thanks to our more responsive sales and production processes.

Everyone's commitment to lowering costs and improving our day-to-day management delivered the expected €1.2 billion in gains from our 2012-2016 competitiveness plan, which helped to generate a good level of cash flow. Free cash flow ended the year at more than €1 billion and net debt remained low, at 9% of equity compared with 11% a year earlier.

Net income came in at more than €1.66 billion, enabling us to recommend that shareholders at the Annual Meeting on May 19, 2017 approve the payment of a dividend of €3.25 per share, compared with €2.85 for the previous year. This would represent a payout of 36.5% of our net income excluding non-recurring items.

We completed our €750 million share buyback program over 2015 and 2016 and canceled 4.5% of outstanding Michelin shares, in line with the commitments we made to our shareholders. We also carried out a new employee share issue, and now intend to offer the same opportunity every two years to give employees a stake in the performance that their engagement is helping to create.

YOU OFTEN TALK ABOUT MICHELIN'S TRANSFORMATION. WHAT ARE YOUR PRIORITIES?

To maintain our leadership in sustainable mobility, we are activating four transformation drivers.

The first is to focus intensely on the customer, so that we can meet each one's needs faster and more precisely, and to make a difference not only with our products but also with the quality of our service and the entire customer experience.

The second driver is to digitalize our operations to nurture closer relationships and more enriching interactions with our customers, facilitate sharing, cooperation and access to training for all our employees, to help our production operators in every aspect of their work.

Simplifying our operating procedures is the third transformation driver. In a more complex, more volatile world, we have to be very agile in making decisions and taking action. That means staying as simple as possible.

Our fourth driver is to empower people at every level, so that everyone can feel engaged in driving the Group's transformation. We're empowering front-line teams to organize themselves and find the right solutions to meet a given objective in a framework defined by Management. In this way, managers are resuming their role as advisors, who develop people's capabilities and train their teams. This transformation is already underway in several businesses with very positive results, in such areas as motivation and job fulfillment, performance and labor relations. It is thanks to this empowerment process that we've been able to sign the competitiveness agreements that will secure the future of our French plants.

WHAT IS THE GROUP'S OUTLOOK FOR 2017 AND BEYOND?

2017 should be another year of growth, in line with our 2020 targets of more than €3 billion in operating income from recurring activities and more than €1.4 billion in structural free cash flow.

Markets are expected to track the trends observed in late 2016, with in particular a recovery in the mining tire market. On the other hand, we will be faced with an increase in raw materials costs, currently estimated at €900 million. To defend our margins, we have announced price increases of up to 8%.

In this environment, we expect to see volume growth in line with global market trends and operating income from recurring activities excluding the currency effect at least on a par with 2016.

I am very confident in the future. Our outlook for growth is bright, as mobility needs continue to increase, particularly in India, China and Africa.

Our goal is to increase the tire division's net sales by 20% over the 2015-2020 period. The robust demand for large tires, the new hybrid and electric powertrains, and the connected, self-driving car are all developments that require tires with higher technology content. This is very good news for Michelin, which has always made innovation a cornerstone of its strategic vision and which enjoys unrivaled, world-class resources with its global research and technology center in Ladoux, near Clermont-Ferrand.

We also want to double sales in Services and Solutions for business customers, developing an offering that allows them to manage their vehicle fleets more effectively, and triple sales in Mobility Experiences – those increasingly mobile and digitally delivered activities like maps and itinerary planning services, restaurant guides and booking services, which were strengthened in 2016 with the purchase of European market leader BookaTable.

Lastly, we want to consolidate and capture the value of our leadership in high-tech materials and their applications, particularly additive metal 3D printing and the biomaterials that are paving the way to the post-oil era and supporting our commitment to sustainable mobility.

At the same time, we will pursue our competitiveness programs with the goal of realizing €1.2 billion in gains over the 2017-2020 period. This commitment will go hand in hand with innovative labor practices and investments in state-of-the-art technologies, with the purpose of demonstrating that it is possible to manufacture competitively in mature economies. We have already signed six competitiveness agreements to close the gap with our competitors by 10% to 15%.

In the future, we will continue to innovate, progress and open new pathways to sharing the adventure of better mobility for everyone.

HOW DO YOU RECONCILE THE GROUP'S SUSTAINABLE DEVELOPMENT AMBITIONS, ITS STRATEGIC VISION AND ITS BUSINESS OBJECTIVES?

Being the leader in sustainable mobility has been our corporate mission since the beginning, even if the vocabulary was different 125 years ago. But what inspires us has not changed, namely a passion for innovation, for quality and for everyone's personal development. We want to be sustainable and efficient in everything we do and in all our areas of responsibility. Our strategy is shaped by our purpose and integrates our sustainable development goals.

In this way, we are preparing for the future of sustainable mobility, for example, by offering tire lines that deliver more performance with less raw materials and better fuel economy. Our Services and Solutions offering, whose growth we expect to see double by 2020, is based on the connected tire, which helps professionals to improve productivity and reduce their environmental footprint.

High-tech materials, a core performance enabler for our tires, are also a key component of our strategy to foster a circular economy based on eco-design, retreading, recycling and biomaterials.

Our business objectives are part of the same overall method of taking sustainable development priorities into account. The process of becoming more competitive more quickly is being driven by social dialogue, empowerment and self-managing shop floor teams. Lastly, our capital expenditure decisions are based on an internal carbon price, and that leads us to make the best decisions when it comes to the environment.

WHAT ARE YOU DOING TO ENSURE THAT THIS SUSTAINABLE DEVELOPMENT STRATEGY IS REFLECTED IN EACH EMPLOYEE'S PERSONAL TARGETS?

Bonus calculations take into account the progress made on sustainability indicators. The Michelin Total Performance indicator, which assesses a new tire's energy efficiency and carbon footprint, is encouraging the Research and Process Engineering Department to combine durability, longevity and light weight.

Another example is the Michelin Environmental Footprint (MEF) indicator, which very accurately measures the environmental footprint of each of our plants. And then there's the Total Case Incident Rate, which assesses safety in the workplace for every employee, in every facility and every department.

HOW DO YOU TRANSITION FROM A TIREMAKER MODEL TO A MOBILITY ENABLER MODEL? WHAT ARE YOU DOING TO MAKE THAT TRANSFORMATION HAPPEN?

Michelin is already a mobility enabler for airlines, mining companies and truck fleet operators, by managing their tires and invoicing them based on landings made, weight transported or distance covered. With the digital revolution, tires, a vehicle's point of contact with the ground, have become a major source of data.

We created the Michelin Solutions business in Europe, then expanded it to North America and later to South America with the 2014 acquisition of Sascar, the leading provider of digital fleet management services in Brazil. The technology is enabling us to enhance our services in Europe, North America and China and to provide our business customers with solutions to improve their performance.

In the online tire retailing segment, we acquired a stake in Allopneus in France and purchased Blackcircles.com in the United Kingdom, which brought in new skills and capabilities.

Michelin also acts as a mobility provider by offering its customers a variety of travel-assistance products and services through its digital and printed maps and guides. In this area of business, the goal is to triple sales and deliver customers a unique mobility experience, before, during and after their journey.

"WE HAVE AN INTENSIVE, HIGHLY STIMULATING INTERNAL SYSTEM TO ENCOURAGE PARTICIPATORY INNOVATION AND MAKE IT GROW."

We have also created or acquired stakes in business incubators in Europe, the United States, China and Africa, which are getting us more closely involved in start-ups and innovative models in the mobility services market. In fact, several of the start-ups that we support were created by Michelin employees. We have an intensive, highly stimulating internal system to encourage participatory innovation and make it grow.

AUTHORITIES GENERALLY SAY THAT TIRES MUST BE CHANGED WHEN THEIR TREAD DEPTH WEARS DOWN TO 1.6 MM. SOME BELIEVE THAT A LIMIT OF 3 MM WOULD BE SAFER. THIS WOULD RESULT IN MORE FREQUENT TIRE CHANGES, BUT MICHELIN ISN'T IN FAVOR OF THAT. CAN YOU CLARIFY YOUR POSITION?

Michelin is committed to being a leader in sustainable mobility. We don't play the planned obsolescence game. Contrary to what we so often hear, there is no need for trade-offs between safety and the environment. They can easily be reconciled, as the technologies exist and are available. One of the best ways to demonstrate that would be to test tire safety not when tires are new but when they are worn. This would raise the performance of the entire category, for the greater benefit of every customer.

Changing tires at 3 mm instead of 1.6 mm would lead to the purchase of around 400 million more tires a year worldwide and the release of an additional 35 million tonnes of CO_2 every year, which can clearly be avoided.

It's up to each stakeholder to assume their responsibilities with regard to safety and the environment. This is what we do at Michelin by designing tires that last as long as possible, so as to save raw materials, and we make sure that their performance remains the same over time. A Michelin tire delivers the same superior performance, first and foremost in terms of safety, until the very end of its useful life. That's our commitment to customers.

THE NUMBER OF VEHICLES IS GOING TO DOUBLE, FROM 800 MILLION TO 1.6 BILLION. HOW DO YOU ADDRESS THE CHALLENGE OF AIR QUALITY IN AN INCREASINGLY URBANIZED WORLD?

In several ways. First, we improve the fuel efficiency of internal combustion vehicles, and thereby lower their CO_2 and particulate emissions, by reducing tire rolling resistance, which uses up around 20% of the fuel burned by a conventional vehicle. Over the past 20 years, we've cut it in half and we're aiming to drive further reductions of 30% by 2020 and 50% by 2030 compared to 2005.

We are also helping to drive progress in electric mobility, with tires that improve EV range, and with the development of fuel cells and hydrogen fuel cell range extenders, which increase mileage without emitting anything but steam.

Michelin Solutions conducts eco-driving courses, and ViaMichelin helps drivers avoid traffic jams. We maintain and manage tires for bus fleets, reducing air pollution in city centers. This is the case in several cities in China, where a dedicated subsidiary is also facilitating carpooling for city travel.

Lastly, since 1998 we have been organizing the global sustainable mobility summit to promote progress in this field. The Michelin Challenge Bibendum, which will become Movin'on by Michelin for its 13th edition to be held in Montreal in June 2017, is the only global event to bring together large companies, SMEs, start-ups, scientists, public decision-makers and NGOs to offer sustainable mobility solutions, particularly for cities, where most of the world's population lives.

1/ MICHELIN AT A GLANCE

1.1 AMBITIONS FOR 2020 6

1.1.1 Meeting Tomorrow's Mobility Challenges 6
1.1.2 Being both a Leader in Sustainable Mobility and one of the World's Most Innovative, Responsible and High-Performance Companies 7
1.1.3 Creating Value in Four Areas 8
1.1.4 Leveraging our Core Strengths 9
1.1.5 Serving Customers with Powerful Innovation Capabilities 10
1.1.6 Growth Strategy 11
1.1.7 Constantly Improving Competitiveness 12
1.1.8 Moving Forward Together 13
1.1.9 Progress on ambitions for 2020 14

1.2 COMPANY PROFILE 16

1.2.1 A Comprehensive Brand Portfolio 16
1.2.2 Products and Services You Can Trust 16
1.2.3 An Efficient Organization 16

1.3 FINANCIAL HIGHLIGHTS 17

1.3.1 Financial Performance 17
1.3.2 Corporate Social and Environmental Responsibility 18

1.4 SUMMARY ORGANIZATION CHART 21

1.5 HISTORY AND DEVELOPMENT OF THE COMPANY 22

1.6 FACILITIES 23

1.6.1 68 Production Facilities in 17 Countries 23
1.6.2 Other Material Property Assets 25

1.7 RISK FACTORS 26

1.8 GOVERNANCE 27

1.8.1 Management Bodies: the Chief Executive Officer and the Group Executive Committee 27
1.8.2 Supervisory body: the Supervisory Board 27

OFFERING EVERYONE A BETTER WAY FORWARD

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

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

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

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

In 2016, it once again demonstrated its ability to structurally generate cash flow and create value.

- 111,700 employees (105,700 full-time equivalents).
- Net sales: €20.9 billion; operating income from recurring activities: €2.7 billion.
- 68 production facilities in 17 countries.
- Marketing operations in 170 countries, nearly 14.0% of the global tire market*.

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

1.1 AMBITIONS FOR 2020

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

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 cleaner, safer, more fuel-efficient and more sustainable road mobility solutions that make the most of information technologies.

1.1.1 a) Safer mobility

Every year, 1.2 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[(1)], CO_2 emissions must be halved by 2050[(2)], 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 2016, the cost of raw materials used in production represented 21% 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.

* *Source: Group estimate.*
(1) Compared with the pre-industrial era.
(2) 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 have been expressed by commitments in the areas of financial performance, social responsibility and environmental stewardship. Each one is firmly focused on measurable performance and aligned with the Group's strategy. Deployed across the organization, these six ambitions for 2020 are designed to make Michelin a global leader in sustainable mobility and one of the world's most innovative, responsible and high-performance companies in fulfilling its financial, environmental and social responsibility commitments.

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

1. **Continuously improve customer satisfaction**

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

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

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

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

5. **Set the industry standard for responsible manufacturing**
   - Reduce the environmental impact of our sites, as measured by the Michelin site Environmental Footprint (MEF), 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 Premier, MICHELIN CrossClimate, MICHELIN X Line Energy and MICHELIN XDR 250 tires. We have done this across every product line, by substantially shortening time-to-market, a key factor driving our growth.

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

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

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

Here too, we have to leverage digital technology's ability to process enormous amounts of data to offer customers new opportunities to create value that we can share with them. Since the acquisition of Sascar in Brazil, we have made great strides, particularly in successfully deploying the technological platform underpinning its business.

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 develop this segment by leveraging all the benefits of digital technology, which is why we acquired BookaTable and Restaurantes.com, and why we are expanding ViaMichelin. At the same time, we are carefully integrating the segment into the broader mobility ecosystems that will enable our solutions to be profitable.

We intend to triple our revenue from these operations by 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.

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

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

- Focus all our concerns on the customer;
- Capitalize on the digital revolution;
- Simplify organizational structures and processes;
- Empower every employee.

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 is twice as high as the average competitor's, reflecting the exceptional loyalty of its customers. In China, according to the second-half 2013 BCM report, MICHELIN enjoys a strong position, with 80% brand recognition and purchase intentions more than three times as high as the average competitor's.

In all, the MICHELIN brand accounted for some 75% of volumes sold in the Passenger car and Light truck tire segment in 2015, around 85% in Truck tires and roughly 95% in Specialty tires.

1.1.4 b) Solid technological leadership

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

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

1.1.4 c) A truly global footprint

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

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

1.1.4 d) A comprehensive range of tires and services

Michelin is organized into three product lines – Passenger car and Light truck tires, Truck tires and Specialty businesses – that 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, Sascar, Brazil's leading digital fleet management company, was acquired in 2014.

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 2016, operating income rose during the year, value was created for more than the fifth year in a row and free cash flow helped to keep consolidated net debt low. This solid underpinning is crucial for the future, in order to guarantee the Group's independence and support its ambitious growth objectives.

By 2020, Michelin is committed to reporting a 15% return on capital employed at constant perimeter, excluding goodwill, more than €1.4 billion in structural free cash flow a year and more than €3 billion in operating income from recurring activities. In particular, ambitious targets have been set for operating margin on recurring activities, of between 11% and 15% in the Passenger car and Light truck tire segment, 9% and 13% in the Truck tire segment and 17% and 24% in the Specialty segment.

* *Source: Group estimate.*

1.1.5 SERVING CUSTOMERS WITH POWERFUL INNOVATION CAPABILITIES

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

1.1.5 a) Innovation and differentiation

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

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

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

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

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

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

1.1.5 b) Environmentally sensitive innovation

Because mobility is essential for human development, we feel duty-bound to make it cleaner, safer, more affordable – in a word, more sustainable. This is the corporate mission that prompted us to partner the COP21 conference held in Paris in 2015.

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

1.1.5 c) The innovation governance system

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

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

In 2015, the MICHELIN CrossClimate, a summer tire certified for driving on snowy roads, was introduced after just three years in development. An immediate hit, with stronger-than-expected sales, the technology-packed tire features a new rubber compound, a tread pattern that guarantees grip and safety on dry, wet or snow-covered roads and EverGrip self-regenerating tread technology.

For mining companies, the new MICHELIN XDR 250 and XDR 3 tires increase load capacity by 25%, while the recently introduced MEMS(1) Evolution 3 system constantly monitors mining tire temperature and pressure and alerts operators in real-time online or via email or text message.

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

The excellence of these innovations has been recognized by the tire and auto industries. In 2016, for example, Michelin was honored with the PSA Group's Corporate Social Responsibility Award.

To support the needs of business customers, MICHELIN solutions as well as Sascar in Brazil 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 the bottom line for customers. To this end, they build a genuine ecosystem in cooperation with selected partners and commit to performance-based multiyear contracts to reduce vehicle downtime, CO_2 emissions and fuel consumption.

** Source: Michelin.*
(1) Michelin Earthmover Management System.

1.1.6 GROWTH STRATEGY

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

1.1.6 a) Customer-focused growth

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

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

1.1.6 b) Driving faster growth in the tire business

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

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

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

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

1.1.6 c) Expanding the portfolio of services and solutions

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

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

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

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

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

These opportunities are being seized through the creation of strategically related partnerships, such as the one formed with Sascar, Brazil's leading digital business-fleet management firm, which joined the Group in 2014. Today, Michelin is working with the subsidiary to develop solutions that leverage its knowledge of the needs of large fleets.

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 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.

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 capitalizing on its lead in metal 3D printing technology – which is key to ensure the performance of its new products – as part of Fives Michelin Additive Solutions. Created with Fives in 2016, this joint venture has already proved its potential through a number of remarkable achievements.

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 the new understanding of retail channels with AlloPneus and Blackcircles.

1.1.6 g) Maintaining capital expenditure

With €1.8 billion invested in 2016, 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;
- Pursue projects in raw materials and high-tech semi-finished products.

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

1.1.7 CONSTANTLY IMPROVING COMPETITIVENESS

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

1.1.7 a) Competitive production plants in mature markets

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

In 2016, for example, it continued to deploy the plan undertaken in 2015 to reorganize operations in the United Kingdom and Italy – supported by €265 million in capital projects to upgrade their manufacturing facilities and supply chains – and in Germany, where the Pneu Laurent plant in Oranienburg will cease operations.

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

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

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

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

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

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

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

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

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

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

1.1.7 c) Improving competitiveness worldwide to drive growth

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

In 2017, the plan has been renewed with a stepped-up implementation schedule designed to deliver another €1.2 billion in savings over the next 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 five 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 15 Truck tire plants 9 Specialty tire plants 8 component and semi-finished product plants	10 Passenger car and Light truck tire plants 4 Truck tire plants 3 Specialty tire plants 2 component and semi-finished product plants	5 Passenger car and Light truck tire plants 4 Truck tire plants 2 Specialty tire plants 2 component and semi-finished product plants
	South America	**Africa/India/Middle East**
	1 Passenger car and Light Truck tire plant 2 Truck tire plants 1 Specialty tire plant	1 Truck tire plant

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

1.1.8 MOVING FORWARD TOGETHER

The Michelin corporate community is made up of more than 111,000 people, representing 120 nationalities. Their diversity is a valuable asset and source of creativity, while their professionalism and commitment are instrumental in driving the performance and development of a Group whose employee relationships are rooted in dialogue and mutual respect.

1.1.8 a) A mutual commitment

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

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

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

1.1.8 b) Embracing empowerment

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

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

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

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

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

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

1.1.8 d) A motivating corporate culture

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

Its sustainable development approach, embodied in the Michelin Performance and Responsibility (PRM) process, structures this corporate culture and coordinates the Group's commitment to the principles of sustainable, balanced, responsible growth.

In 2013, the approach's governance system was modified 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.

At the Group level, an 11-member PRM Council chaired by Jean-Dominique Senard defines the targets. The PRM Operations Committee is in charge of seeing that they are met, across the organization. Each country has a PRM correspondent responsible for promoting sustainable development on a day-to-day basis and for reporting on the implementation of objectives defined by the PRM Council, as well as actions initiated locally. Action plan advances and outcomes are regularly measured.

This structured, global approach has made it possible to deploy the sustainable development approach in internal improvement initiatives and in the Group's 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 2016
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	2016: na For 2017, targets have been assigned by activity
2. Demonstrate our commitment to the **well-being and development of our employees**	Further improve safety performance and achieve a Total Case Incident Rate (TCIR) of less than 2 for the entire Group	TCIR	2.54 in 2016* (2.67 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 2016 (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 2016 (75% in 2015)
	Increase the percentage of women in management and supervisory roles 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)	24.8% in 2016* (24.2% in 2015*)
	Increase the percentage of local top managers in growth regions to 80%	Percentage of managers from growth regions	72% in 2016 (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	€961 million in 2016 (€833 million in 2015)
	Achieve at least a 15% return on capital employed (ROCE)	ROCE	12.1% in 2016 (12.2% in 2015)

	2020 ambition	Key performance indicator (KPI)	Progress made in 2016
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	The total performance of Passenger car, Light truck and Truck tires in 2016 was in line with the 2020 objectives
	Save 3 billion liters of fuel over the lifespan of our tires, thereby reducing CO_2 emissions by more than 8 million tonnes compared with 2010	Total improvement in the rolling resistance of Passenger car, Light truck and Truck tires compared with 2010	The energy performance of Passenger car, Light truck and Truck tires in 2016 was in line with the 2020 objectives
	Contribute to the development of a circular economy by increasing the percentage of renewable or recycled materials in our tires to 30%	Percentage of renewable or recycled tire materials in the tires we produce	The success of new production processes for raw materials obtained from recycled used tires (Tire RECycling) and bio-based materials such as butadiene in the BioButterfly project (with Axens, IFPEN and TEREOS) or isoprene (with Braskem and Amyris) should enable the Group to meet its 2020 objectives
5. Set the industry standard for **responsible manufacturing**	Reduce the environmental impact of our sites, as measured by the Michelin Environmental Footprint (MEF), 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) 43.0% improvement in the MEF compared with 2005* 2) 28.4% improvement compared with 2005*
	Develop a responsible supply chain and reduce its CO_2 emissions by 10% compared with 2010	CO_2 emissions per tonne of tires sold outside the Group	The method used to monitor the indicator is being revised in order to make the published results more meaningful
	Assess the sustainable development performance of our top 400 suppliers	Number of suppliers assessed by EcoVadis	419 as of end-2016 (263 as of end-2015)
	Provide encouragement and support so that 70% of these suppliers are confirmed as compliant with our standards	Percentage of the 400 suppliers assessed by EcoVadis that are confirmed as compliant	74% as of end 2016 (66% as of end-2015)
6. Contribute to the development of **host communities** and support sustainable mobility	Deploy a 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 2016
	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	31,612 in 2016 (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	1,695 in 2016 (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	Thailand: 1,000 helmets distributed to motorbike taxi drivers and 1,000 more to school-age cyclists during an awareness-raising day. United States: 35 million people reached through social media during the "Beyond the Driving Test" campaign on safe tire use, organized in 33 of the 50 U.S. states. Indonesia: 600 young people educated in schools about road safety conditions

* *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 primary brand dedicated to sports cars and SUVs: BFGoodrich®.
- Strong regional brands: UNIROYAL in North America, KLEBER in Europe and WARRIOR in China.
- Market-leading national brands.

MICHELIN			
BFGoodrich®	KLEBER	UNIROYAL	WARRIOR
KORMORAN	RIKEN	TAURUS	TIGAR
SIAMTYRE			

1.2.2 PRODUCTS AND SERVICES YOU CAN TRUST

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

  187 million tires produced in 2016.
- **Dealerships and service centers:** the integrated Euromaster (Europe) and TCi (United States) dealership networks; TyrePlus franchises or brand partnerships for car tires in Asia, the Middle East, Russia, Australia and Mexico; Michelin Commercial Service Network franchises for truck tires in the United States; Michelin Truck Service Center partnerships in Asia, the Middle East and Algeria, and exclusive truck service networks in Brazil, Mexico and Argentina, which all set the market standard for expert advice and quality service; online tire retailers in France (40% of Allopneus.com) and the United Kingdom (Blackcircles.com).
- More than 4,000 proprietary and franchised outlets in 29 countries. Truck driver **assistance** services with Michelin Euro Assist.
- **Fleet tire advice, maintenance and management services** with Michelin Fleet Solutions in Europe and Michelin Business Solutions in North America.
- **Michelin Travel Partner:** MICHELIN maps and guides and ViaMichelin mobility assistance services:
  - More than 8 million maps and guides published in 2016.
  - 196 billion kilometers calculated by ViaMichelin in 2016.
  - 39 million covers booked via the BookaTable (including Michelin Restaurant) app.
- **Michelin Lifestyle products developed in partnership with licensees:** car and bike accessories, work, sports and leisure gear, and collectibles.

1.2.3 AN EFFICIENT ORGANIZATION

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

1.3 FINANCIAL HIGHLIGHTS

1.3.1 FINANCIAL PERFORMANCE

(in € millions)	2016	2015	2014	2013	2012
Net sales	20,907	21,199	19,553	20,247	21,474
% change	-1.4%	+8.4%	-3.4%	-5.7%	+3.6%
Total employee benefit costs	5,542	5,785	5,292	5,292	5,377
As a % of net sales	26.5%	27.3%	27.1%	26.1%	25.0%
Number of full-time equivalent employees at period-end	105,700	105,800	106,700	105,700	107,300
Research and development expenses	718	689	656	643	622
As a % of net sales	3.4%	3.3%	3.4%	3.2%	2.9%
EBITDA before non-recurring income and expenses(1)	4,084	3,934	3,286	3,285	3,445
Operating income from recurring activities	2,692	2,577	2,170	2,234	2,423
Operating margin on recurring activities	12.9%	12.2%	11.1%	11.0%	11.3%
Operating income	2,791	2,207	1,991	1,974	2,469
Operating margin	13.3%	10.4%	10.2%	9.7%	11.5%
Cost of net debt	203	184	130	94	155
Other financial income and expenses	20	(30)	(43)	(15)	(22)
Income before taxes	2,464	1,869	1,651	1,702	2,307
Income tax	797	706	620	575	736
Effective tax rate	32.3%	37.8%	37.5%	33.8%	31.9%
Net income	1,667	1,163	1,031	1,127	1,571
As a % of net sales	8.0%	5.5%	5.3%	5.6%	7.3%
Dividends(2)	522	463	464	438	378
Cash flows from operating activities	2,764	2,695	2,522	3,089	2,926
As a % of net sales	13.2%	12.7%	12.9%	15.3%	13.6%
Gross purchases of intangible assets and PP&E	1,811	1,804	1,883	1,980	1,996
As a % of net sales	8.7%	8.5%	9.6%	9.8%	9.3%
Net debt(3)	944	1,008	707	142	1,053
Equity	10,646	9,542	9,523	9,256	8,501
Net debt(3)/Equity	9%	11%	7%	2%	12%
Net debt(3)/EBITDA(1)	0.23	0.26	0.22	0.04	0.31
Cash flows from operating activities/Net debt(3)	N/M	N/M	N/M	N/M	N/M
Operating income from recurring activities/Net interest expense(4)	13.3	12.8	16.0	15.7	14.2
Free cash flow(5)	1,024	653	322	1,154	1,075
ROE(6)	15.7%	12.2%	10.8%	12.2%	18.5%
ROCE(7)	12.1%	12.2%	11.1%	11.9%	12.8%
Per-share data *(in €)*					
Net assets per share(8)	59.1	52.5	51.3	49.8	46.6
Basic earnings per share	9.21	6.28	5.52	6.08	8.62
Diluted earnings per share	9.03	6.19	5.45	5.98	8.41
Price-earnings ratio(9)	11.5	14.0	13.6	12.7	8.3
Dividend per share(10)	3.25	2.85	2.50	2.50	2.40
Payout ratio(11)	36.5%	37.0%	40.6%	35.0%	28.7%
Yield per share(12)	3.1%	3.2%	3.3%	3.2%	3.4%
Share turnover rate(13)	78%	99%	91%	99%	129%

(1) As defined in note 3.7.2 to the consolidated financial statements.
(2) Including the dividends reinvested in new shares.
(3) Net debt: financial liabilities less cash and cash equivalents (excluding cash flows from cash management financial assets and borrowing collaterals) plus/less derivative assets, as defined in note 26 to the consolidated financial statements.
(4) Net interest expense: interest expense less interest income from cash and equivalents.
(5) Free cash flow: cash flows from operating activities less cash flows used in investing activities (excluding net cash flows used in cash management instruments and loan guarantees), as defined in section 2.5.3.
(6) ROE: net income attributable to shareholders divided by shareholders' equity excluding non-controlling interests.
(7) ROCE: net operating profit after tax (NOPAT) divided by capital employed (intangible assets and PP&E plus non-current financial assets plus working capital requirement), as defined in section 2.6.
(8) Net assets per share: net assets divided by number of shares outstanding at the end of the period.
(9) PER: share price at the end of the period divided by basic earnings per share.
(10) Subject to approval at the Annual Shareholders Meeting on May 19, 2017.
(11) Payout ratio: dividend divided by net income excluding non-recurring items (adjusted with respect to the nominal tax rate).
(12) Yield: dividend per share divided by share price at December 31.
(13) Share turnover rate: number of shares traded during the year divided by average number of shares outstanding during the year.

1.3.2 CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

1.3.2 a) Summary table of 2016 employee data for the Group and MFPM

	2016	2015	2014	2013	GRI G4
Workforce at December 31 (full-time equivalent employees, consolidated companies, under any form of work contract, excluding temp agency workers)	**105,654**	**105,798**	**106,696**	**105,724**	**G4-9**
Employees on payroll at December 31 (consolidated companies, under any form of work contract, excluding temp agency workers)	**111,708**	**111,681**	**112,306**	**111,190**	**G4-9**
Europe	65,859	65,885	65,569	66,147	G4 LA1
MFPM	*19,349*	*19,658*	*19,712*	*19,979*	
North America	22,841	22,598	22,741	22,274	G4 LA1
South America	6,475	6,544	6,752	5,518	G4 LA1
Asia (excluding India)	14,835	14,977	15,431	15,458	G4 LA1
Africa/India/Middle East	1,698	1,677	1,813	1,793	G4 LA1
Employees by gender*					
Men	82.9%	83.2%	83.7%	84.0%	G4 LA1
MFPM	*83.1%*	*83.5%*	*83.9%*	*84.4%*	
Women	17.1%	16.8%	16.3%	16.0%	G4 LA1
MFPM	*16.9%*	*16.5%*	*16.1%*	*15.6%*	
Employees by category* *(%)*					
Production operators	61.9%	62.1%	62.4%	61.4%	
MFPM	*45.1%*	*46.9%*	*47.4%*	*48.4%*	
Administrative employees, technicians and supervisors	29.9%	30.0%	30.0%	30.9%	
MFPM	*39.6%*	*38.6%*	*38.7%*	*38.1%*	
Managers**	8.2%	7.9%	7.6%	7.7%	
MFPM	*15.3%*	*14.4%*	*13.9%*	*13.5%*	
Employees by age* *(%)*					
24 and under	5.3%	5.3%	5.5%	5.5%	G4 LA1
MFPM	*5.7%*	*5.8%*	*5.3%*	*5.2%*	*G4 LA1*
25-34	26.6%	27.2%	27.3%	27.2%	G4 LA1
MFPM	*22.7%*	*22.8%*	*22.4%*	*21.8%*	*G4 LA1*
35-44	29.1%	28.6%	27.9%	27.4%	G4 LA1
MFPM	*26.2%*	*25.1%*	*24.5%*	*23.3%*	*G4 LA1*
45-54	22.6%	22.3%	22.5%	23.1%	G4 LA1
MFPM	*20.2%*	*20.2%*	*21.7%*	*24.4%*	*G4 LA1*
55-64	15.9%	16.2%	16.5%	16.4%	G4 LA1
MFPM	*25.1%*	*26.2%*	*26.0%*	*25.3%*	*G4 LA1*
Over 65	0.5%	0.4%	0.4%	0.4%	G4 LA1
MFPM	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*G4 LA1*
Employees by length of service* *(%)*					
Less than 2 years	21.5%	18.7%	18.3%	19.7%	
MFPM	*16.7%*	*14.4%*	*13.1%*	*15.4%*	
2-5 years	14.4%	15.4%	14.1%	11.8%	
MFPM	*13.0%*	*13.6%*	*12.3%*	*8.5%*	
5-10 years	15.1%	14.8%	16.6%	16.5%	
MFPM	*12.4%*	*12.1%*	*13.1%*	*13.1%*	
10-15 years	13.6%	13.5%	13.1%	14.8%	
MFPM	*13.5%*	*13.1%*	*13.1%*	*13.3%*	
15-20 years	10.8%	11.6%	10.7%	7.8%	
MFPM	*9.6%*	*9.5%*	*8.1%*	*5.6%*	
More than 20 years	24.5%	25.9%	27.1%	29.3%	
MFPM	*34.7%*	*37.4%*	*40.3%*	*44.0%*	

	2016	2015	2014	2013	GRI G4
Employee movements* (permanent work contracts)					G4 LA1
New hires	6,456	6,057	6,948	5,869	G4 LA1
MFPM	*871*	*750*	*606*	*588*	*G4 LA1*
Resignations	2,185	2,390	2,514	2,452	G4 LA1
MFPM	*129*	*100*	*119*	*112*	*G4 LA1*
Dismissals and terminations by mutual agreement	2,364	2,843	2,400	2,658	G4 LA1
MFPM	*244*	*250*	*255*	*185*	*G4 LA1*
Retirement	1,871	2,115	1,976	2,332	G4 LA1
MFPM	*794*	*710*	*827*	*1,070*	*G4 LA1*
Death	99	116	128	116	G4 LA1
MFPM	*26*	*27*	*30*	*33*	*G4 LA1*
Contract employees (excluding temp agency workers)* *(%)*	4.4%	4.4%	4.0%	3.9%	
MFPM	*5.9%*	*5.9%*	*4.6%*	*3.3%*	
Part-time employees*	3.6%	3.1%	2.8%	3.3%	
Training*					
Percentage of training hours per total hours worked	3.3%	3.5%	4.1%	4.4%	G4 LA9
MFPM	*2.0%*	*2.7%*	*3.0%*	*2.9%*	*G4 LA9*
Percentage of employees who received training	93%	93%	96%	94%	G4 LA9
Number of training hours per employee per year	56	59	70	76	G4 LA9
Training hours (excluding dealership networks)	5,300,000	5,635,657	6,628,184	7,167,926	G4 LA9
MFPM	*795,956*	*923,174*	*951,707*	*987,773*	*G4 LA9*
Type of training (excluding dealership networks)					
Job-specific training	90%	90%	89%	88%	
Management training	5%	5%	5%	6%	LA11
General training	5%	4%	6%	6%	
Production operator absenteeism* (excluding dealership networks and Russia) **Europe**	5.3%	5.4%	5.3%	5.4%	G4 LA6
Occupational accidents (including the dealership networks and Tigar; excluding recently acquired companies)					
Number of lost-time incidents, Group-wide	796	740	671	659	G4 LA6
Lost-time incident frequency rate	4.15	3.91	3.57	3.46	G4 LA6
Lost-time incident severity rate	0.25	0.24	0.21	0.23	G4 LA6
Number of plants with zero recordable incidents	22	27	25	20	G4 LA6
TCIR, Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired over the past two years	1.60	1.67	1.74	N/A	G4 LA6
TCIR, entire Group	2.54	2.67	2.84	N/A	G4 LA6
Number of Progress Ideas*	59,601	58,980	56,372	50,462	
Diversity*					
Percentage of women in extended management[1] (%)	24.8%	24.2%	23.5%	22.5%	
MFPM	*26.1%*	*24.9%*	*24.3%*	*23.3%*	
Percentage of women among top managers[2] (%)	17.3%	16.4%	15.7%	14.9%	
MFPM	*17.3%*	*15.7%*	*14.7%*	*13.8%*	
Percentage of women among executives[3] (%)	11.1%	9.9%	9.1%	8.6%	
MFPM	*11.3%*	*10.2%*	*9.2%*	*8.2%*	
Percentage of local top managers in growth-region countries*	72%	68%	65%	62%	
Percentage of management positions held by employees promoted or transferred from within*	76%	75%	73%	72%	
Employee engagement rate*	80%	77%	74%	72%	

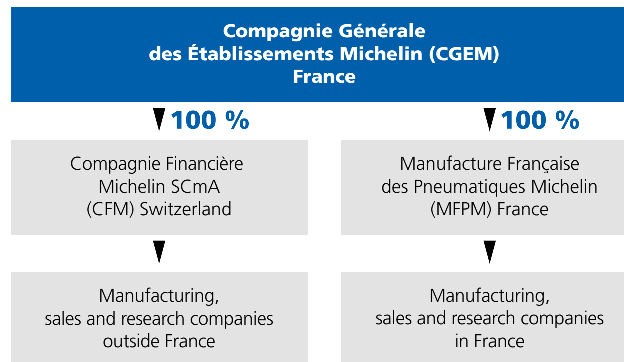
* *Unless otherwise specified, employee-related figures (except headcount) concern the entire Group, excluding Euromaster, TCI, Tigar and companies acquired during the past two years.*
** *Management defined as employees with a level of individual responsibility of A to K, according to the Hay method 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 2016 environmental data for the Group

Consolidated environmental data	2016	2015	% change *vs.* 2015	2010	GRI indicator
Water consumption *(cu.m/t FP)*	9.25	10.5	-11.9%	11.8	
Energy consumption *(GJ/t FP)*	12.46	13.1	-4.9%	14.4	G4-EN5
Michelin point sources	6.50	7.02	-7.4%	8.0	
Steam purchased, net	1.02	0.96	+5.7%	1.2	
Electricity purchased, net	4.97	5.10	-2.6%	5.2	
CO_2 emissions *(t/t FP)*	0.99	1.09	-9.3%	1.28	
of which:					
direct emissions from Michelin point sources (Scope 1*)	0.46	0.50	-8.4%	0.58	G4-EN18
indirect emissions, steam generation (Scope 2*)	0.05	0.04	+19.8%	0.12	
indirect emissions, electricity generation (Scope 2)	0.49	0.55	-11.4%	0.58	
Total Michelin direct and indirect emissions avoided *(tonnes of CO_2)*	41,650	42,050	-1.0%	24,000	G4-EN19
Sulfur dioxide emissions *(kg/t FP)*	0.28	0.54	-48.4%	0.96	
Nitrogen dioxide emissions *(kg/t FP)*	0.48	0.62	-22.6%	0.83	
VOC emissions *(kg/t FP)*	2.31	2.49	-7.2%	2.89	
Waste production *(kg/t FP)*	106.0	115.2	-8.0%	109.5	
Landfilled waste *(kg/t FP)*	4.95	7.36	-32.7%	10	
Hazardous waste production *(kg/t FP)*	7.74	7.35	+5.4%		G4-EN23
Number and total surface area of facilities located less than one kilometer from a protected area	27 sites totaling 6,400 ha	27 sites totaling 6,400 ha	–		G4-EN11

* *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 has outlined four value-creation drivers as part of its ambitious objectives for 2020.

1.6 FACILITIES

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

1.6.1 68 PRODUCTION FACILITIES IN 17 COUNTRIES

1.6.1 a) 55 tire production facilities in 17 countries

/ Europe

Country	Location	Products	Number of employees[1] (at December 31, 2016)	Maximum available capacity (in tonnes/year)
France	Avallon	Truck tires*	487	20,700
	Bourges	Aviation tires	564	4,500
	Cataroux[2]	Passenger car – Light truck tires	2,023	9,200
	Cholet	Passenger car – Light truck tires	1,223	58,000
	Combaude[2]	Truck tires*	785	5,800
	Gravanches[2]	Passenger car – Light truck tires	718	21,900
	La Roche-sur-Yon	Truck tires	696	69,200
	Le Puy-en-Velay	Earthmover tires	555	44,800
	Montceau-les-Mines	Earthmover tires	1,006	25,900
	Roanne	Passenger car – Light truck tires	894	37,400
	Troyes	Agricultural tires	794	53,000
Germany	Bad-Kreuznach	Passenger car – Light truck tires	1,358	85,200
	Bamberg	Passenger car – Light truck tires	819	73,500
	Homburg	Truck tires	1,234	76,200
	Karlsruhe	Truck tires	583	52,600
	Oranienburg	Truck tires*	62	0
Spain	Aranda	Truck tires	1,248	157,500
	Lasarte	Two-wheel tires	522	14,800
	Valladolid	Passenger car – Light truck tires – Truck tires* – Agricultural tires	1,590	96,900
	Vitoria	Passenger car – Light truck tires – Earthmover tires	2,993	217,400
Italy	Alessandria	Truck tires	888	87,500
	Cuneo	Passenger car – Light truck tires	1,955	130,700
United Kingdom	Ballymena	Truck tires	617	39,100
	Dundee	Passenger car – Light truck tires	763	58,800
	Stoke on Trent	Truck tires*	369	5,900
Hungary	Budapest	Truck tires	111	0
	Nyiregyhaza	Passenger car – Light truck tires	1,025	27,400
Poland	Olsztyn	Passenger car – Light truck tires – Truck tires – Agricultural tires	4,198	203,400
Romania	Victoria	Passenger car – Light truck tires	1,145	42,900
	Zalau	Truck tires	1,045	48,900
Serbia	Pirot	Passenger car – Light truck tires – Two-wheel tires	3,250	115,500
Russia	Davydovo	Passenger car – Light truck tires – Truck tires*	722	18,800

(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, 2016)	Maximum available capacity (in tonnes/year)
United States	Ardmore	Passenger car – Light truck tires	1,859	135,300
	Asheboro	Truck tires*	195	30,600
	Columbia-Lexington-Anderson	Passenger car – Light truck tires – Earthmover tires	2,278	259,900
	Covington	Truck tires*	147	30,700
	Dothan	Passenger car – Light truck tires	532	55,500
	Fort Wayne	Passenger car – Light truck tires	1,654	133,500
	Greenville 1	Passenger car – Light truck tires	1,011	120,900
	Greenville 2	Passenger car – Light truck tires	543	21,900
	Norwood	Aviation tires	421	7,900
	Spartanburg	Truck tires	1,094	124,700
	Tuscaloosa	Passenger car – Light truck tires	1,340	98,000
Canada	Bridgewater	Passenger car – Light truck tires	1,090	62,500
	Pictou	Passenger car – Light truck tires	581	5,000
	Waterville	Truck tires	1,225	127,400
Mexico	Queretaro	Passenger car – Light truck tires	460	17,700

/ South America

Country	Location	Products	Number of employees[1] (at December 31, 2016)	Maximum available capacity (in tonnes/year)
Brazil	Campo Grande	Truck tires – Earthmover tires	2,819	144,700
	Resende – Itatiaia	Passenger car – Light truck tires – Truck tires*	1,252	41,800

/ Asia (excluding India)

Country	Location	Products	Number of employees[1] (at December 31, 2016)	Maximum available capacity (in tonnes/year)
China	Shenyang 1 and 2	Passenger car – Light truck tires – Truck tires	3,082	145,800
	Shanghai	Passenger car – Light truck tires	2,105	84,000
Thailand	Laem Chabang	Passenger car – Light truck tires	1,868	99,300
	Nongkae	Truck tires – Aviation tires	1,695	58,800
	Phrapadaeng	Passenger car – Light truck tires – Truck tires – Two-wheel tires	1,374	49,100

/ Africa/India/Middle East

Country	Location	Products	Number of employees[1] (at December 31, 2016)	Maximum available capacity (in tonnes/year)
India	Chennai	Truck tires	850	16,900

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

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

1.6.1 b) 13 dedicated semi-finished product and component plants in seven countries

Country	Location	Products	Number of employees[1] (at December 31, 2016)
France	Bassens	Synthetic rubber	391
	Golbey	Metal cables	587
	Tours	Membranes	212
	Vannes	Metal cables	468
Germany	Trier	Metal cables	99
Italy	Fossano	Metal cables	258
	Turin	Compounds	349
Romania	Zalau	Metal cables	331
United States	Anderson	Metal cables	284
	Louisville	Synthetic rubber	349
China	Shanghai	Metal cables	272
Thailand	Rayong	Metal cables	498
	Hat Yai	Compounds	235

(1) Full-time equivalent.

The above list does not include:

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

1.6.2 OTHER MATERIAL PROPERTY ASSETS

1.6.2 a) Headquarters – Offices – Research centers

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

(1) Facilities located in Clermont-Ferrand.

1.6.2 b) Other material property asset costs

Please refer to note 14 to the consolidated financial statements.

1.7 RISK FACTORS

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

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

To ensure that risks are rigorously and consistently managed, a global risk management process is in place that complies with the most exacting international professional standards such as ISO 31000, COSO 2 and the reference framework of the French securities regulator, the AMF. This process, which is continuously updated to reflect the latest regulatory changes and risk management best practices, is described in detail in the report of the Chairman of the Supervisory Board on the Company's internal control and risk management procedures, on page 125 below.

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

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

Insurance coverage

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

/ High-frequency risks

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

- The property & casualty/business interruption insurance program provides combined total coverage of €1.5 billion, except for natural disasters or business interruption due to machinery breakdown for which the coverage limit may be lower.
- The liability insurance program comprises three key coverage areas:
  - Product liability for the manufacturing companies;
  - General liability, offering direct coverage in European Union countries and umbrella coverage in excess of local cover in all other countries;
  - Environmental liability coverage for all Group companies.

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

Including premiums paid to the captive insurance and reinsurance company, aggregate premiums amounted to €65.7 million in 2016, a decline of more than €2 million from 2015.

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.

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

1.8 GOVERNANCE

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

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

This partnership model offers three main advantages:

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

There are two partner categories:

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

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

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

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

For more information, please refer to section 4 below.

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

Assisted by a 13-member Executive Committee, the Chief Executive Officer is responsible for managing and leading the Company. His core responsibilities are to:

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

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

1.8.2 SUPERVISORY BODY: THE SUPERVISORY BOARD

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

Its oversight procedures include:

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

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

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

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

2 / REPORT OF THE MANAGING PARTNERS

2.1	**TIRE MARKETS**	**30**
2.1.1	A Global Market Worth Some $160 Billion in 2015	30
2.1.2	Tire Markets in 2016	30
2.1.3	Passenger Car and Light Truck Tire Markets in 2016	31
2.1.4	Truck Tire Markets in 2016	34
2.1.5	Specialty Tire Markets in 2016	36
2.2	**NET SALES**	**37**
2.2.1	Analysis of Net Sales	37
2.2.2	Net Sales by Reporting Segment	38
2.2.3	Changes in Exchange Rates for the Main Operating Currencies	39
2.2.4	Net Sales by Region	40
2.3	**CONSOLIDATED INCOME STATEMENT REVIEW**	**41**
2.3.1	Operating Income from Recurring Activities	42
2.3.2	Operating Income from Recurring Activities by Operating Segment	43
2.3.3	Other Income Statement Items	45
2.4	**CONSOLIDATED BALANCE SHEET REVIEW**	**49**
2.4.1	Goodwill	50
2.4.2	Intangible Assets	50
2.4.3	Property, Plant and Equipment	50
2.4.4	Non-current Financial Assets and Other Assets	50
2.4.5	Investments in Associates	50
2.4.6	Deferred Tax Assets and Liabilities	50
2.4.7	Trade Working Capital Requirement	51
2.4.8	Cash and Cash Equivalents	51
2.4.9	Equity	51
2.4.10	Net Debt	52
2.4.11	Provisions	52
2.4.12	Employee Benefits	53
2.5	**CONSOLIDATED CASH FLOW STATEMENT REVIEW**	**54**
2.5.1	Cash Flows from Operating Activities	54
2.5.2	Capital Expenditure	54
2.5.3	Available Cash Flow and Free Cash Flow	55
2.5.4	Structural Free Cash Flow	55

2.6	**RETURN ON CAPITAL EMPLOYED (ROCE)**	**56**
2.7	**TREND INFORMATION**	**57**
2.7.1	Outlook	57
2.7.2	Profit Forecasts or Estimates	57
2.7.3	Recent events	57
2.8	**OPERATING HIGHLIGHTS**	**58**
2.8.1	Strategy – Partnership – Investments	58
2.8.2	Products – Innovation – Services	58
2.8.3	Sustainable Development	60
2.8.4	Competition	60
2.9	**RISK FACTORS**	**61**
2.9.1	Introduction	61
2.9.2	Risks related to the Group's Operations and Strategy	62
2.9.3	Operational Risks	64
2.10	**MATERIAL CONTRACTS**	**71**
2.11	**CHANGE OF CONTROL**	**71**
2.12	**INFORMATION CONCERNING SUPPLIER PAYMENTS**	**71**
2.13	**MATERIAL CHANGES IN THE COMPANY'S BUSINESS OR FINANCIAL POSITION**	**71**
2.14	**OWNERSHIP STRUCTURE AND VOTING RIGHTS**	**72**
2.15	**INFORMATION DISCLOSED IN COMPLIANCE WITH FRANCE'S GRENELLE 2 ACT**	**72**

2.1 TIRE MARKETS

2.1.1 A GLOBAL MARKET WORTH SOME $160 BILLION [(1)] IN 2015

The global tire market totaled $160 billion in 2015 [(1)], with light-vehicle tires accounting for around 60% of sales and truck tires 30% [(2)]. By volume, it represented nearly 1.5 billion car and light truck tires and a little more than 215 million truck and bus tires [(2)]. In all, three out of four tires were sold in the replacement market.

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

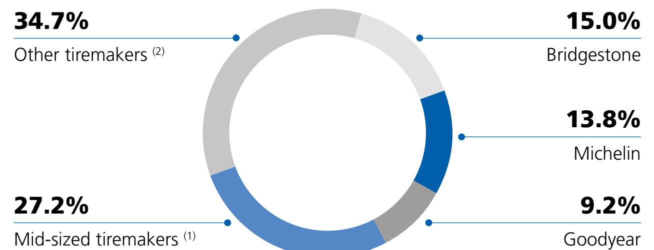
Longer term, tire demand is likely to expand by 1-2% a year in mature markets and by 5-10% a year in the new markets.

New standards

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

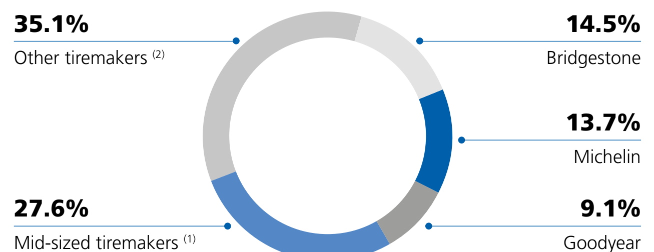
These trends are favorable to low rolling resistance tires, where Michelin sets the market standard. Original equipment sales of these tires are expected to increase by around 200 million units between 2010 and 2020 to a total of nearly 500 million units a year [(2)].

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2015



Source: 2015 sales in US dollars, published in Tire Business, September 2016.
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with less than a 2% market share according to the Tire Business ranking.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2014



Source: 2014 sales in US dollars, published in Tire Business, September 2015.
(1) Tiremakers with a 2-6% 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 2016

In 2016, tire demand in the mature markets continued to rise in the Passenger car and Light truck segment, with a temporary slowdown in the second and third quarters, but was more mixed in the Truck segment, with a contraction in North America. Demand was also more mixed in the new markets, with sustained sales of Passenger car and Light truck tires in China throughout the year and a rebound in the Truck market at year-end, robust growth in India despite the government's demonetization campaign in the final quarter, and a sharp decline in South America despite the first glimmers of improvement in the last months of the year. The Specialty markets continued to suffer as mining companies completed their inventory drawdowns.

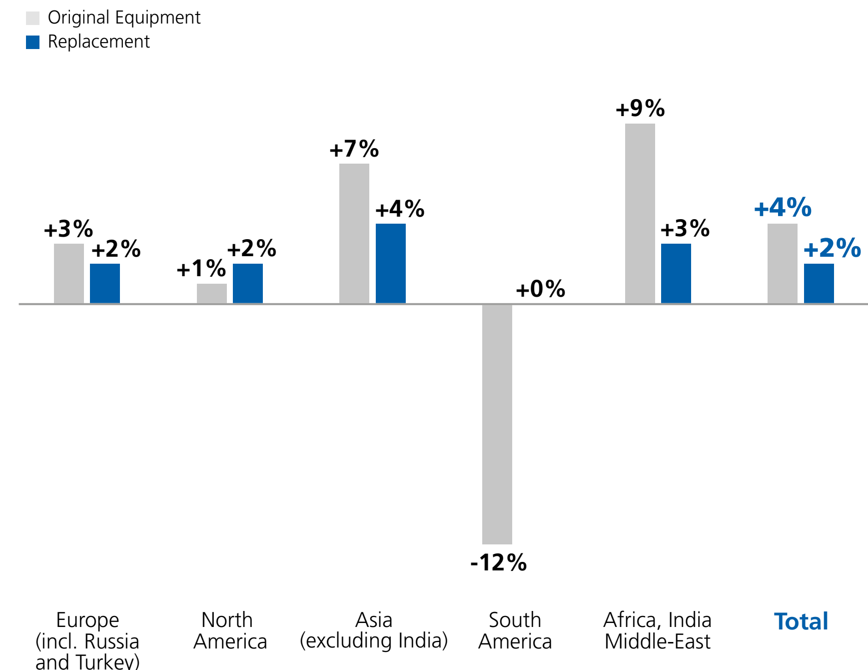
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number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

(1) Source: Tire Business – September 2016.
(2) Michelin estimates.

2.1.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2016

The global original equipment and replacement **Passenger car and Light truck** tire market rose by 3% overall in number of tires sold in 2016, with gains in Western Europe, North America, China and India, and declines to record lows in Eastern Europe and South America.

THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2016 *VS.* 2015



Michelin estimates.

2.1.3 a) Original equipment

Worldwide demand for original equipment tires rose by 4% in number of tires sold in 2016. Demand was robust in Western Europe, China and India, stable but high in North America and still depressed in the other geographies.

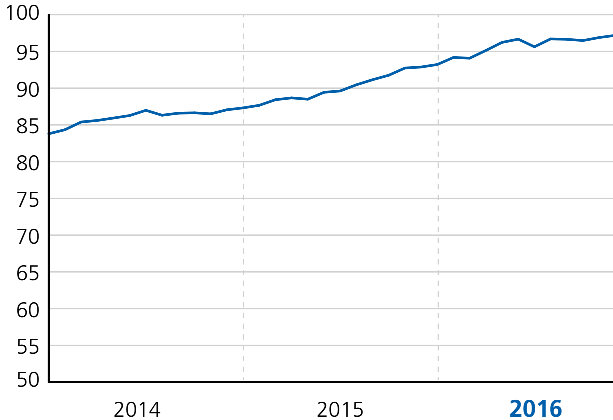
Passenger car and Light truck tire markets Original equipment *(in millions of tires)*	2016	2015	2016/2015	Second-Half 2016/2015	Fourth-Quarter 2016/2015	Third-Quarter 2016/2015	First-Half 2016/2015	Second-Quarter 2016/2015	First-Quarter 2016/2015
Europe (1)	102.2	98.8	+3%	+1%	+2%	+1%	+5%	+8%	+2%
North America (2)	87.4	86.5	+1%	+0%	+0%	+1%	+3%	+2%	+4%
Asia (excluding India)	211.5	197.6	+7%	+12%	+10%	+12%	+2%	+3%	-0%
South America	13.4	15.2	-12%	-3%	+6%	-10%	-19%	-16%	-23%
Africa/India/Middle East	31.1	28.6	+9%	+11%	+12%	+9%	+7%	+6%	+7%
TOTAL	**445.6**	**426.8**	**+4%**	**+7%**	**+6%**	**+6%**	**+2%**	**+3%**	**+1%**

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

Demand in **Europe** rose by 3% overall during the year, reflecting a sustained 4% increase in Western Europe, despite the slowdown in automobile sales in the second half, and a steep 12% drop in Eastern Europe.

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN EUROPE

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

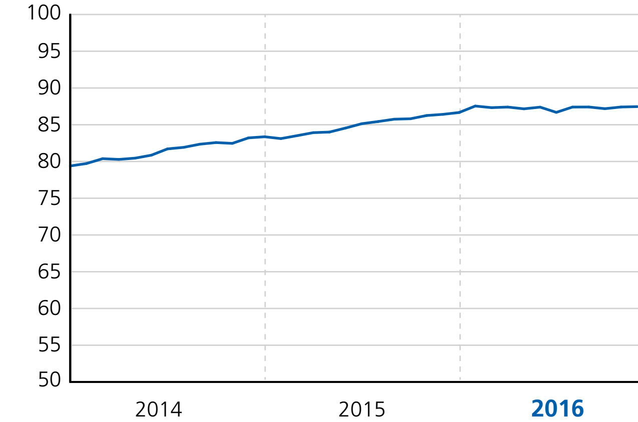


Michelin estimates.

The **North American** market leveled off with a 1% increase, in line with registrations.

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)** ended the year up 7% overall. The Chinese market remained buoyant, with a 14% increase led by the government's compact car purchase incentives and the popularity of SUV models. Demand contracted by 2% in Japan, 7% in South Korea and 2% in the ASEAN nations.

Markets in **South America** continued their steep decline, losing 12% over the year, with the first signs of improvement emerging in the final quarter in Brazil (up 6%) and Argentina.

In the **Africa/India/Middle East** region, demand climbed 9% on the back of expansion in the Indian market, where vehicle sales surged despite the economic impact in the fourth quarter of the government's demonetization drive. In Africa and the Middle East, carmakers are suffering from the commodity market environment and geopolitical conditions.

2.1.3 b) Replacement

The worldwide replacement market ended the year up 2%, with demand on the rise in every geography and a general improvement in the fourth quarter.

Passenger car and Light truck tire markets Replacement *(in millions of tires)*	2016	2015	2016/2015	Second-Half 2016/2015	Fourth-Quarter 2016/2015	Third-Quarter 2016/2015	First-Half 2016/2015	Second-Quarter 2016/2015	First-Quarter 2016/2015
Europe [(1)]	349.0	342.2	+2%	+2%	+4%	-0%	+2%	-0%	+3%
North America [(2)]	284.7	280.5	+2%	+2%	+3%	+1%	+2%	-2%	+6%
Asia (excluding India)	269.8	259.2	+4%	+4%	+4%	+3%	+5%	+4%	+5%
South America	75.2	75.0	+0%	+2%	+5%	-2%	-1%	-1%	-2%
Africa/India/Middle East	105.7	102.7	+3%	+2%	+1%	+4%	+4%	+4%	+4%
TOTAL	**1,084.4**	**1,059.5**	**+2%**	**+3%**	**+3%**	**+1%**	**+3%**	**+0%**	**+4%**

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

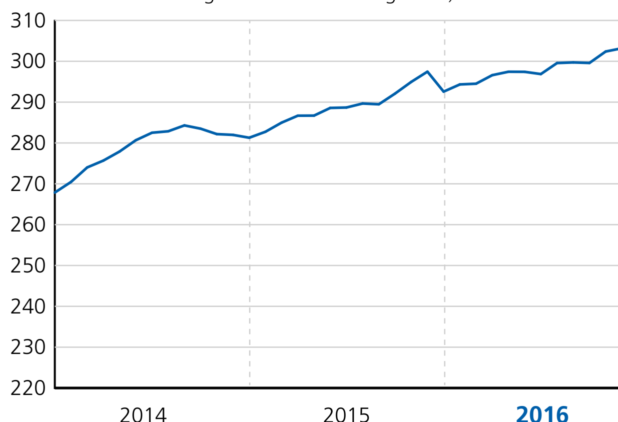
The European market saw a 2% overall increase during the year. Demand in Western Europe rose by 4%, reflecting a volatile winter segment (up 4% due to the combined net impact of favorable weather in the first quarter and dealer hesitation in the last quarter), the increase in entry-level imports and the robust growth in all-season tire sales. In Eastern Europe, demand continued to shrink, by a further 7% over the year.

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

Passenger car and Light truck tires – Replacement	Year-on-year change
WESTERN EUROPE	**4%**
▶ France	0%
▶ Spain	1%
▶ Italy	3%
▶ United Kingdom	12%
▶ Germany	4%
▶ Poland	12%
▶ Turkey	-2%
EASTERN EUROPE	**-7%**
▶ Russia	-11%

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

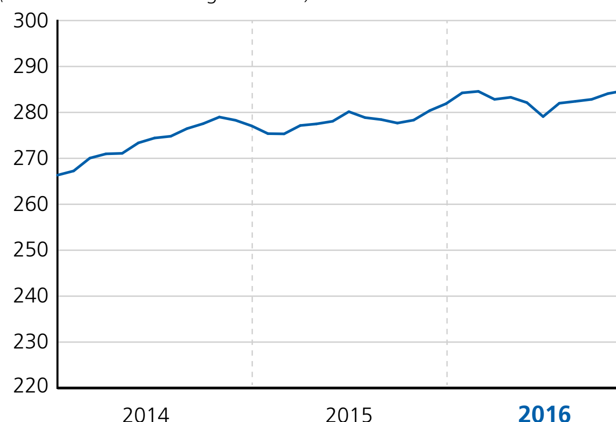
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

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

(in millions of tires – moving 12 months)



Michelin estimates.

In **North America**, demand rose by 2% overall, fuelled by strong growth in the small tire segment in the fourth quarter and the solid 8% gain in Mexico. The US market edged up by 1%, reflecting buyer hesitation in an election year, but firm growth was reported in the 18-inch and larger segment (up 15%) and in SUV tires.

Demand in **Asia (excluding India)** ended the year up 4%, thanks to sustained growth in the Chinese market (up 8%) in a highly competitive environment. The rest of the region was relatively flat, with just a 1% increase, reflecting the 1% market declines in Japan and Thailand.

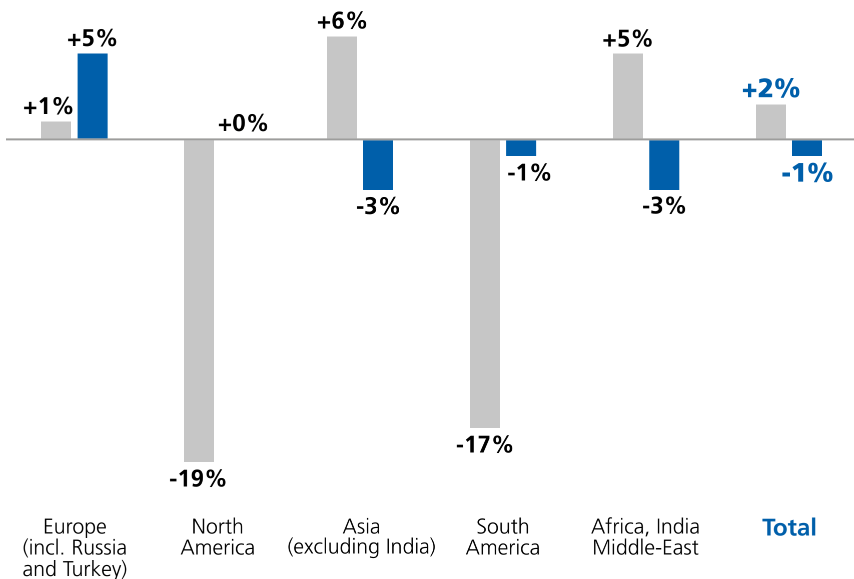
In **South America**, demand was unchanged overall, as the 2% decline in Brazil (despite an upturn at year-end) was offset by more positive trends in the rest of Latin America.

The **Africa/India/Middle East** market rose by 3%, with a strong 8% increase in India (despite the demonetization campaign) and more modest gains in Africa and the Middle East.

2.1.4 TRUCK TIRE MARKETS IN 2016

Demand for new radial and bias **Truck tires** softened somewhat in 2016, with unit sales down a slight 1% over the year. Retread markets were also in decline, with an especially steep fall-off in Europe.

THE GLOBAL **TRUCK** TIRE MARKET, 2016 *VS.* 2015



Michelin estimates – new tire market only.

2.1.4 a) Original equipment

The **worldwide original equipment market** was stable in 2016, with a contrast between the steep market declines in North America, the ASEAN nations, South America and India in the second half, and the rebounds that were sustained in China but modest in Russia, even as demand held firm in Western Europe.

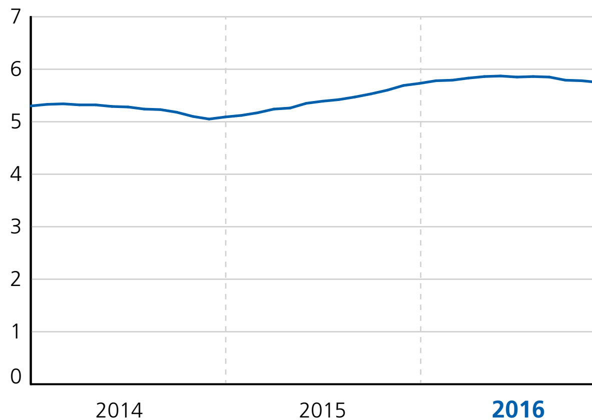
Truck tire markets Original equipment *(in millions of tires)*	2016	2015	2016/2015	Second-Half 2016/2015	Fourth-Quarter 2016/2015	Third-Quarter 2016/2015	First-Half 2016/2015	Second-Quarter 2016/2015	First-Quarter 2016/2015
Europe (1)	6.3	6.3	+1%	-3%	-6%	-0%	+5%	+5%	+6%
North America (2)	5.3	6.5	-19%	-24%	-23%	-21%	-12%	-12%	-12%
Asia (excluding India)	22.6	21.4	+6%	+10%	+9%	+11%	+1%	+3%	-3%
South America	0.9	1.1	-17%	-6%	-8%	-6%	-25%	-12%	-39%
Africa/India/Middle East	5.3	5.1	+5%	-5%	+3%	-12%	+13%	+11%	+17%
TOTAL	**40.5**	**40.4**	**+0%**	**-0%**	**-0%**	**+0%**	**+0%**	**+1%**	**-3%**

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

In **Europe**, the market ended the year up 1% despite a slowdown in the second half. The 1% gain in Western Europe reflected both a downward trend in the semi-truck segment and growth in trailer tires, while the 3% rise in Eastern Europe revealed the first positive signs in a market that remained historically low.

THE OE TRUCK TIRE MARKET IN EUROPE

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

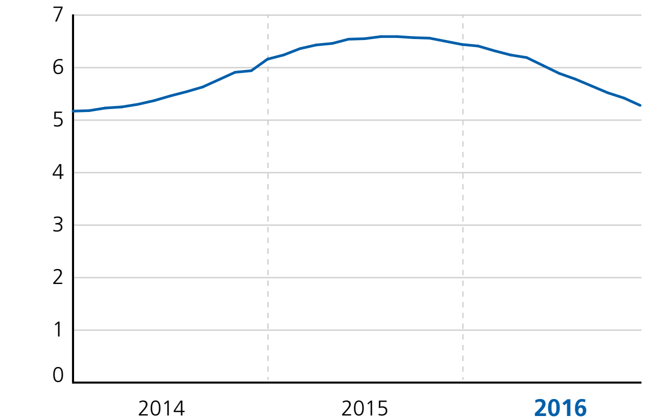


Michelin estimates.

The **North American** market fell 19% in 2016, as expected, following the renewal of the local truck fleet observed in recent years.

THE OE TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Demand for radial and bias tires in **Asia (excluding India)** increased by 6% in 2016, as growth in China (up 9%) offset declines in Japan (down 7%) and Thailand (down 3%). Chinese demand has been rebounding since the autumn due to the arrival of new market entrants and the application of new axle load and truck size rules. The latter are expected to spur a surge in truck replacements.

The **South American** market, which started to level off in the second half, still ended the year down 17%. Demand in Brazil, also down 17% for the year, began to show some signs of improvement in the last two months.

In the **Africa/India/Middle East** region, the radial and bias tire market continued to expand, climbing 5% for the year. This was mainly attributable to demand in India, which ended the year up 8% despite the strong headwinds created in the second half by the demonetization campaign and the slowdown in freight transport.

2.1.4 b) Replacement

The **global replacement market** contracted by 1%, shaped by aggressive competition and rising sales of mid-tier brands.

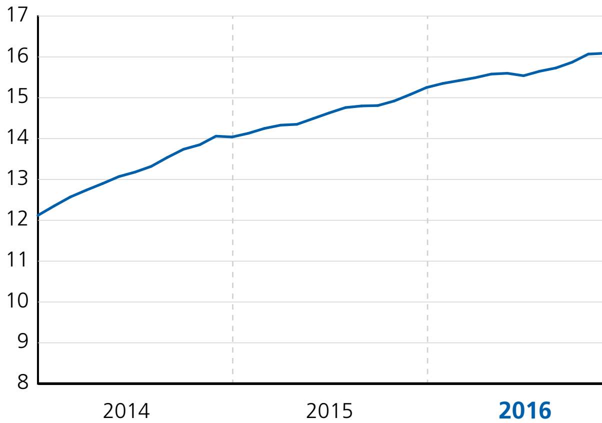
Truck tire markets Replacement *(in millions of tires)*	**2016**	**2015**	**2016/2015**	**Second-Half 2016/2015**	**Fourth-Quarter 2016/2015**	**Third-Quarter 2016/2015**	**First-Half 2016/2015**	**Second-Quarter 2016/2015**	**First-Quarter 2016/2015**
Europe [1]	23.8	22.6	+5%	+5%	+7%	+3%	+5%	+5%	+4%
North America [2]	24.0	24.0	+0%	-6%	-4%	-7%	+6%	+8%	+5%
Asia (excluding India)	84.6	87.1	-3%	-1%	+1%	-4%	-5%	-5%	-6%
South America	12.9	13.0	-1%	+1%	+3%	+0%	-3%	+1%	-6%
Africa/India/Middle East	30.2	31.0	-3%	-4%	-6%	-1%	+0%	+0%	+0%
TOTAL	**175.5**	**177.8**	**-1%**	**-1%**	**+0%**	**-3%**	**-2%**	**-1%**	**-2%**

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

In **Europe**, the market rose by 5% overall, with a slower decline in Russia in the second half. The sharp 6% rebound in Western Europe was led by the increase in freight tonnes carried per km and the rise in sales of low-cost tires from Asia, which are depressing retread demand. In Eastern Europe, robust demand in the intermediate segments helped to drive a 4% gain for the year.

THE REPLACEMENT TRUCK TIRE MARKET IN EUROPE

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

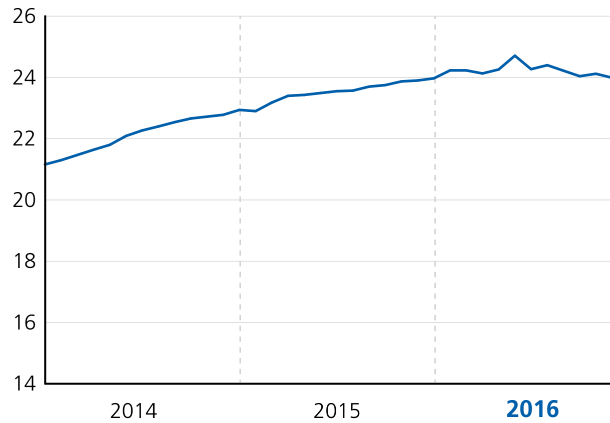


Michelin estimates.

Demand in **North America** ended the year flat, reflecting a first-half buying spree ahead of the new tariffs announced on Chinese tire imports, dampened by the subsequent fall-off sales in the second half, as well as by pre-election buyer hesitation and the slowdown in the region's economic indicators.

THE REPLACEMENT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Demand for replacement radial and bias tires in **Asia (excluding India)** was down 3% for the year. In China, it contracted by 4% overall, but showed a 2% improvement in the fourth quarter thanks to booming online sales and an economic stimulus plan that is particularly favorable to the construction industry and infrastructure investment. In the rest of the region, markets slipped 1% overall in a challenging economic environment, with a significant 12% drop in Thailand and a 2% gain in Japan.

The **South American** radial and bias market continued to drift downward, by 1% in 2016, but signs of an upturn emerged in the final quarter (up 4%) led by Brazil (up 2% for the year and 11% in the fourth quarter) and Argentina.

In the **Africa/India/Middle East** region, demand for radial and bias tires contracted by 3% over the year, with the second half suffering from the demonetization drive in India and the geopolitical environment in Africa and the Middle East.

2.1.5 SPECIALTY TIRE MARKETS IN 2016

Earthmover tires: the mining tire market retreated for the third year in a row, dragged down by the steep reduction in mine inventory. The trend turned upward in the fourth quarter, however, as mining companies resumed purchases as their stocks dwindled.

Original equipment markets declined sharply in the mature geographies at a time of weak demand. The Chinese market also cooled in 2016 after dropping precipitously in 2015.

Dealer hesitation is weighing on demand for infrastructure and quarry tires, which declined over the period.

Agricultural tires: after falling off sharply in 2015, OE demand continued to slide in the mature geographies, with the first-half rebound wiped out by a collapse in the second part of the year.

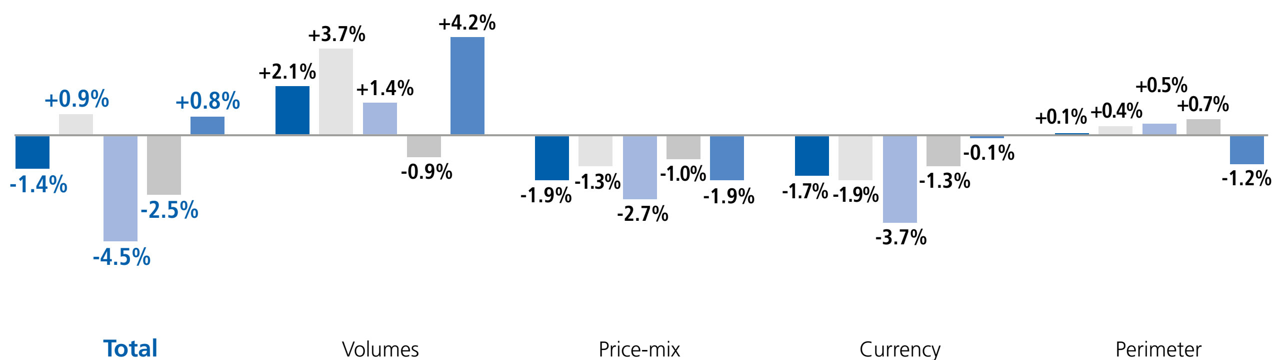
Replacement markets retreated significantly in the mature regions, penalized by low farm commodity prices.

Two-Wheel tires: demand for motorcycle tires climbed for the fourth straight year in Europe, lifted by an increase in dealer buying, but fell back sharply in North America. The emerging markets are continuing to expand overall.

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

2.2 NET SALES

2.2.1 ANALYSIS OF NET SALES



Net sales stood at €20,907 million for the year, down 1.4% from the €21,199 million reported in 2015.

The decrease reflected the net impact of the following factors:

- a €440 million increase from the 2.1% growth in volumes, which outpaced the markets thanks to the performance of the MICHELIN brand and the robust growth in the other brands;
- a €386 million decrease from the 1.9% unfavorable price-mix effect, reflecting i) a €438 million decrease from price adjustments, of which nearly half corresponded to the application of indexation clauses based on raw materials prices; and ii) a €52 million increase from the mix, as the favorable impact of the continued success of the MICHELIN brand's premium strategy and the rebound in Earthmover tire sales in the fourth quarter offset the dampening impacts of the geographic mix and the relative growth rates of budget and OE tire sales;
- a €24 million increase mainly from the consolidation of BookaTable, Europe's leading online restaurant reservation service;
- a €370 million decrease from the 1.7% negative currency effect, resulting primarily from the euro's unfavorable moves against the Argentine peso, the Mexican peso, the South African rand, the British pound, the Turkish lira, the Russian ruble, the Brazilian real, the Chinese yuan and the Canadian dollar, with the moves against the US dollar having only a marginally favorable impact.

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

(in € millions and %)	2016	Second-Half 16	Fourth-Quarter 16	Third-Quarter 16	First-Half 16	Second-Quarter 16	First-Quarter 16
NET SALES	**20,907**	**10,615**	**5,436**	**5,179**	**10,292**	**5,227**	**5,065**
Year-on-year change	**-292**	**-87**	**+43**	**-130**	**-205**	**-248**	**+43**
Volumes	+440	+173	+222	-49	+267	+77	+188
Price mix	-386	-162	-109	-53	-224	-154	-68
Currency effect	-370	-74	-8	-66	-296	-200	-96
Scope of consolidation	+24	-24	-62	+38	+48	+29	+19
Year-on-year change	**-1.4%**	**-0.8%**	**+0.8%**	**-2.5%**	**-2.0%**	**-4.5%**	**+0.9%**
Volumes	+2.1%	+1.6%	+4.2%	-0.9%	+2.5%	+1.4%	+3.7%
Price mix	-1.9%	-1.5%	-1.9%	-1.0%	-2.1%	-2.7%	-1.3%
Currency effect	-1.7%	-0.7%	-0.1%	-1.3%	-2.8%	-3.7%	-1.9%
Scope of consolidation	0.1%	-0.2%	-1.2%	0.7%	0.5%	+0.5%	+0.4%

2.2.2 NET SALES BY REPORTING SEGMENT

(in € millions)	2016	Second-Half 16	Fourth-Quarter 16	Third-Quarter 16	First-Half 16	Second-Quarter 16	First-Quarter 16
GROUP	**20,907**	**10,615**	**5,436**	**5,179**	**10,292**	**5,227**	**5,065**
Passenger car/Light truck tires & related distribution	12,105	6,189	3,225	2,964	5,916	3,019	2,897
Truck tires & related distribution	5,966	3,059	1,526	1,533	2,907	1,477	1,430
Specialty businesses (1)	2,836	1,367	685	682	1,469	731	738
% change year-on-year	**-1.4%**	**-0.8%**	**+0.8%**	**-2.5%**	**-2.0%**	**-4.5%**	**+0.9%**
Passenger car/Light truck tires & related distribution	0.6%	+0.3%	+1.1%	-0.5%	+1.0%	-2.1%	+4.3%
Truck tires & related distribution	-4.2%	-3.2%	-1.8%	-4.6%	-5.2%	-7.3%	-3.0%
Specialty businesses (1)	-3.6%	-0.4%	+5.7%	-5.9%	-6.4%	-8.4%	-4.3%

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

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

Volumes in the Passenger car and Light truck segment rose by 3% over the year, very slightly outpacing the market's 3% gain, with most of the growth stemming from original equipment sales, the entry-level and replacement sales in the new markets.

In Europe, the Group maintained its OE positions in the Western countries but lost ground in the replacement segment due to a competitive price environment, inter-continental gray market imports in the first half and the faster reorganization of its dealership network and supply chain. In the premium segment, the MICHELIN brand benefited from a number of recent product launches and, in particular, successful sales of the extended CrossClimate line-up, which advanced by nearly 30%. Sales in Eastern Europe were lifted by the first signs of a rebound at year-end.

In **North America**, where demand was strong in Mexico and the small tire segment, consolidated net sales held the Group's market positions firm. They reflected growth in sales of the leading recently introduced lines, such as the MICHELIN Premier LTX, and of the BFGoodrich Off-Road lines, which enjoyed a second straight year of robust gains. The BFGoodrich On-Road lines, however, ran into aggressive price competition.

Positions in the **South American** market were strengthened over the year, with an improvement in the mix, particularly in Brazil, where the business turned in a solid performance in both the OE and replacement segments.

In Asia (excluding India), net sales rose sharply in China, lifted by fast growing demand in the replacement segment and, in the OE segment, by the Group's business development plan open to a broad array of customers including Chinese carmakers. Positions in Southeast Asia were strengthened by optimizing the Group's product positioning, supply chain and dealership network.

In the **Africa/India/Middle East** region, net sales rose in India and Africa thanks to the strength of the MICHELIN brand, a dynamic pricing policy, the broader product offering and the stronger dealership network.

In all, net sales in the Passenger car/Light truck tires & related distribution segment rose by 0.6% in 2016, to €12,105 million from €12,028 million the year before. Volumes rose by 3% over the period, very slightly exceeding the market's 3% increase. Against the backdrop of declining average raw materials costs, price adjustments reflected the application of indexation clauses in original equipment contracts, for a little less than half, and repositionings in the replacement segment for the rest. The sales mix continued its rapid ascent upmarket, in particular in the SUV and 18-inch segments.

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

In Western **Europe** sales of new MICHELIN-brand tires tracked the premium markets, which slowed somewhat over the year while demand for intermediate tires gained momentum. The Group enjoyed a solid performance in the OE segment, led by the popularity among carmakers of its low-rolling resistance tires, and resilient retread sales in a sharply contracting market. In Russia and the CIS, Group sales outpaced the local replacement markets, thanks to the rebound in demand off of very low prior-year comparatives and the introduction of customs duties on Chinese imports.

In **North America**, OE sales followed the market drop-off after several half-year periods of strong growth, while MICHELIN-brand replacement sales tracked the weak growth in the pool market and replacements sales of other brands increased sharply. The development of fleet services continued apace.

In the steeply declining **South American** market, the Group's replacement tire sales held up well, supported in particular by the intermediate brands.

In **Asia (excluding India)**, sales in China advanced in the OE segment, lifted by the emergence of large fleets that are more sensitive to tire performance criteria. They also held firm in a replacement market shaped by i) three quarters of sharp decline before a rebound in the last three months of the year; and ii) aggressive price competition, exacerbated by rising customs barriers for exports to the United States, Russia and India. In Southeast Asia, MICHELIN-brand tires demonstrated strong resistance in the face of softening replacement demand, while the success of the BFGoodrich brand helped to drive higher sales in the intermediate segment.

In the **Africa/India/Middle East** region, where the market environment was unfavorable, sales were down at a time when currency volatility prompted the Group to raise prices, unlike most of the competition. In India, the Group nonetheless benefited from the upturn in the OE market thanks to a partnership with one of the local leaders. As in Southeast Asia, BFGoodrich will replace Kormoran, as part of a global strategy to position it as an intermediate brand.

In all, net sales in the Truck tires & related distribution segment amounted to €5,966 million for the year, a decline of 4.2% from 2015 that was primarily attributable to the unfavorable currency impact and price cuts introduced in accordance with raw materials indexation clauses. On the other hand, volumes were up by 1%, outperforming the contraction in the global market over the year.

2.2.2 c) Specialty businesses – Analysis of net sales

Earthmover tires: net sales contracted over the year due to the fall-off in volumes (although they did not decline as much as demand) and the unfavorable impact of applying raw materials indexation clauses.

Agricultural tires: net sales were dragged down by price cuts, primarily in application of raw-materials indexation clauses, and by the currency effect. Increased business in the emerging markets helped to hold volumes steady for the year.

Two-Wheel tires: Net sales were unchanged for the year, with volume gains offsetting the unfavorable impact of the geographic mix, segment mix and currency movements.

Aircraft tires: net sales increased, driven by growth in volumes.

Michelin Travel Partner net sales, which rose sharply over the year, were primarily shaped by (i) a leveling off of share in the more challenging Print markets this year; (ii) very fast revenue growth following the launch of print and electronic Michelin Guides; (iii) an increase in Digital revenue, where business was mixed; and (iv) the gradual amalgamation of the Michelin Restaurants business and BookaTable. In addition, Michelin Travel Partner has launched a wide array of projects to develop new solutions and acquire companies as part of "Michelin Experiences", which brings together all of the activities that offer customers an outstanding mobility experience.

In all, net sales by the Specialty businesses stood at €2,836 million for the year, compared with €2,942 million in 2015. Apart from the currency impact, the decrease reflected the impact of price adjustments in accordance with raw materials indexation clauses and the 1% decline in volumes over the year, in a market that lost 4%.

2.2.3 CHANGES IN EXCHANGE RATES FOR THE MAIN OPERATING CURRENCIES

At current exchange rates, consolidated net sales declined by 1.4% in 2016, reflecting a €370 million negative currency effect that was primarily due to the euro's unfavorable moves against a number of currencies, including mainly the Argentine peso, the Mexican peso, the South African rand, the British pound, the Turkish lira, the Russian ruble, the Brazilian real, the Chinese yuan and the Canadian dollar, with the moves against the US dollar having only a marginally favorable impact.

Average exchange rate	2016	2015	% change
Euro/USD	1.107	1.111	-0.3%
Euro/CAD	1.466	1.416	+3.5%
Euro/MXN	20.615	17.575	+17.3%
Euro/BRL	3.841	3.631	+5.8%
Euro/GBP	0.816	0.726	+12.3%
Euro/JPY	120.077	134.424	-10.7%
Euro/CNY	7.351	6.980	+5.3%
Euro/THB	39.070	37.979	+2.9%
Euro/AUD	1.488	1.475	+0.9%
Euro/ZAR	16.237	14.071	+15.4%
Euro/ARS	16.290	10.189	+59.9%
Euro/TRY	3.333	3.008	+10.8%
Euro/RUB	73.887	67.151	+10.0%

Net sales break down as follows by currency:

Currency	%	Currency	%
AUD	1%	MXN	2%
BRL	3%	PLN	1%
CAD	3%	RUB	1%
CNY	5%	THB	1%
EUR	34%	TRY	1%
GBP	3%	TWD	1%
INR	1%	USD	38%
JPY	1%	Other	4%
TOTAL			**100%**

2.2.4 NET SALES BY REGION

(in € millions)	2016	2016/2015	Second-Half 2016	First-Half 2016
GROUP	**20,907**	**-1.4%**	**10,615**	**10,292**
Europe	8,101	-1.2%	4,074	4,027
of which France	*1,917*	*-2.9%*	*963*	*954*
North America (including Mexico)	7,792	-3.6%	3,963	3,829
Other	5,015	+2.1%	2,579	2,435

(in € millions)	2016	% of total	2015	% of total
GROUP	**20,907**		**21,199**	
Europe	8,101	38.7%	8,203	38.7%
of which France	*1,917*	*9.2%*	*1,974*	*9.3%*
North America (including Mexico)	7,792	37.3%	8,084	38.1%
Other	5,015	24.0%	4,913	23.2%

At a time of unfavorable exchange rates and falling raw materials costs, consolidated net sales edged back slightly in most geographies. More than 60% of consolidated net sales were generated outside Europe and more than 90% outside France.

2.3 CONSOLIDATED INCOME STATEMENT REVIEW

To make its operating performance easier to understand and analyze, Michelin now presents "Operating income before non-recurring income and expenses" as "Operating income from recurring activities".

Similarly, "Other operating income and expenses" is now "Other operating income and expenses from recurring activities" and "Non-recurring income and expenses" has been replaced by "Operating income/(loss) from non-recurring activities".

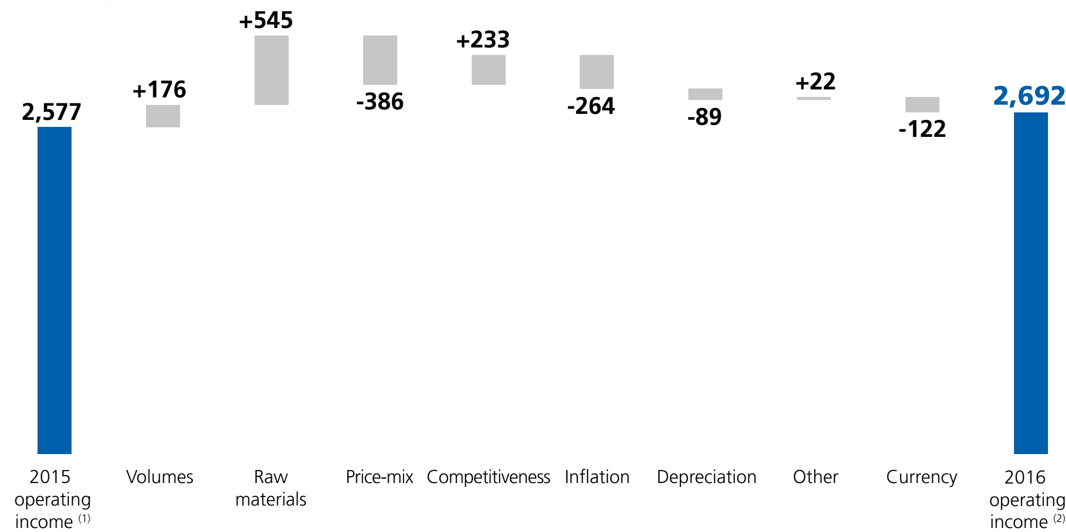
In addition, sale proceeds and impairment losses on intangible assets and property, plant and equipment as well as the cost of benefits for retired personnel are now included in "Operating income/(loss) from non-recurring activities" in the consolidated income statement instead of in "Other operating income and expenses from recurring activities".

This change had no material impact on the presentation of the consolidated financial statements for the year ended December 31, 2016 ("Operating income before non-recurring items" would have been €2,698 million).

(in € millions, except per-share data)	2016	2015	2016/2015	2016 *(as a % of net sales)*	2015 *(as a % of net sales)*
Net sales	**20,907**	**21,199**	**-1.4%**		
Cost of sales	(13,810)	(14,238)	-3.0%	66.1%	67.2%
Gross income	**7,097**	**6,961**	**+1.9%**	**33.9%**	**32.8%**
Sales and marketing expenses	(1,907)	(1,929)	-1.1%	9.1%	9.1%
Research and development expenses	(718)	(689)	+4.2%	3.4%	3.3%
General and administrative expenses	(1,759)	(1,707)	+3.0%	8.4%	8.1%
Other operating income and expenses from recuring activities	(21)	(59)	-64.1%	-0.1%	-0.3%
Operating income from recurring activities	**2,692**	**2,577**	**+4.5%**	**12.9%**	**12.2%**
Operating income/(loss) from non-recurring activities	99	(370)	-126.7%	-0.5%	1.7%
Operating income	**2,791**	**2,207**	**+26.5%**	**13.3%**	**10.4%**
Cost of net debt	(203)	(184)	+10.4%	1.0%	0.9%
Other financial income and expenses	20	(30)	-165.7%	-0.1%	0.1%
Net interest on employee benefit obligations	(139)	(141)	-1.6%	0.7%	0.7%
Share of profits and losses from associates	(5)	17	NM	0.0%	-0.1%
Income before taxes	**2,464**	**1,869**	**+31.8%**	**11.8%**	**8.8%**
Income tax	(797)	(706)	+12.9%	3.8%	3.3%
Net income	**1,667**	**1,163**	**+43.3%**	**8.0%**	**5.5%**
▶ Attributable to shareholders of the Company	1,676	1,168	+43.5%	8.0%	5.5%
▶ Attributable to non-controlling interests	(9)	(5)			
Earnings per share *(in €)*					
▶ Basic	9.21	6.28	+46.7%		
▶ Diluted	9.03	6.19	+45.9%		

2.3.1 OPERATING INCOME FROM RECURRING ACTIVITIES

(in € millions)



(1) Before non-recurring items.
(2) From recurring activities.

Operating income from recurring activities amounted to €2,692 million or 12.9% of net sales in the year ended December 31, 2016, *versus* a reported €2,577 million and 12.2% in 2015. Operating income from non-recurring activities came to €99 million, primarily from a gain on a change in the retiree health coverage plan in the United States, which was partially offset by costs related to the reorganization and adaptation of the Group's activities.

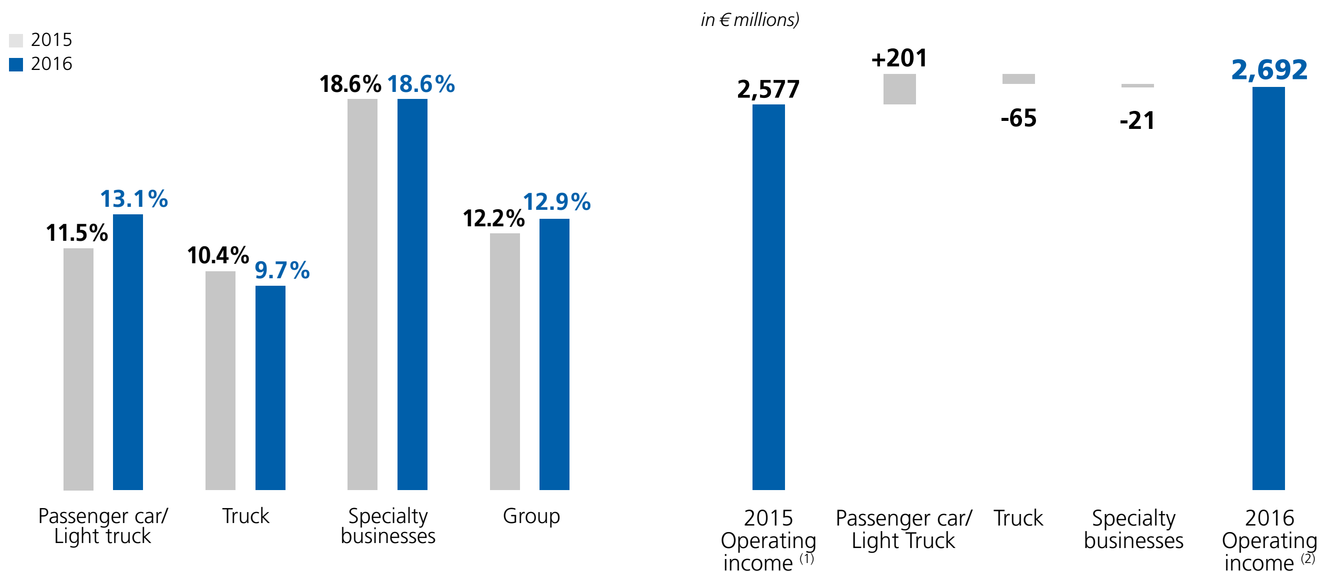
Growth for the year may be analyzed as follows:

- a €176 million increase from the 2.1% growth in volumes;
- a €159 million net increase corresponding to the €386 million negative impact of changes in the price mix (of which a €438 million decrease due to price reductions), offset by the €545 million positive impact of lower raw materials costs. The net increase included a €28 million net decrease for businesses whose prices are indexed to raw materials costs, and a €187 million net increase for non-indexed businesses, in particular thanks to an effective pricing policy;
- meeting the objective of the €1.2 billion 2012-2016 competitiveness plan generated savings of €233 million during the year (€155 million in production costs and €78 million in overheads), which were amply offset by the unfavorable €264 million impact from inflation;
- an €89 million rise in depreciation and amortization expense;
- a €22 million increase from other factors, of which a €31 million reduction in start-up costs;
- a €122 million decrease from the currency effect.

2.3.2 OPERATING INCOME FROM RECURRING ACTIVITIES BY OPERATING SEGMENT

(in € millions)	2016	2015	Second-Half 2016	First-Half 2016
Passenger car/Light truck tires & related distribution				
Net sales	12,105	12,028	6,189	5,916
Operating income from recurring activities	1,585	1,384	771	814
Operating margin on recurring activities	**13.1%**	**11.5%**	**12.5%**	**13.8%**
Truck tires & related distribution				
Net sales	5,966	6,229	3,059	2,907
Operating income from recurring activities	580	645	292	288
Operating margin on recurring activities	**9.7%**	**10.4%**	**9.5%**	**9.9%**
Specialty businesses				
Net sales	2,836	2,942	1,367	1,469
Operating income from recurring activities	527	548	224	303
Operating margin on recurring activities	**18.6%**	**18.6%**	**16.4%**	**20.6%**
Group				
Net sales	20,907	21,199	10,615	10,292
Operating income from recurring activities	2,692	2,577	1,287	1,405
Operating margin on recurring activities	**12.9%**	**12.2%**	**12.1%**	**13.7%**

2.3.2 a) Operating margin on recurring activities by operating segment



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

(1) *Before non-recurring items.*
(2) *From reccuring activities.*

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

Passenger car/Light truck tires & related distribution *(in € millions)*	**2016**	**2015**	**2016/2015**	**2016** *(% of Group total)*	**2015** *(% of Group total)*
Net sales	12,105	12,028	+0.6%	58%	57%
Change in volumes	*+3.1%*				
Operating income from recurring activities	1,585	1,384	+14.6%	59%	54%
Operating margin on recurring activities	13.1%	11.5%	+1.6 pt		

Operating income on recurring activities came to €1,585 million or 13.1% of net sales *versus* the €1,384 million and 11.5% reported in 2015.

The 1.6-point gain in operating margin on recurring activities was led by the 3% increase in volumes, which slightly outpaced the market's 3%. The mix effect remained favorable, supported by the success of the new MICHELIN CrossClimate and MICHELIN Pilot Sport 4S lines, which helped to drive strong growth in sales of MICHELIN brand tires (up 4%), 17-inch and larger tires (up 13%) and 18-inch and larger tires (up 17%). At the same time, sales of other Group brands rose by 3% over the year. The decline in raw materials costs was only partially attenuated by price adjustments, of which a little less than half reflected the application of indexation clauses in original equipment contracts. Industrial competitiveness continued to improve, albeit at a slower pace in the second half due to production scalebacks at a small number of plants.

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

Truck tires & related distribution *(in € millions)*	**2016**	**2015**	**2016/2015**	**2016** *(% of Group total)*	**2015** *(% of Group total)*
Net sales	5,966	6,229	-4.2%	28%	29%
Change in volumes	*+0.3%*				
Operating income from recurring activities	580	645	-10.1%	21%	25%
Operating margin on recurring activities	9.7%	10.4%	-0.7 pt		

Operating income from recurring activities amounted to €580 million or 9.7% of net sales, compared with €645 million and 10.4% the year before.

The change in margin reflected resilient volumes, up 1% over the year, in Truck tire markets down an aggregate 1%. At a time of aggressive competition in every geography, the favorable trend in raw materials costs was not enough to offset the full impact of price repositionings and strong growth in sales of intermediate tires. On the other hand, despite the production cutbacks at certain plants in the second half, industrial optimization projects and cost discipline continued to deliver benefits over the year.

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

Specialty businesses *(in € millions)*	**2016**	**2015**	**2016/2015**	**2016** *(% of Group total)*	**2015** *(% of Group total)*
Net sales	2,836	2,942	-3.6%	14%	14%
Change in volumes	*-4.0%*				
Operating income from recurring activities	527	548	-3.8%	20%	21%
Operating margin on recurring activities	18.6%	18.6%	+0.0 pt		

Operating income from recurring activities amounted to €527 million, *versus* a reported €548 million in 2015, for a margin unchanged at 18.6% of net sales.

The margin stability reflected the fact that volumes declined less than the market (by 1% compared with 4%), thanks in particular to the rebound in mining tire sales in the fourth quarter, the firm resistance of the Agricultural tire business even as global demand softened and robust sales in the new markets. At the same time, the favorable impact of lower raw materials costs only partially offset the delayed effect of price adjustments under raw materials indexation clauses.

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 €4.3 billion in 2016 *versus* €4.7 billion in 2015.

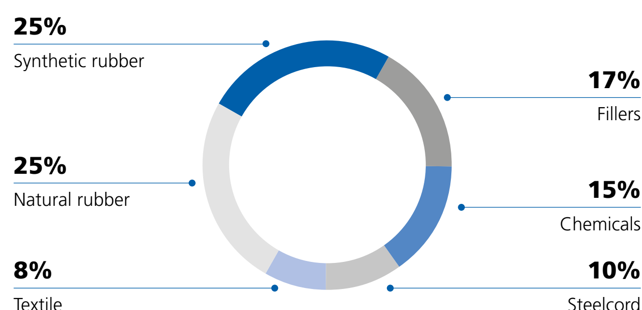
It is calculated on the basis of:

- 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 2016, the raw materials costs recognized in cost of sales included the €545 million cost of price adjustments, as well as the residual currency effect.

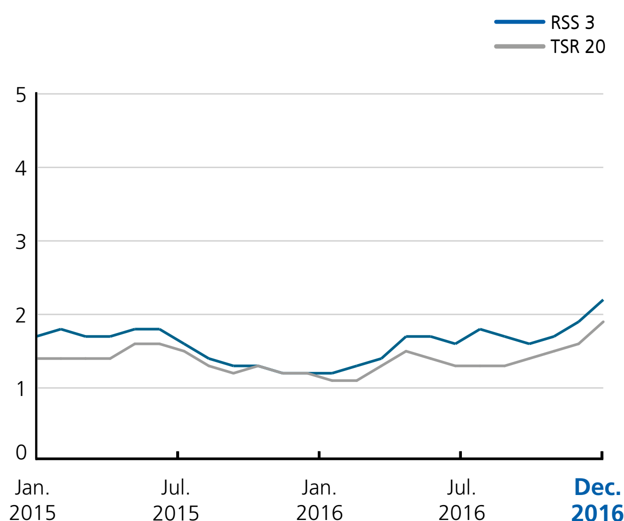
Changes in prices feed through to the income statement five to six months later for natural rubber and around three months later for butadiene.

RAW MATERIALS RECOGNIZED IN 2016 COST OF SALES (€4.3 BILLION)

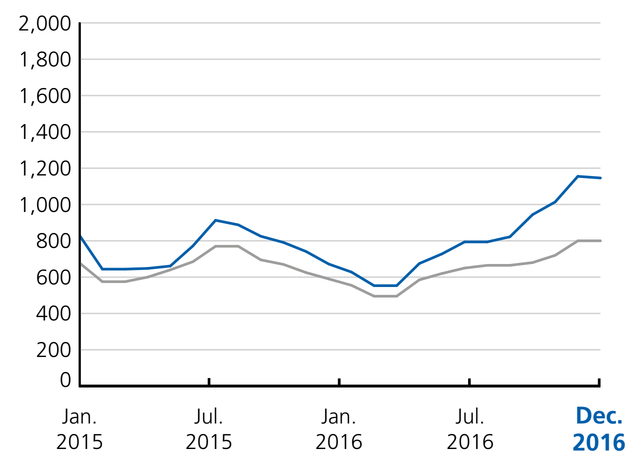


NATURAL RUBBER PRICES (SICOM)

(USD/kg)



BUTADIENE PRICES



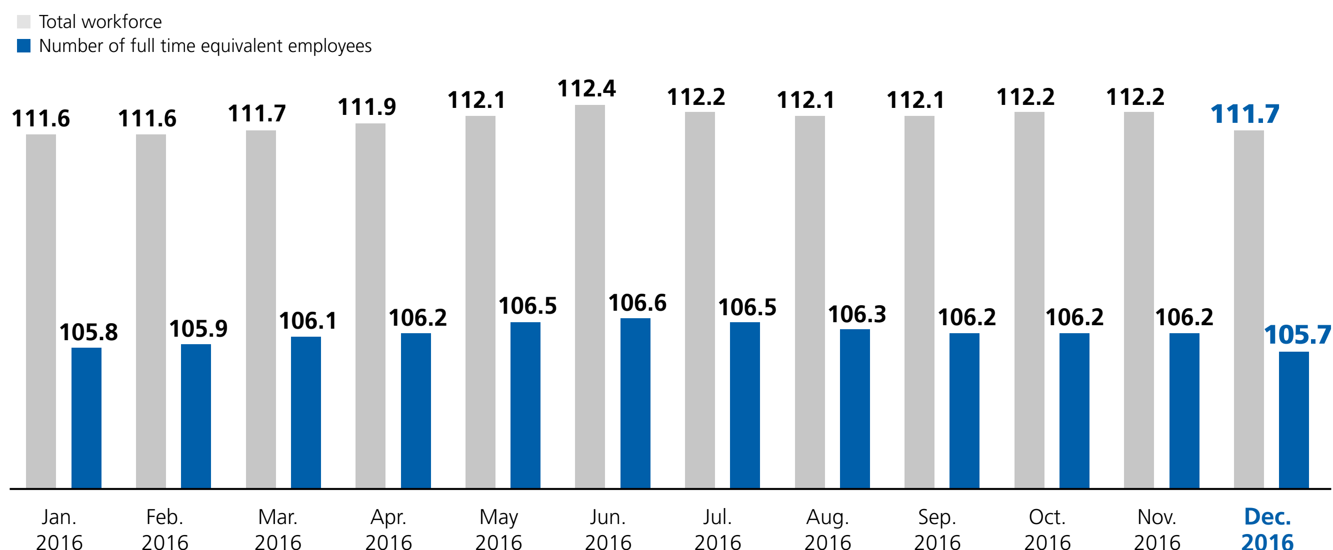
2.3.3 b) Employee benefit costs and number of employees

At €5,542 million, **employee benefit costs** represented 26.5% of net sales in 2016, *versus* 27.3% the year before. Along with the decline in the average number of employees over the year, this decrease results from a €271 million gain on a change in the retiree health coverage plan in the United States, adjusted for the combined impact of inflation in emerging markets and the integration of new digital operations, particularly BookaTable, Europe's leading online restaurant booking service. Group-wide, the inflation rate stood at 2.4% for the year.

(in € millions and number of people)	2016	2015	% change
Total employee benefit costs	5,542	5,785	-4.2%
As a % of net sales	*26.5%*	*27.3%*	*-0.8 pt*
Employees on payroll at December 31	111,700	111,700	+0.0%
Number of full time equivalent employees at December 31	105,700	105,800	-0.1%
Average number of full time equivalent employees	106,200	106,600	-0.4%

NUMBER OF EMPLOYEES

(in thousands)

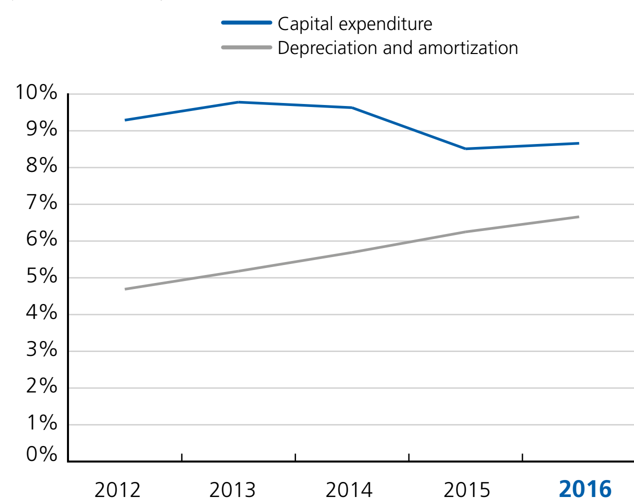


2.3.3 c) Depreciation and amortization

(in € millions)	2016	2015	% change
Depreciation and amortization	1,392	1,324	+5.1%
As a % of additions to intangible assets and property, plant and equipment	*77%*	*73%*	

Depreciation and amortization charges rose by €68 million (5.1%) to €1,392 million for the year, reflecting the temporary increase in capital expenditure committed in recent years to drive growth. Given the projects currently underway, depreciation and amortization charges are expected to continue to increase in the years ahead.

(As a % of net sales)



2.3.3 d) Transportation costs

(in € millions)	2016	2015	% change
Transportation costs	1,152	1,129	+2.1%
As a % of net sales	*5.5%*	*5.3%*	

Transportation costs stood at €1,152 million, up 2.1% year-on-year primarily as a result of the growth in volumes, the increase in intercontinental shipping to serve expanding markets and the temporary costs related to the supply chain transformation projects in Europe and North America.

2.3.3 e) Sales and marketing expenses

Sales and marketing expenses represented 9.1% of net sales in 2016, unchanged from 2015. In value, they declined by €22 million to €1,907 million as a result of the greater efficiency in spending and the favorable currency effect.

2.3.3 f) Research and development expenses

Research and development expenses stood at €718 million, a 4% year-on-year increase that reflected the Group's ongoing strategy of shortening time-to-market for new products and services, aligning innovation with real market needs and extending its technological leadership.

As a percentage of net sales, R&D expenses were stable at 3.4%, *versus* 3.3% in 2015.

2.3.3 g) General and administrative expenses

At €1,759 million, **general and administrative expenses** represented 8.4% of net sales, *versus* €1,707 million and 8.1% in 2015. The €51 million increase mainly corresponds to the impact of consolidating BookaTable, motorsports-related costs, in particular with Michelin's return to MotoGP racing, and a slight rise in employee benefit costs.

2.3.3 h) Other operating income and expenses from recurring activities

Other operating income and expenses from recurring activities represented a net expense of €21 million in 2016 *versus* the net expense of €59 million reported in 2015. Most of the 2016 expense was comprised of the €16 million employer contribution to the employee stock ownership plan, as well as various taxes and expenses on stock option grants in France.

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

Operating income/(loss) from non-recurring activities came to a net €99 million in income, reflecting the €271 million gain from a change in the retiree health coverage plan in the United States, which was partially offset by the cost of reorganizing operations in Clermont-Ferrand and elsewhere in Europe, and by the impairment of capital improvements at plants in India and United States.

2.3.3 j) Cost of net debt

(in € millions)	2016	2015	Change
Cost of net debt	203	184	+19

At €203 million, the **cost of net debt** was up €19 million compared with 2015, primarily as a result of the following factors:

- net interest expense unchanged at €202 million, reflecting the combined impact of:
  - a €7 million increase due to the rise in average net debt to €1,294 million in 2016 from €1,235 million in 2015,
  - a €11 million decrease from the decline in the average gross interest rate on borrowings to 7.14% in 2016 from 7.52% in 2015,
  - a €4 million net increase from a variety of factors, including the negative carry, corresponding to the effect of investing cash and cash equivalents at a rate below the Group's average borrowing cost;
- a €7 million negative impact from exchange rate derivatives (€22 million less than in 2015) due mainly to the decline in euro interest rates against the Brazilian real and the Chinese yuan;
- a €3 million net decrease from other factors.

2.3.3 k) Other financial income and expenses

(in € millions)	2016	2015	Change
Other financial income and expenses	20	(30)	+50

Other financial income and expenses represented net income of €20 million, a €50 million year-on-year improvement that was led by the renegotiation of pension insurance contracts in Spain and the net proceeds from the sale of financial assets, partly offset by currency losses.

2.3.3 l) Income tax

(in € millions)	2016	2015	Change
Income before taxes	2,464	1,869	+595
Income tax	**(797)**	**(706)**	**+91**
Current tax	(665)	(616)	+49
Withholding tax	(84)	(48)	+36
Deferred tax	(48)	(42)	+6

Income tax expense rose by €91 million year-on-year to €797 million in 2016, due to the improvement in taxable income. The effective tax rate was 32.3%, *versus* 37.8% the year before. In 2015, the taxation of dividends exceptionally repatriated from Thailand had a 2-point impact on the effective tax rate for the year.

2.3.3 m) Consolidated net income and earnings per share

(in € millions)	2016	2015	Change
Net income	1,667	1,163	+504
As a % of net sales	*8.0%*	*5.5%*	*+2.5 pts*
▶ Attributable to shareholders of the Company	1,676	1,168	+508
▶ Attributable to non-controlling interests	(9)	(5)	-4
Earnings per share *(in €)*			
▶ Basic	9.21	6.28	+2.93
▶ Diluted	9.03	6.19	+2.84

Net income came to €1,667 million, or 8.0% of net sales, compared with the €1,163 million reported in 2015. The €504 million increase reflected the following factors:

- favorable factors:
  - the €115 million increase in operating income from recurring activities,
  - the €469 million improvement in operating income/(loss) from non-recurring activities, which swung to income of €99 million from a €370 million loss in 2015,
  - the improvement in other financial income and expenses, which represented income of €20 million instead of a €30 million expense in 2015,
  - the €2 million decrease in interest on employee benefit obligations during the year;
- unfavorable factors:
  - the €19 million increase in the cost of net debt,
  - the €22 million decrease in the Group's share of profit from associates, which swung to a €5 million loss from a €17 million profit in 2015,
  - the €91 million increase in income tax.

2.4 CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

(in € millions)	December 31, 2016	December 31, 2015	Total change	Currency effect	Movement
Goodwill	963	803	+160	+58	+102
Intangible assets	630	621	+8	+9	-1
Property, plant and equipment	11,053	10,532	+521	+279	+242
Non-current financial assets and other assets	323	410	-87	+11	-99
Investments in associates and joint ventures	309	309	+0	+2	-2
Deferred tax assets	1,191	1,259	-68	+8	-76
Non-current assets	**14,469**	**13,934**	**+535**	**+367**	**+168**
Inventories	4,480	4,289	+191	+111	+80
Trade receivables	3,042	2,743	+299	+43	+256
Current financial assets	633	363	+270	+5	+266
Other current assets	1,202	1,012	+189	+36	+153
Cash and cash equivalents	1,496	1,552	-56	+4	-60
Current assets	**10,853**	**9,959**	**+893**	**+198**	**+695**
TOTAL ASSETS	**25,322**	**23,893**	**+1,429**	**+567**	**+862**

LIABILITIES AND EQUITY

(in € millions)	December 31, 2016	December 31, 2015	Total change	Currency effect	Movement
Share capital	360	364	-4	+0	-4
Share premiums	3,024	3,222	-198	+0	-198
Reserves	7,215	5,903	+1,312	+316	+996
Non-controlling interests	47	53	-7	+1	-8
Equity	**10,646**	**9,542**	**+1,104**	**+317**	**+786**
Non-current financial liabilities	1,773	2,444	-671	+131	-802
Employee benefit obligations	4,763	4,888	-125	+1	-126
Provisions and other non-current liabilities	1,604	1,681	-76	+12	-88
Deferred tax liabilities	117	118	-1	+7	-8
Non-current liabilities	**8,257**	**9,131**	**-874**	**+150**	**-1,024**
Current financial liabilities	1,320	548	+772	-8	+780
Trade payables	2,364	2,260	+104	+31	+73
Reverse factoring contracts	339	94	+245	+16	+230
Other current liabilities	2,396	2,318	+78	+40	+39
Current liabilities	**6,419**	**5,220**	**+1,199**	**+78**	**+1,122**
TOTAL EQUITY AND LIABILITIES	**25,322**	**23,893**	**+1,429**	**+545**	**+884**

2.4.1 GOODWILL

Goodwill at December 31, 2016 reflected a €58 million positive currency effect, and a €102 million increase corresponding to goodwill recognized on the acquisition of BookaTable, Europe's leading online restaurant booking service.

2.4.2 INTANGIBLE ASSETS

Intangible assets amounted to €630 million, unchanged from December 31, 2015 excluding the €9 million increase from the currency effect.

2.4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stood at €11,053 million at December 31, 2016, a €242 million year-on-year increase before taking into account the €279 million positive currency effect. The increase was primarily led by the ongoing investment in new capacity in fast growing markets (the premium Passenger car segment, North America and Asia), and in products for the premium and entry-level segments. Additions to property, plant and equipment exceeded depreciation expense for the year.

2.4.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

Non-current financial assets and other assets stood at €323 million, a decline of €99 million (excluding the €11 million positive currency effect) that was mainly due to:

- a €57 million increase from fair value adjustments to available-for-sale financial assets;
- a €25 million increase in available-for-sale financial assets, primarily comprising the temporary recognition of Levorin, a Brazilian manufacturer of two-wheel tires acquired in December 2016, and Restaurantes.com, Spain's leading online restaurant booking site, acquired in December 2016;
- a €51 million decrease from fair value adjustments to derivative instruments;
- a €129 million decrease from other movements, including a €114 million decrease from the consolidation of BookaTable, whose shares had been recognized in available-for-sale financial assets at December 31, 2015.

2.4.5 INVESTMENTS IN ASSOCIATES

Excluding the €2 million positive translation adjustment, **investments in associates** declined by €2 million in 2016. This relative stability reflected the net impact of a €10 million decrease in dividends received and an €8 million increase from other items.

2.4.6 DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2016, the Group held a **net deferred tax asset of €1,074 million**, representing a decrease of €68 million compared with the amount reported at end-2015 (before taking into account the €1 million positive currency effect). The decline was mainly attributable to taxable timing differences (notably the €271 million gain from a change in the retiree health coverage plan in the United States).

2.4.7 TRADE WORKING CAPITAL REQUIREMENT

(in € millions)	December 31, 2016	December 31, 2015	Change	2016 (as a % of net sales)	2015 (as a % of net sales)
Inventories	4,480	4,289	+191	21.4%	20.2%
Trade receivables	3,042	2,743	+299	14.6%	12.9%
Trade payables	(2,364)	(2,260)	-104	11.3%	10.7%
Reverse factoring contracts	(339)	(94)	-245	1.6%	0.4%
WORKING CAPITAL REQUIREMENT	**4,819**	**4,678**	**+141**	**23.0%**	**22.1%**

Trade working capital requirement increased by €141 million compared with December 31, 2015, chiefly due to the €108 million positive currency effect. Excluding that impact, trade working capital requirement rose by €34 million over the year and stood at 23.0% of net sales, compared with 22.1% at year-end 2015.

Inventories amounted to €4,480 million, representing 21.4% of net sales for 2016. Excluding the currency effect, they rose in value by €80 million over the year, primarily on the 4% increase in finished goods tonnages and the 3% increase in raw materials and semi-finished tonnages, partly offset by the decline in raw materials prices.

Excluding translation adjustments, **trade receivables** rose by €256 million year-on-year to €3,042 million at December 31, 2016, primarily as a result of the surge in net sales in the final quarter. As a percentage of net sales, they rose by 1.7 points, to 14.6% from 12.9% a year earlier.

The growth in net sales, particularly in the final months of the year, also had the effect of increasing **trade payables**, which ended the year up €303 million at €2,703 million (including €339 million in reverse factoring contracts but before €47 million in translation adjustments).

2.4.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents declined by €60 million year-on-year, excluding the currency effect, to €1,496 million, reflecting the net impact of the following factors:

- increases from:
  - the €1,024 million in free cash flow, after the investment of €16 million in acquisitions (mainly all outstanding shares of Levorin and Restaurantes.com),
  - the €99 million in proceeds from the issue of new shares on the exercise of stock options, the granting of performance shares and purchases under the employee stock ownership plan;
- decreases from:
  - the payment of €538 million in dividends, including tax on the distribution of cash dividends,
  - the outlay of €301 million for share buybacks during the year,
  - the acquisition of cash management instruments for €287 million,
  - the €19 million in new debt taken on over the year,
  - other factors in an amount of €38 million.

2.4.9 EQUITY

Including €317 million in translation adjustments, **consolidated equity** increased by €1,104 million to €10,646 million at December 31, 2016 from the €9,542 million reported a year earlier, primarily as a result of the following factors:

- increases:
  - Recognition of the €1,830 million in comprehensive income for the year, including:
    - net income of €1,667 million,
    - the €202 million unfavorable impact of actuarial gains and losses, after deferred taxes,
    - €48 million in unrealized gains on available-for-sale financial assets, net of deferred tax,
    - the €317 million positive difference from translating foreign operations,
  - €99 million in proceeds from the issue of 1,503,749 new shares on the exercise of stock options, the granting of performance shares and purchases under the employee stock ownership plan,
  - €5 million in service costs on performance share-based payment plans,
  - other factors in an amount of €10 million ;
- decreases:
  - the payment of €538 million in dividends and other distributions,
  - the buyback and cancellation of 3,347,040 Michelin shares under the shareholder-approved plan, for €301 million,
  - the €1 million in non-controlling interests in the new share issues carried out by Group subsidiaries.

At December 31, 2016, the **share capital** of Compagnie Générale des Établissements Michelin stood at €360,132,242, comprising 180,066,121 shares corresponding to 241,849,548 voting rights.

2.4.10 NET DEBT

Net debt stood at €944 million at December 31, 2016, down €64 million year-on-year, primarily as a result of the following factors:

- €244 million in net cash flow, including:
  - €1,024 million in free cash flow generated during the year, less,
  - €780 million in dividends, net share buybacks and other outlays;
- €180 million in other factors increasing net debt, of which:
  - the €34 million interest expense on the zero-coupon convertible bonds,
  - €107 million in negative translation adjustments,
  - €42 million corresponding to new finance leases,
  - €3 million in other factors decreasing net debt.

CHANGES IN NET DEBT

(in € millions)	2016	2015
At January 1	**1,008**	**707**
Free cash flow [1]	-1,024	-653
Distributions and other	+780	+814
Interest expense on the zero-coupon convertible bonds	+34	+33
Translation adjustment	+107	+36
Other	+39	+71
AT DECEMBER 31	**944**	**1,008**
CHANGE	**-64**	**+301**

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

2.4.10 a) Gearing

Gearing declined to 9% at December 31, 2016, from 11% at year-end 2015, as the strong generation of free cash flow over the year more than offset the €301 million in share buybacks.

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 €1,604 million, *versus* €1,681 million at December 31, 2015. Excluding the currency effect, they declined by €88 million over the year, primarily due to the fulfillment of Group commitments undertaken as part of the reorganization and adaptation of its activities in Europe.

2.4.12 EMPLOYEE BENEFITS

CHANGE IN THE FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in € millions)	Pension plans	Other defined benefit plans	2016	2015
At January 1	**2,617**	**2,271**	**4,888**	**4,612**
Translation adjustments	(47)	48	1	137
Contributions paid to the funds	(74)	-	(74)	(240)
Benefits paid directly to the beneficiaries	(32)	(124)	(156)	(155)
Changes in scope of consolidation	8	(63)	(55)	(53)
Net cost recognized in operating expenses				
Current service cost	68	59	127	137
Actuarial (gains) or losses recognized on other long term benefit obligations	-	-	-	(5)
Past service cost arising from plan amendments	2	(264)	(262)	-
Past service cost arising from plan curtailments and settlements	(20)	1	(19)	2
Employee benefit costs included in provisions for the reorganization and adaptation of activities	(5)	(14)	(19)	(5)
Other items	(1)		(1)	-
Costs recognized below the line				
Net interest on the net defined benefit obligation (asset)	72	67	139	141
Costs recognized in other comprehensive income				
Actuarial (gains) or losses	337	40	377	118
Portion of unrecognized asset due to the application of the asset ceiling	(183)	-	(183)	199
NET OBLIGATION AT DECEMBER 31	**2,742**	**2,021**	**4,763**	**4,888**

The net defined benefit obligation recognized in the consolidated balance sheet at December 31, 2016 stood at €4,763 million, a decrease of €125 million that was led by the following main factors:

- the combined effects of applying the asset ceiling and IFRIC 14, for a net amount of €(183) million, primarily in relation to Canadian pension plans (€(179) million);
- actuarial losses of €377 million, mainly due to:
  - an actual rate of return on plan assets that was higher than the discount rate, for €(304) million,
  - the reduction in discount rates, for €745 million, and experience gains for €(66) million;
- changes in the measurement scope leading to a €55 million decrease in the net obligation, mainly stemming from the conversion of two defined benefit plans in Spain into defined contribution plans;
- a €262 million decrease from plan amendments, curtailments or settlements, primarily consisting of the €271 million gain on a change in the retiree health coverage plan in the United States.

The amount recognized in the income statement in respect of defined benefit plans represented a gain of €35 million in 2016, *versus* a cost of €270 million in 2015.

The amount recognized in operating income came to €174 million, compared to a cost of €129 million recognized in operating expenses in 2015. Net interest on the net defined benefit obligation, reported below the line, represented €139 million in 2016, *versus* €141 million in 2015. The €303 million year-on-year decline in the amount recognized in operating income and expenses in 2016 was primarily led by the €271 million change in the retiree health coverage plan in the United States.

The cost recognized in respect of defined contribution plans amounted to €213 million in 2016, up €26 million year-on-year, mainly due to increases in plan costs in North America.

Total payments under defined benefit plans amounted to €230 million in 2016, *versus* €395 million the year before, including:

- contributions paid to fund management institutions for €74 million, down €166 million from €240 million in 2015, mainly due to the non-payment during the year of €138 million in pension fund front-loading contributions in the United Kingdom;
- benefits paid directly to employees for €156 million, *versus* €155 million in 2015.

Total payments under defined contribution plans amounted to €213 million in 2016, *versus* €187 million the previous year.

Actuarial losses recorded in 2016 in the amount of €194 million corresponded to:

- €681 million in actuarial losses on defined benefit obligations, resulting mainly from reductions in discount rates;
- €304 million in actuarial gains on plan assets, due to an actual rate of return on plan assets that was higher than the discount rate;
- €183 million in actuarial gains arising from the application of the asset ceiling, mainly for Canadian pension plans.

2.5 CONSOLIDATED CASH FLOW STATEMENT REVIEW

2.5.1 CASH FLOWS FROM OPERATING ACTIVITIES

(in € millions)	2016	2015	Change
EBITDA from recurring activities	**4,084**	**3,934**	**150**
Change in inventory	(83)	60	(143)
Change in trade receivables and prepayments	(319)	(66)	(253)
Change in trade payables and prepayments	289	34	255
Costs related to the reorganization and adaptation of activities	(99)	(96)	(3)
Changes in provisions	(107)	(270)	163
Tax and interest paid	(911)	(897)	(14)
Other operating working capital	(89)	(4)	(85)
CASH FLOWS FROM OPERATING ACTIVITIES	**2,765**	**2,695**	**70**

At €4,084 million, **EBITDA** from recurring activities was up €150 million year-on-year.

Cash flows from operating activities climbed €70 million, to €2,765 million from €2,695 million, primarily as a result of:

- the negative impact of the increase in trade working capital requirement, which rose by €113 million in 2016 after declining by €28 million in 2015, as a result of:
  - the €83 million increase in inventories, *versus* a €60 million decrease in 2015, primarily due to the rise in finished product, semi-finished product and raw materials tonnages,
  - the €319 million increase in trade receivables, compared to a €66 million increase in 2015, reflecting in particular the surge in net sales in the final quarter of the year,
  - the €289 million decline in trade payables, compared to a €34 million decrease in 2015, primarily due to the €136 million increase in payables covered by reverse factoring contracts;
- the increase in costs related to the reorganization and adaptation of activities to €99 million from €96 million in 2015;
- the increase in tax and interest paid during the year, to €911 million from €897 million in 2015.

2.5.2 CAPITAL EXPENDITURE

(in € millions)	2016	2015	2016/2015	2016 *(as a % of net sales)*	2015 *(as a % of net sales)*
Gross purchases of intangible assets and PP&E	**1,811**	**1,804**	**+7**	**8.7%**	**8.5%**
Investment grants received and change in capital expenditure payables	6	(30)	+36	0.0%	0.1%
Proceeds from sales of intangible assets and PP&E	(91)	(43)	-48	0.4%	0.2%
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**1,725**	**1,730**	**-5**	**8.3%**	**8.2%**

Additions to **intangible assets and property, plant and equipment** amounted to €1,811 million during the year, compared with €1,804 million in 2015. As a result of this increase, total capital expenditure represented 8.7% of net sales *versus* 8.5% in 2015. Growth investments accounted for €826 million of the total for the year.

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

Passenger car and Light truck tires:

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

Truck tires:

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

Specialty products:

- Agricultural tires.

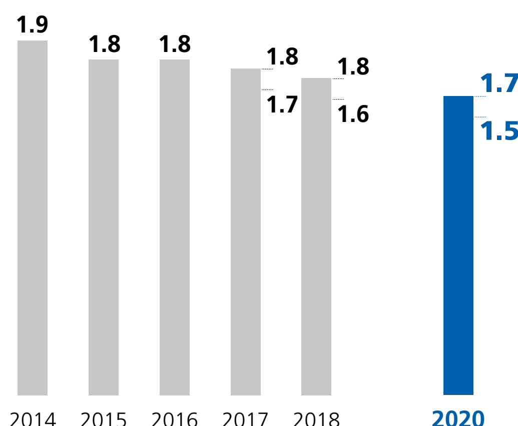
In addition, Michelin is actively investing in the following areas:

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

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

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

(in € billions)



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

2.5.3 AVAILABLE CASH FLOW AND FREE CASH FLOW

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

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

(in € millions)	2016	2015
Cash flows from operating activities	**2,765**	**2,695**
Routine capital expenditure (maintenance, IT, dealerships, etc.)	(985)	(996)
AVAILABLE CASH FLOW	**1,780**	**1,699**
Growth investments	(826)	(808)
Acquisitions	(16)	(312)
Other	86	74
FREE CASH FLOW	**1,024**	**653**

After deducting €985 million in routine capital expenditure, **available cash flow** was strongly positive in 2016, at €1,780 million.

Free cash flow amounted to €1,024 million thanks notably to available cash flow, after committing €826 million to growth investments and €16 million to acquisitions (primarily Levorin and Restaurantes.com).

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 adjusted for acquisitions and the impact of raw materials prices on trade receivables, trade payables and inventory, and end-of-year volumes on working capital requirement.

(in € millions)	2016	2015
FREE CASH FLOW	**1,024**	**653**
Acquisitions	16	312
FREE CASH FLOW EXCLUDING ACQUISITIONS & DISPOSALS	**1,040**	**965**
Impact of raw materials costs on working capital requirement	(79)	(132)
End-of-year volumes on working capital requirement	nm	nm
STRUCTURAL FREE CASH FLOW	**961**	**833**

Note that all of the €193 million in interest on the zero-coupon Oceane 2017 convertible bonds was paid in January 2017 and will be adjusted when calculating the amount of structural free cash flow for 2017.

2.6 RETURN ON CAPITAL EMPLOYED (ROCE)

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

ROCE is measured as:

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

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

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

The Group's weighted average cost of capital (WACC) is based on a theoretical balance between equity and debt. The rates used are determined (i) for equity capital, based on the yield on Michelin shares expected by the stock markets; and (ii) for debt capital, on the market risk-free rate plus the risk premium applied to Michelin by the markets, as adjusted for the tax effect. Based on this calculation method, 2016 WACC remained below the 9% target the Group uses to assess its value creation.

(in € millions)	2016	2015
Operating income from recurring activities	2,692	2,577
Average standard income tax rate used for ROCE calculation	31%	31%
Net operating profit after tax (NOPAT)	**1,857**	**1,778**
Intangible assets and property, plant and equipment	12,646	11,957
Loans and deposits	70	77
Investments in associates and joint ventures	309	308
Total non-current financial assets	13,025	12,342
Working capital requirement	2,873	2,574
Economic assets at December 31	15,898	14,916
Average economic assets	**15,407**	**14,613**
Consolidated ROCE	**12.1%**	**12.2%**
Passenger car/Light truck tires & related distribution ROCE	12.9%	12.2%
Truck tires & related distribution ROCE	8.1%	9.4%
Specialty businesses ROCE	17.9%	18.9%

In light of the acquisition strategy led by the Group in recent years, Michelin has decided to refine its objective as part of its 2020 strategic plan to deliver an ROCE of at least 15% at constant scope of consolidation. Accordingly, operating ROCE at constant scope of consolidation excludes goodwill.

Operating ROCE as described above is presented below for previous years:

	2016	2015	2014	2013	2012
Operating ROCE	12.8%	12.9%	11.6%	12.3%	13.2%

2.7 TREND INFORMATION

2.7.1 OUTLOOK

In 2017, tire markets are expected to track the trends observed in late 2016, in particular with the upturn in mining tire sales. The year will also see an increase in raw materials costs, in response to which Michelin will agilely manage prices so as to hold unit margins firm in businesses not subject to indexation clauses.

Based on average January prices, raw materials could have up to an approximate €900 million unfavorable impact over the full year.

In this market environment, Michelin's objectives for 2017 are volume growth in line with global market trends, operating income from recurring activities equal to or exceeding the 2016 figure at constant exchange rates, and structural free cash flow of more than €900 million.

2.7.2 PROFIT FORECASTS OR ESTIMATES

No precise earnings or operating margin forecasts or estimates have been issued for 2017.

In light of the trend information provided in section 2.7.1, any previously issued targets for 2017 do not take into account the current economic environment and are not achievable this year.

2.7.3 RECENT EVENTS

On January 31, 2017, Michelin North America announced a broad price increase of up to 8%, for its Passenger car and Light truck, Truck, Earthmover, Handling equipment, Agricultural and Two-Wheel segments across all of the Company's brands in the United States, Canada and Mexico. The increase will be implemented separately by individual segments, and customers will be notified directly with specific details. This increase represents Michelin's first since 2012, comprising the net effects of raw material prices as well as the Company's market-leading technology enhancements and innovations and other market conditions.

On February 3, 2017, Michelin announced that in response to the increase in the cost of natural rubber, butadiene, oil and other raw materials, it plans to raise the price of its tires in the European replacement market. The increase, which may be up to 8% depending on the tires, will take effect by the end of April in the Passenger car and Light truck, Truck, Earthmover, Agricultural and Two-Wheel segments. Depending on commodity price trends, the Group may adjust the price positioning of its products.

2.8 OPERATING HIGHLIGHTS

2.8.1 STRATEGY – PARTNERSHIP – INVESTMENTS

Michelin is named one of the best 10 corporate brands in Europe

(February 19, 2016) – Michelin is delighted to be ranked amongst the top 10 best companies in Europe by the renowned "Best Brands" study after an online survey questioned 5,000 people in Germany, England, France, Italy and Spain.

Michelin: a competitiveness plan over four years

(June 6, 2016 – To achieve our goal of savings of €1.2 billion between 2017 and 2020, we are accelerating our efforts in three areas: industrial costs, overhead costs and the costs of materials consumed.

A new high-end touring tire production factory in Mexico

(July 4, 2016) – To meet our commitment to manufacturing tires as close as possible to where they are sold, we will soon be opening our 21st production site in the Americas. The construction of this plant represents an investment of €450 million and it will be in León, central Mexico, in a region where there are 18 other major car manufacturer production facilities.

A strategic partnership for the Michelin Aircraft Product Line

(July 12, 2016) – Aviall, a Boeing subsidiary dedicated to the supply of spare parts, and Michelin will join forces to better meet the needs of airlines and airport services operators. Thanks to this agreement, our Aircraft Product Line will now be able to use Aviall's international distribution network.

Acquisition of Levorin: Michelin gains strength in Brazil

(August 26, 2016) – The two-wheel tire market is booming in Brazil. To meet the market's specific requirements, we will be offering a wide, adapted range of tires thanks to the acquisition of Levorin (€135 million in annual turnover and 2,000 employees), a local two-wheel tire specialist.

New employee share scheme

(September 15, 2016) – From September 15 to October 3, 2016, Michelin Group employees could subscribe, with preferential conditions, to shares issued by way of a capital increase reserved to them. 52,099 employees subscribed and 657,366 new shares were generated.

Urbalad: innovation accelerator

(September 16, 2016) – In the heart of the Ladoux (France) Technology Center, the new Campus demonstrates our ambition to be the most innovative company in our sector. This 70,000 square-meter space designed to encourage horizontal collaboration between businesses and open innovation will be a lever to stimulate sustainable mobility development, in line with our customer expectations.

Success for a €93 million bond issue

(September 28, 2016) – Michelin successfully placed €93 million in bonds maturing in 2045 and with a coupon of 3.25%. This offer's very favorable reception confirms market confidence in our Group's credit.

OCEANES bonds mature

(December 1, 2016) – OCEANES bonds, issued March 21, 2007 matured on January 1, 2017. The redemption price per OCEANE was €139.57.

Capital reduction and share buyback

(December 15, 2016) – Compagnie Générale des Établissements Michelin continued its share buyback program in 2016, with the acquisition of Group shares for €301 million over the year. The 3,347,040 treasury shares, representing 1.8% of the capital, were canceled as of December 15, 2016.

Acquisition of Restaurantes.com: Easy to book a table in Spain

(December 20, 2016) – In January 2016, Michelin had already established its European leadership of online restaurant reservations with the purchase of BookaTable, based in London. Today we are strengthening this position with the acquisition of Restaurantes.com, market leader in Spain: 5,000 restaurants and 700,000 covers reserved in 2015.

Success for the non-dilutive convertible bond issue from Michelin

(January 5, 2017) – Michelin successfully proceeded with the placement of a non-dilutive convertible bond maturing in 2022 for a nominal sum of USD500 million. The bonds, only redeemable in cash, will not involve the issue of new shares or the delivery of existing Michelin shares.

2.8.2 PRODUCTS – INNOVATION – SERVICES

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

MICHELIN Pilot Sport4: a new tire generation

(January 12, 2016) – On the back of analysis collected from 3,000 private vehicles throughout Europe and partnerships with our competition manufacturers, the MICHELIN Pilot Sport24 has become the new benchmark tire for premium and sports sedans. It is also the first MICHELIN tire available for online purchase directly from Michelin.

Paris Motor Show: MICHELIN PS4S and CrossClimate+

(September 29, 2016) – At the Paris Motor Show, Michelin presented two new tires. MICHELIN CrossClimate+ continues to merge the best summer and winter tire technologies whilst offering lasting performance. MICHELIN PILOT SPORT 4S, the new ultra high performing tire is among the first tires in its category to have the letter A (for the 19-inch model) in braking distance on wet surfaces.

2.8.2 b) Truck tires and related distribution

MICHELIN X® WORKS™: an offer to build the future

(April 18, 2016) – In its offer to manufacturers, Michelin has three new MICHELIN X® WORKS™ tires which will help improve productivity. This offer is accompanied by services like retreading and a damage warranty, for more peace of mind.

MICHELIN X® LINE™ Energy™: the AAA-scored heavy truck tire

(September 21, 2016) – Saving fuel has become a priority for long-distance transporters. The MICHELIN X® LINE™ Energy™ range of heavy truck tires, the first to be awarded the AAA score in roll resistance, helps save up to a liter of fuel every 100 kilometers with no compromise on the tire lifespan!

MICHELIN X® GUARD™: the sun rises in the East

(December 21, 2016) – Asian markets are asking for high performance and solid tires. In one word: premium, but at competitive prices because of the strong local competition. To solve this difficult equation, we are today offering Chinese and Indian carriers the MICHELIN X® GUARD™ tire range for trucks which takes advantage of all the latest technological innovations, like 3D printing.

2.8.2 c) Specialty businesses

/ Earthmover tires

MICHELIN XDR3 tire: a mine of innovation

(October 20, 2016) – Mines are a particularly hostile environment, especially for tires. The new MICHELIN XDR3 pushes the boundaries of what a tire can withstand thanks to innovations in its structure and tread. It is available in four types of rubber to adapt to the mines operated.

/ Agricultural tires

EXOTIC SYSTEMS: Michelin invests in agricultural innovation

(October 5, 2016) – Farmers are increasingly using innovations in smart digital technology. To support them in this area, today both Limagrain and Michelin are acquiring a 20% stake in the capital of a start-up called Exotic Systems, specializing in smart objects specifically designed for the farming world.

Adaptable pressure: a gold medal

(November 24, 2016) – Farmers need tires that perform as well in the field as they do on the road. Thanks to our two-in-one technology, it is now easy to adapt the pressure and therefore the tread of the tire on the ground. An invention rewarded with a gold medal for innovation at the 2017 International Trade Fair for Agricultural Machines, in Paris.

Kubota: Michelin tires for the Japanese tractor manufacturer

(December 16, 2016) – Since 2013, the Japanese manufacturer Kubota has had a factory in northern France capable of producing 3,000 tractors a year. It has just awarded Michelin the title of "supplier of excellence" which highlights the quality of collaboration between our two teams.

/ Two-wheel tires

MICHELIN Power RS: competition quality available to all bikers

(October 20, 2016) – Inspired by competition tires, the new MICHELIN Power RS motorbike range is for all bikes, from 300cc to Supersport models. Using a unique combination of rubbers and an innovative casing, this tire is becoming the market benchmark in terms of dry grip, handling and stability.

MICHELIN POWER squares up

(November 28, 2016) – Launched in spring 2016, the new MICHELIN POWER high performance range for road bikes boasts the latest technological advances. It dazzles with unequaled performance. Since then, it has been joined by a new tire, the MICHELIN POWER All Season, capable of coping with all weather conditions.

/ Aircraft tires

MICHELIN NZG radial technology chosen by Boeing

(February 8, 2016) – In July 2016, Michelin became the sole tire supplier for the main landing gear for several Boeing 777 models. The B777-300ER long-haul plane is now equipped with the latest generation MICHELIN tires with NZG radial technology.

Bombardier chooses Michelin for its new aircraft

(July 18, 2016) – Our NZG radial technology continues to delight aircraft manufacturers. After Boeing and Airbus, Bombardier has exclusively selected Michelin tires for its new model, the CS100. This aircraft is the first to obtain the ISO 14025 standard, the highest environmental certification.

/ Michelin Travel Partner

Tennis: Michelin creates a unique sole for Babolat

(March 8, 2016) – The new Babolat JET tennis shoes have an exclusive MICHELIN sole adapted to the quick changes in direction so specific to this sport, are long-lasting and have excellent grip. With its innovative sole, the Babolat JET tennis shoe is one of the lightest on the market.

New for the 2017 MICHELIN guides

(July 21, 2016) – For the first edition of Singapore's MICHELIN guide, our inspectors tirelessly walked the streets, giving star billing to typical street food. They found 29 Michelin-starred restaurants and one three-star restaurant.

Near Lake Michigan, the new edition of the Chicago MICHELIN guide awarded six new stars, including two two-star restaurants.

2.8.3 SUSTAINABLE DEVELOPMENT

The PSA group gives Michelin its first "Social and Environmental Responsibility" award

(June 2, 2016) – On May 24, the PSA group gave Michelin the Social and Environmental Trophy at its 12th Supplier Trophy ceremony. This award recognizes environmental and safety performance in MICHELIN products and services and strengthens the connections between our two groups in our commitment to sustainable mobility.

ENGIE joins Michelin as Sybmio FCell shareholders

(September 19, 2016) – By joining Michelin as a shareholder of Symbio FCell, European specialist in fuel cells, ENGIE is providing its expertise in hydrogen production and distribution. This technology, used to improve battery life of electric vehicles, is one of the future's sustainable mobility solutions.

Michelin recognized for its climate actions

(October 25, 2016) – Every year CDP, a non-profit organization, assesses the environmental performance of thousands of companies, noting the best performances in the reduction of CO_2 emissions, and the management of risks and opportunities associated with climate change. For the first time, tire manufacturers appeared on the Climate A List in 2016: Michelin and Yokohama.

COP22: Michelin's determination

(November 7, 2016) – A pioneer of sustainable mobility with the creation of the first low-consumption tire in 1992, Michelin has already contributed a great deal to Paris' COP21 transport commitment. COP22 in Marrakesh was for us an opportunity to reaffirm our motivation for more efficient and eco-friendly mobility and our determination to translate this into concrete actions today.

Circular economy: perfect circles for Michelin

(December 6, 2016) – The principle of the circular economy feeds our strategy for sustainable growth. This is what we call the 4R approach: Reduce, Reuse, Recycle and Renew, which applies to all our products and services. This approach was recognized by the ADEME (the French Agency for the Environment and Energy Management) with the Grand Prize in Circular Economy.

Michelin Challenge Bibendum: from ambition to action!

(December 13, 2016) – In twenty years and twelve editions, Michelin Challenge Bibendum has become the world summit for sustainable mobility, celebrated as such by the entire transport sector. For its 13th edition, it is becoming Movin'on and will be held from June 13-15, 2017 in Montreal, the great Canadian metropolis, a pioneer in sustainable urban mobility, host city and partner to the event.

2.8.4 COMPETITION

Formula-E: MICHELIN's Pilot Sport EV tire at the first e-Prix in Paris

(April 22, 2016) – The first Paris e-Prix was held on April 24, a race which combines Michelin's passion for driving sports and the importance of alternative energies; it was a very special moment for all of the Formula E teams. In cool and dry weather, the MICHELIN Pilot Sport EV tires certainly rose to the occasion.

The 24 Hours of Le Mans: an extreme sport laboratory

(June 16, 2016) – The 84th edition of the 24 Hours of Le Mans race took place on June 18 and 19, 2016. This unique and legendary race pushes drivers and their teams to their very limits. A philosophy which every year turns this endurance race into a genuine laboratory for future automobile innovations.

WRC: 300th victory

(October 20, 2016) – With their Spanish rally win, Sébastien Ogier and Julien Ingrassia could celebrate their title as 2016 World Champions. Michelin also had something to celebrate. At this 555th rally in the history of this championship launched in 1973, our teams won their 300th victory!

MotoGP™: the comeback!

(December 8, 2016) – After seven years away, an eternity at this level of competition, Michelin made its MotoGP™ comeback in 2016. Our teams worked their socks off to provide drivers with an ultra high performance tire and win back their confidence. This great human adventure had a fantastic outcome on the first Grand Prix of the season in Losail (Qatar) with a new record race lap.

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. Our geographic reach and leadership position in the global tire market, as well as the diversity of our business activities, mean that we are 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, which is continuously updated to reflect the latest regulatory changes and risk management best practices, is described in detail in the report of the Chairman of the Supervisory Board on the Company's internal control and risk management procedures, on page 125 below.

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

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

Insurance coverage

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

/ High-frequency risks

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

- The property & casualty/business interruption insurance program provides combined total coverage of €1.5 billion, except for natural disasters or business interruption due to machinery breakdown for which the coverage limit may be lower.
- The liability insurance program comprises three key coverage areas:
  - product liability for the manufacturing companies;
  - general liability, offering direct coverage in European Union countries and umbrella coverage in excess of local cover in all other countries;
  - environmental liability coverage for all Group companies.

/ Medium-frequency risks

To reduce costs by pooling medium-frequency risks, the Group has set up a wholly-owned 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.

Aggregate premiums amounted to €65.7 million in 2016, a saving of over €2 million on 2015, including premiums paid to the captive insurance and reinsurance company.

Crisis management

A second cross-functional process concerns crisis management.

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

2.9.2 RISKS RELATED TO THE GROUP'S OPERATIONS AND STRATEGY

2.9.2 a) Market risk

/ Risk factors

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

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

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

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

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

/ Risk management response

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

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

2.9.2 b) Innovation risk

/ Risk factors

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

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

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

/ Risk management response

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

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

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

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

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

2.9.2 c) Competition risk

/ Risk factors

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

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

/ Risk management response

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

Lastly, the Group is stepping up its commitment to improve competitiveness *via* a new plan described on page 18.

* *Source: Group estimate.*

2.9.2 d) Risk of default by dealers

/ Risk factors

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

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

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

/ Risk management response

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

2.9.2 e) Raw materials risk

/ Risk factors

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

Raw materials, which represented 35% of consolidated purchases in 2016, 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 2016 production volumes, the sensitivity of cash purchasing outlays to fluctuations in natural rubber and oil prices is as follows:

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

Raw materials costs for 2014, 2015 and 2016	2014	2015	2016
In € millions	4,958	4,711	4,316
As a % of net sales	25.4%	22.2%	20.6%
Of which:			
Natural rubber	28%	26%	25%
Synthetic rubber	25%	25%	25%
Reinforcing agents	19%	18%	17%
Chemicals	13%	15%	15%
Metal cables	9%	10%	10%
Textiles	6%	7%	8%

/ 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 prices and changes in raw materials costs. In 2016, the €545 million positive impact from the decline in the cost of raw materials used in production was partly offset by a €438 million negative price effect, resulting in a net positive impact of €107 million.

Margins on certain fixed-price sales contracts have been protected using short-term futures. At December 31, 2016, these futures had a positive fair value of €4 million, recorded in assets. This compares with the €4.3 billion cost of raw materials used in production in 2016 (see note 16.3 to the consolidated financial statements on page 239).

2.9.2 f) Reputational risk

/ Risk factors

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

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

/ Risk management response

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

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

The crisis management system also helps control reputational risk.

2.9.3 OPERATIONAL RISKS

2.9.3 a) Ethical risk

/ Risk factors

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

/ Risk management response

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

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

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

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

2.9.3 b) Health and safety risks

/ Risk factors

Michelin directly employs 111,708 people worldwide and also uses temporary employment agencies and subcontractors. These people work in a very wide variety of environments, primarily in industrial facilities – where they use machines and equipment that range from manual to fully automated, depending on the type of product manufactured and the age of the machines – but also in logistics operations and dealerships.

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

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

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

/ Risk management response

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

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

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

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

For further information on health and safety risks, please refer to section 6.1.3 on page 168 below, as well as the 2016 Annual and Sustainable Development Report.

2.9.3 c) Environmental risk

/ Risk factors

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

Tire production processes use energy, electricity and water as well as steam generated internally in gas, coal or oil-fired boilers, which means that they can also potentially pose a risk to the environment. The land and sea transport both of semi-finished products among the various plants and of manufactured products to dealerships in 170 countries across the globe gives rise to CO2 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 2016, the review showed that the Michelin Environmental Footprint indicator was 43% lower than in 2005.

For further information on environmental risks, please refer to section 6.3 on page 186, as well as the 2016 Annual and Sustainable Development Report.

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

/ Risk factors

The tire is an important vehicle safety component. Michelin's brand image is inextricably linked to the innovative features, quality, reliability and safety of its products, which are also an important factor in vehicle safety. Every year, we manufacture nearly 187 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 cwonditions (temperature and humidity), from the quality and type of pavement (motorways, highways and runways), from the unusually extreme use of our tires in some geographic regions (in terms of load or speed), from counterfeit tires that do not offer customers the same safety guarantees, and from highly specific uses that push the boundaries of current technological capabilities.

/ Risk management response

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

2.9.3 e) Accounting and financial risks

Organization of financial risk management

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

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

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

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

Liquidity risk

/ Risk factors

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

/ Risk management response

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

- 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, 2016 no such clause featured in the Group's loan agreements. With regard to default and acceleration clauses, there is only a very low probability that the related triggering events will actually occur, and any potential impact on the Group's financial position would not be material. For further information on the Group's liquidity risk, please refer to note 4.2.1 to the 2016 consolidated financial statements on page 224.

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) that are denominated in foreign currencies. It corresponds to the risk of exchange rate changes between the date when these monetary assets and liabilities are recorded in the accounts and the date when they are recovered or settled.

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

/ Risk management response

Foreign currency transaction risk

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

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

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

Foreign currency translation risk

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

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

For further information on the Group's currency risk, please refer to note 4.2.2 to the 2016 consolidated financial statements on page 224.

Interest rate risk

/ Risk factors

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

/ Risk management response

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

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

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

For further information on the Group's interest rate risk, please refer to note 4.2.3 to the 2016 consolidated financial statements on page 225.

Equity risk

/ Risk factors

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

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

/ Risk management response

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

For further information on the Group's equity risk see note 4.2.4 to the 2016 consolidated financial statements on page 225.

Counterparty risk

/ Risk factors

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

/ Risk management response

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

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

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

For further information on the Group's counterparty risk, please refer to note 4.2.5 to the 2016 consolidated financial statements on page 226.

Credit risk

/ Risk factors

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

/ Risk management response

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

For further information on our major customers, please refer to note 4.2.6 to the 2016 consolidated financial statements on page 226.

2.9.3 f) Business interruption risk

/ Risk factors

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

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

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

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

/ Risk management response

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

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

2.9.3 g) Supply continuity risk

/ Risk factors

Every year Michelin purchases nearly €12 billion worth of goods and services from around 60,000 different suppliers. These purchases may be broken down into three families:

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

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

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

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

/ Risk management response

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

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

2.9.3 h) Property security risk

/ Risk factors

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

/ Risk management response

To manage this risk, Michelin developed the proprietary High Protected Risk Michelin (HPRM) standard, which covers prevention, protection, early detection and rapid response. A corporate team of risk management experts oversees a network of on-site correspondents to ensure that the standard is properly applied. In addition, existing facilities are currently being upgraded to HPRM standards. All new projects are audited by an Environmental and Prevention expert for

HPRM-compliance using a proprietary application. Feedback and best practices are systematically shared across the organization and formally documented. Thanks to effective application of this standard, in the past decade no fire or other industrial accident at any of Michelin's sites worldwide has caused serious injury to employees, damage to Group or third-party assets, or an adverse environmental impact.

2.9.3 i) Knowledge retention risk

/ Risk factors

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

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

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

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

/ Risk management response

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

2.9.3 j) Human resources risk

/ Risk factors

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

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

/ Risk management response

To refresh and sustainably nurture its capabilities, Michelin has undertaken a large number of initiatives to attract the best talent and ensure the effective transfer of knowledge and expertise among employees. In addition, mobility among units, job-tracks and countries is strongly encouraged. The Group has a network of experienced in-house trainers. In 2016, the percentage of training hours per total hours worked was 3.3%.

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 €11.3 billion as of December 31, 2016, including €8.2 billion in partially or fully funded commitments. As of the same date, the related plan assets totaled €6.5 billion.

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

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

2.9.3 k) Legal and tax risks

/ Risk factors

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

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

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

/ Risk management response

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

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

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

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

2.9.3 l) Information technology and information systems risk

/ Risk factors

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

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

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

/ Risk management response

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

2.9.3 m) Project management risk

/ Risk factors

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

There are three types of major projects.

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

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

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

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

/ Risk management response

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

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

2.10 MATERIAL CONTRACTS

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

2.11 CHANGE OF CONTROL

Because the Company is organized as a *société en commandite par actions* (partnership limited by shares), any shareholder gaining control of the capital and corresponding voting rights could not exercise control over the Company without the approval, in accordance with the bylaws, of the Non-Managing General Partner and/or, as the case may be, all of the General Partners and/or the Supervisory Board, which would be required to make the following decisions:

- election of new Managing Partners;
- amendment of the bylaws;
- election of new General Partners.

2.12 INFORMATION CONCERNING SUPPLIER PAYMENTS

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

	Past due		Due within 60 days		Due beyond 60 days		Total trade payables	
Trade payables *(including tax, in € thousands)*	**December 31, 2016**	**December 31, 2016**	**December 31, 2016**	**December 31, 2016**	**December 31, 2016**	**December 31, 2016**	**December 31, 2016**	**December 31, 2016**
Foreign suppliers								
Group	0	0	9,879	16,648	0	0	9,879	16,648
Non-Group	0	0	661	1,517	0	0	661	1,517
French suppliers								
Group	0	0	130,181	118,948	0	0	130,181	118,948
Non-Group	0	0	188	375	0	0	188	375
TOTAL	**0**	**0**	**140,909**	**137,488**	**0**	**0**	**140,909**	**137,488**

Trade payables totalled €141 million at December 31, 2016 and €137 million at December 31, 2015. They are reported under "Other liabilities" which, including other payables, amounted to €390 million at year-end 2016 and €319 million at year-end 2015.

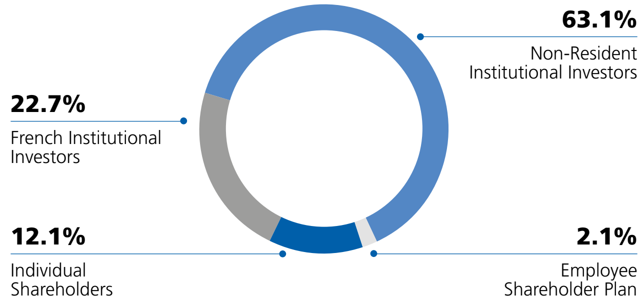
2.13 MATERIAL CHANGES IN THE COMPANY'S BUSINESS OR FINANCIAL POSITION

There were no material changes in the Company's business or financial position between February 14, 2017 (the date of the Statutory Auditors' Report) and the date on which this Registration Document was filed with the *Autorité des marchés financiers.*

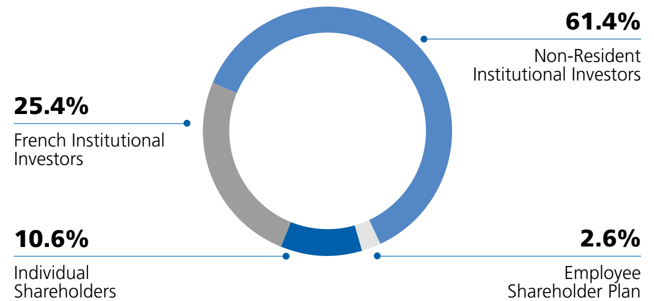
2.14 OWNERSHIP STRUCTURE AND VOTING RIGHTS

At December 31, 2016:
- Share capital: €360,132,242;
- Shares outstanding: 180,066,121, all fully paid up;
- Voting rights outstanding: 241,849,548.

SHARE OWNERSHIP
(at December 31, 2016)



VOTING RIGHTS
(at December 31, 2016)



Shares held in the same name for at least four years carry double voting rights.

At December 31, 2016, 180,066,121 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:
- on August 18, 2016, Franklin Resources, Inc. held 6.7% of the capital and 5.0% of the voting rights;
- on February 27, 2017, BlackRock Inc. held 5.10% of the capital and 3.80% of the voting rights;
- on April 4, 2016, Mage Invest held 3.80% of the capital and 5.10% 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.

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

The 2016 social, societal and environmental information disclosed in compliance with Article 225 of the Grenelle 2 Act, as well as the Auditors' review report, may be found in section 6, "2016 Employee, Societal and Environmental Information".

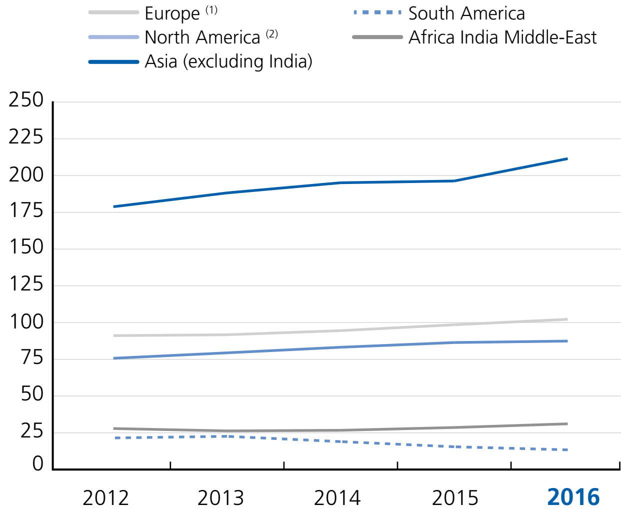
3 / FINANCIAL HIGHLIGHTS

3.1	**MARKETS**	**74**
3.2	**SALES**	**76**
3.3	**EARNINGS**	**78**
3.4	**REPORTING SEGMENTS**	**80**
3.4.1	Passenger Car and Light Truck Tires and Related Distribution	80
3.4.2	Truck Tires and Related Distribution	81
3.4.3	Specialty Businesses	82
3.5	**COST STRUCTURE**	**83**
3.6	**CASH FLOW AND BALANCE SHEET**	**88**
3.7	**CONSOLIDATED KEY FIGURES AND RATIOS**	**92**

3.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

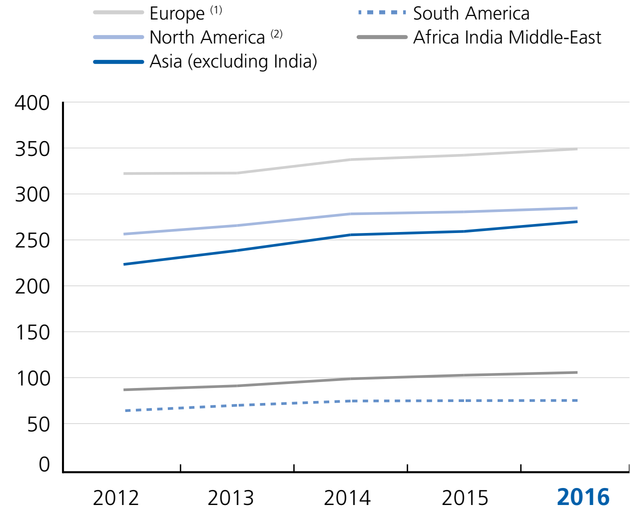
(in millions of tires)



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

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

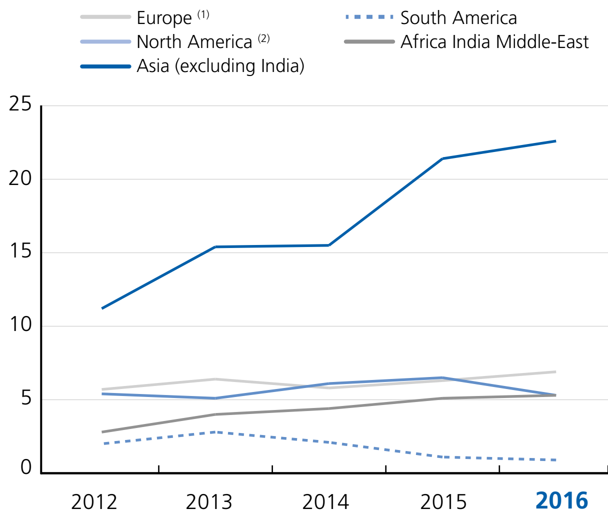
(in millions of tires)



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

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

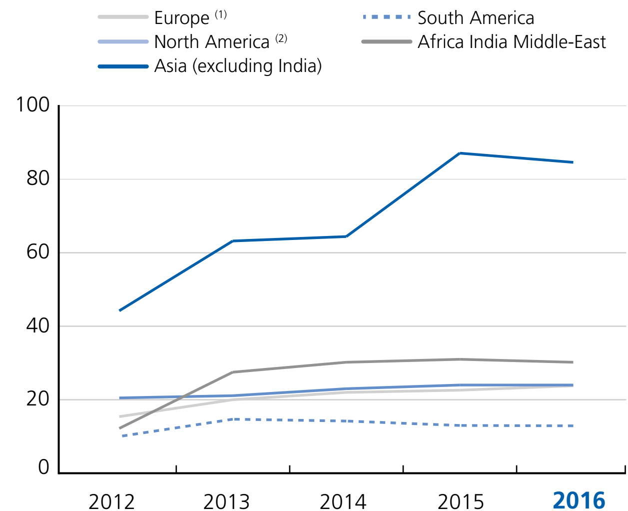
(in millions of new tires)



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

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

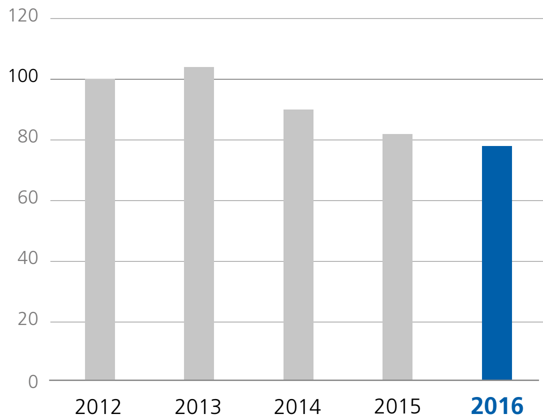
(in millions of new tires)



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

THE EARTHMOVER MINING TIRE MARKET

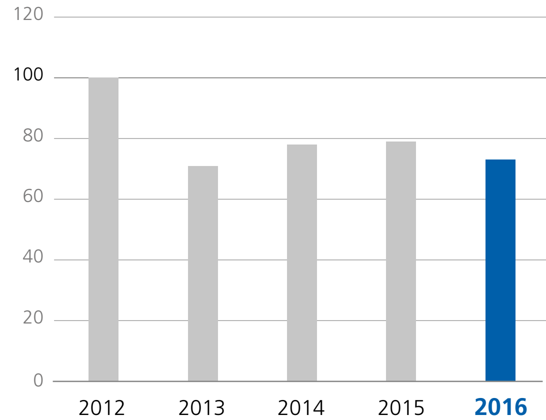
(base 100 in 2012 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

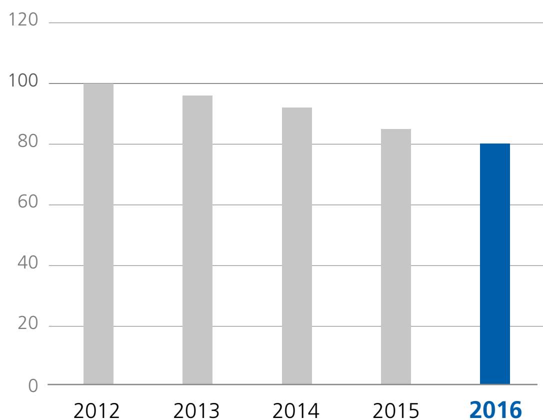
(base 100 in 2012 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

(base 100 in 2012 in number of tires in Europe and North America)

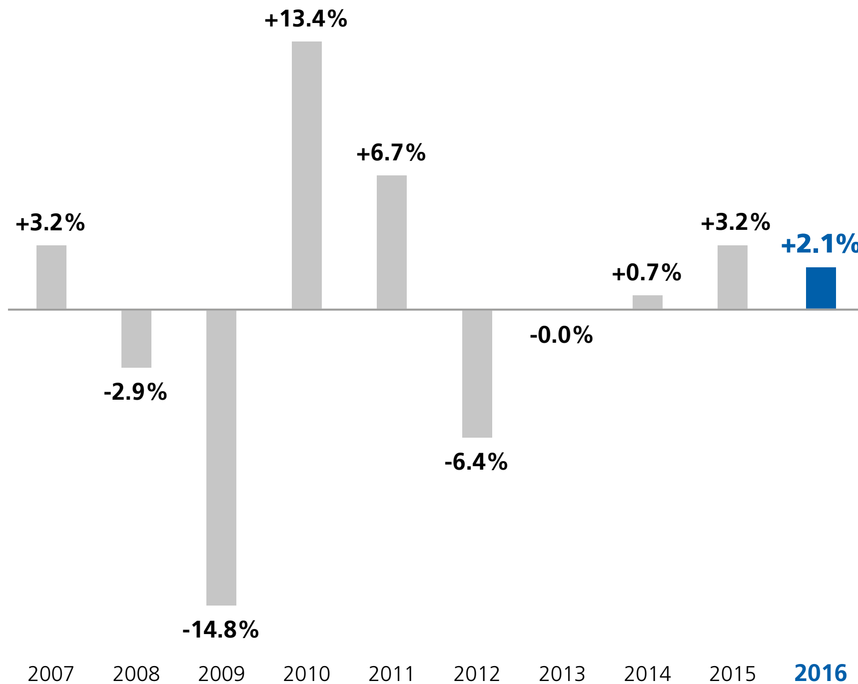


Michelin estimates.

3.2 SALES

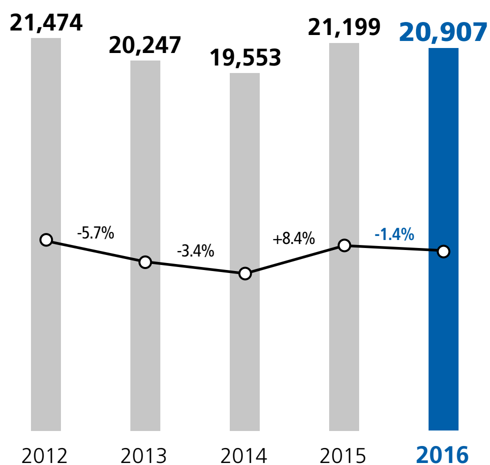
SALES VOLUME

(in tons)



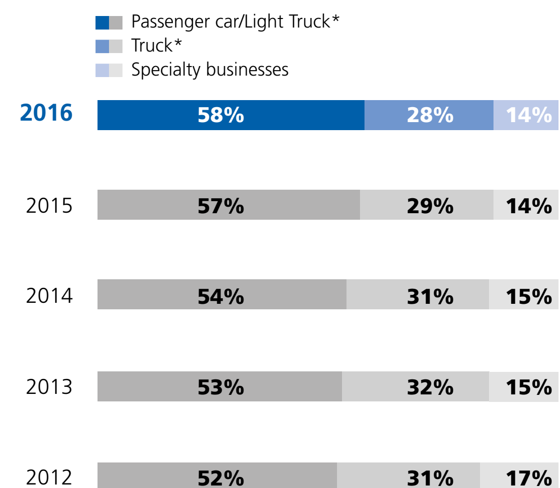
NET SALES

(in € million)



NET SALES BY REPORTING SEGMENT – BREAKDOWN

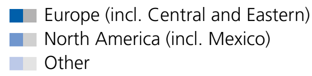
(in value)

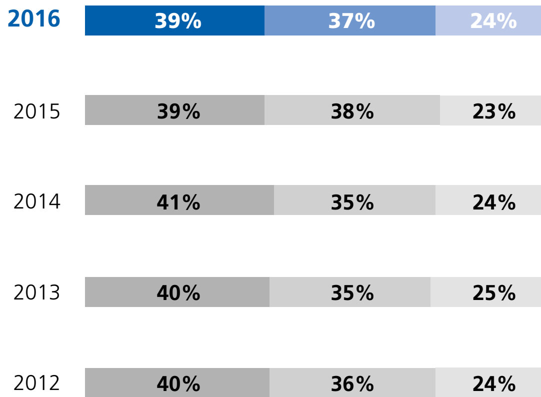


* *And related distribution.*

NET SALES BY REGION – BREAKDOWN

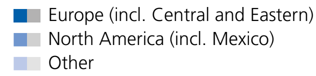
(in value)

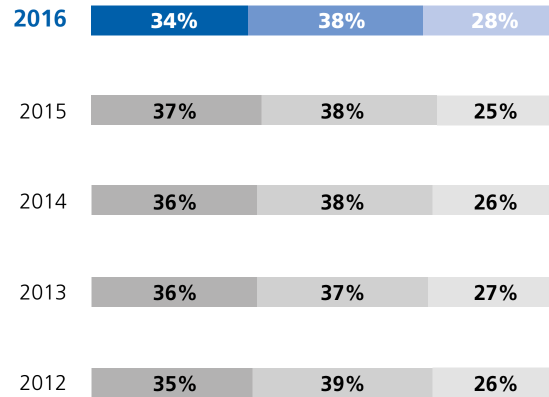




SALES BY REGION – BREAKDOWN

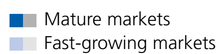
(in tons)

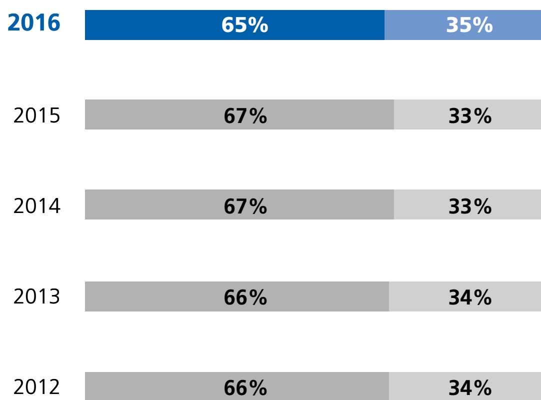




BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)



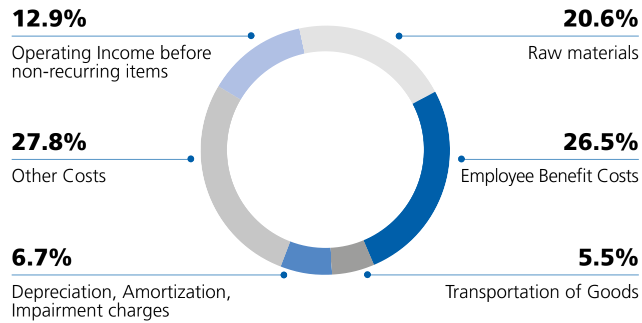


* *Mature markets: United States, Canada, Western Europe and Japan.*

3.3 EARNINGS

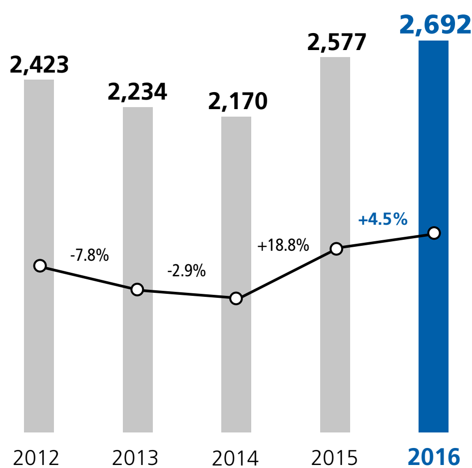
ANALYSIS OF OPERATING EXPENSES

(as a % of 2016 net sales)



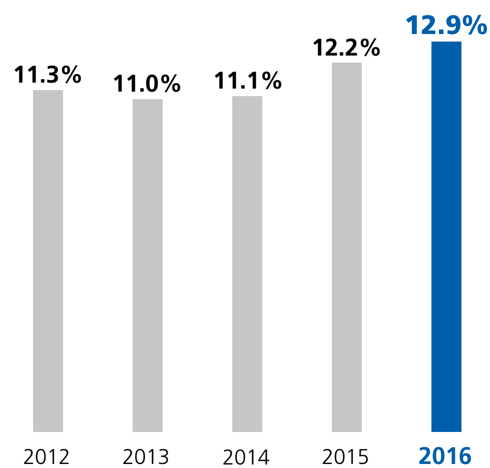
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



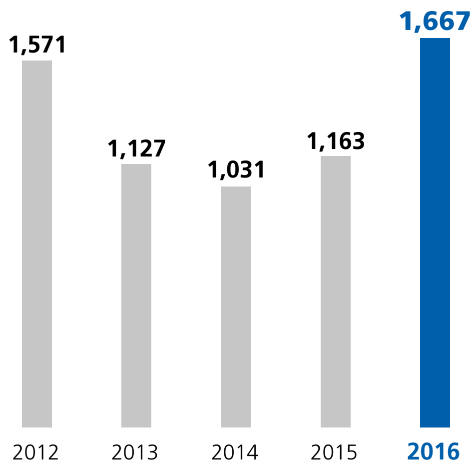
OPERATING MARGIN FROM RECURRING ACTIVITIES

(as a % of net sales)



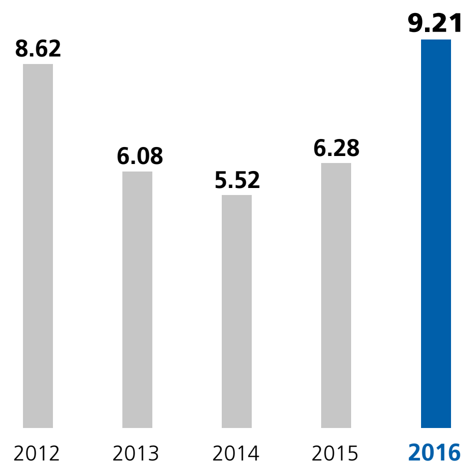
NET INCOME

(in € million)



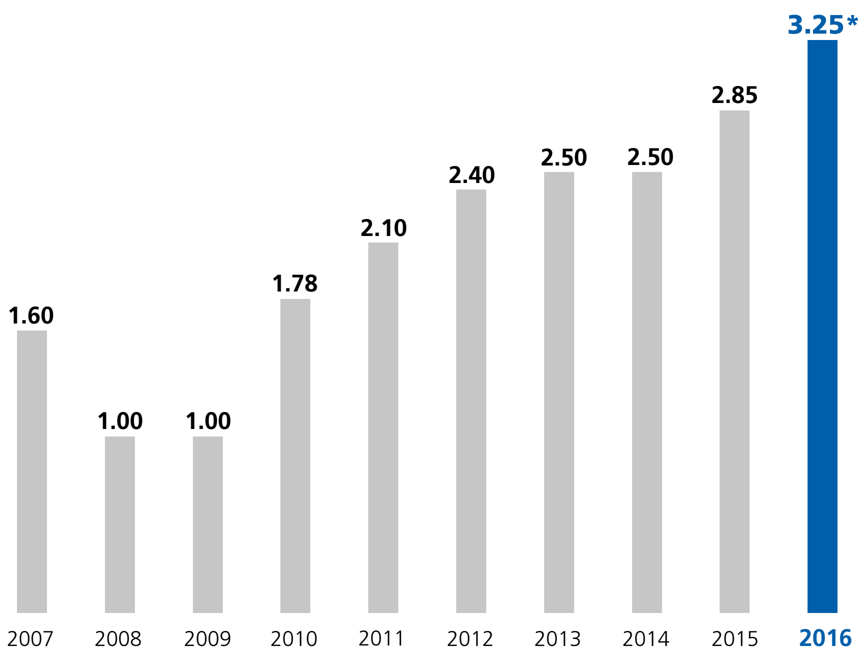
BASIC EARNINGS PER SHARE

(in €)



DIVIDEND PER SHARE

(in €)



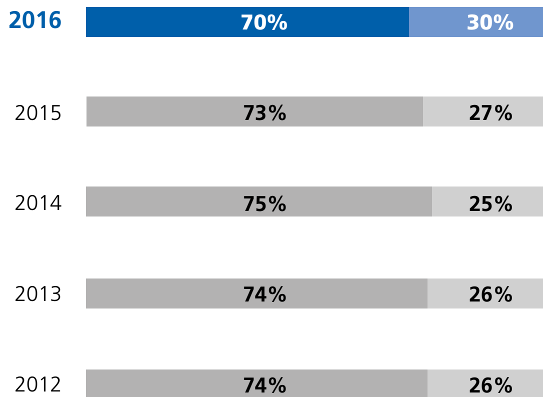
* *Subject to approval by the Annual Meeting of May 19, 2017.*

3.4 REPORTING SEGMENTS

3.4.1 PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

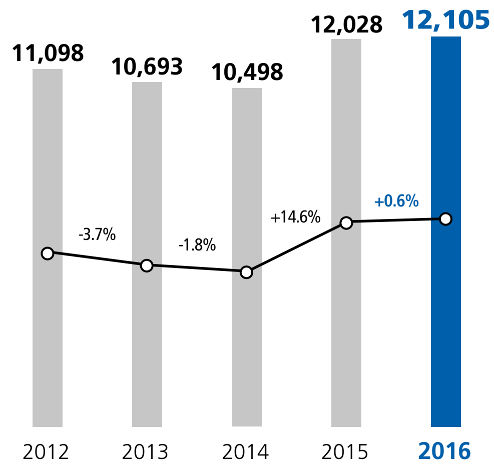
(in tons)



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

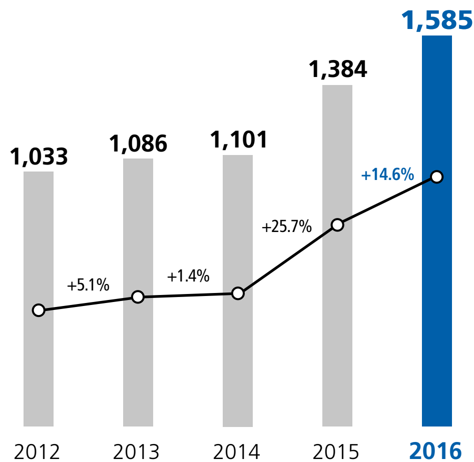
NET SALES

(in € million)



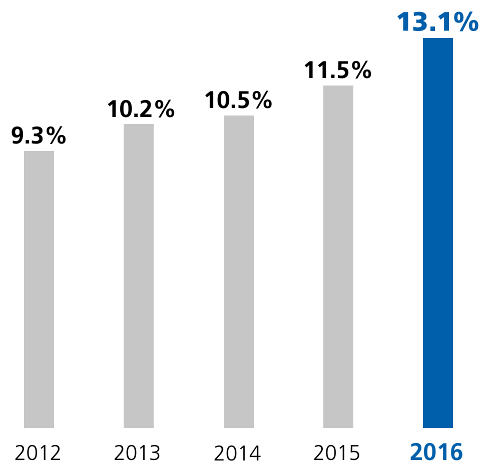
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

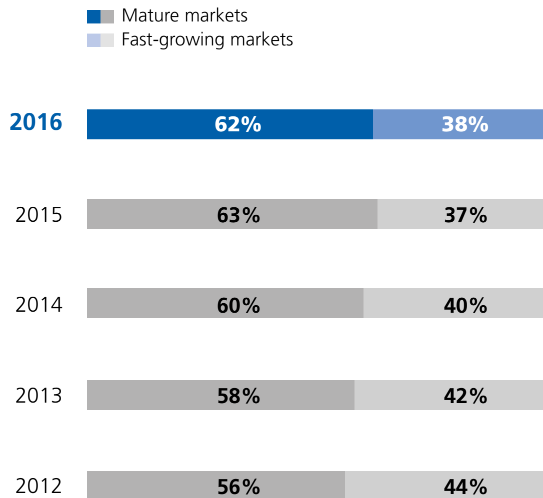
(as a % of net sales)



3.4.2 TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

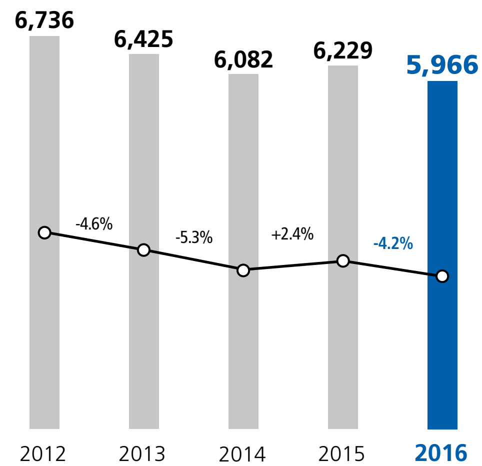
(in tons)



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

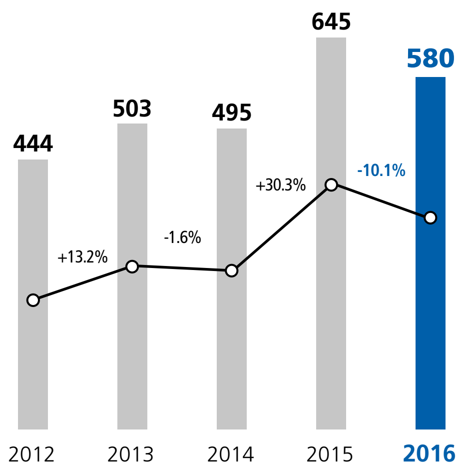
NET SALES

(in € million)



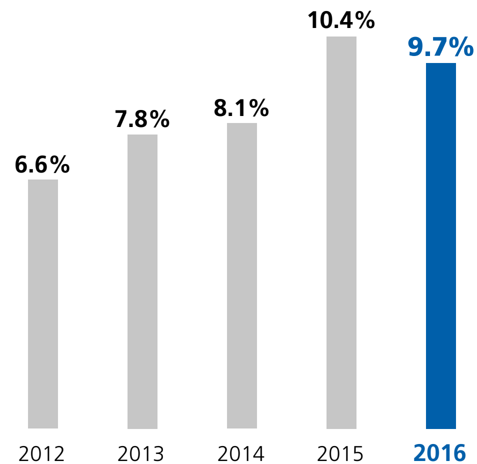
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

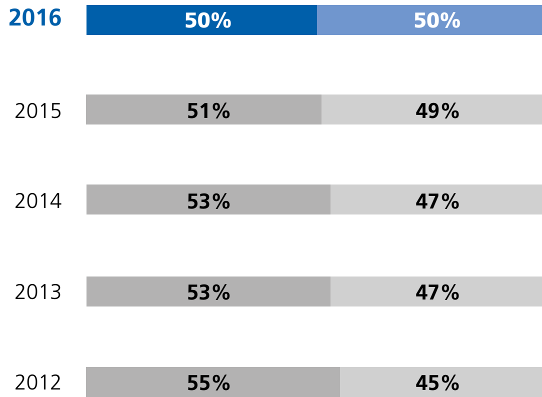
(as a % of net sales)



3.4.3 SPECIALTY BUSINESSES

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

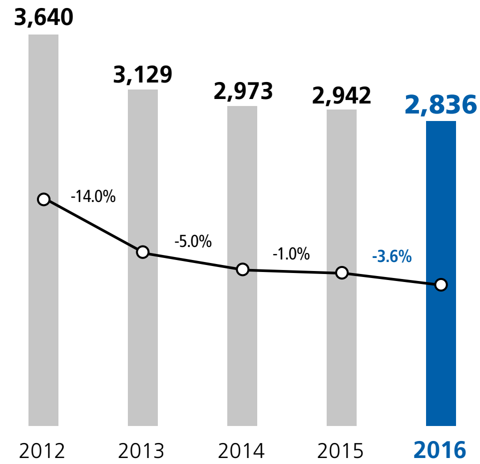
(in tons)



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

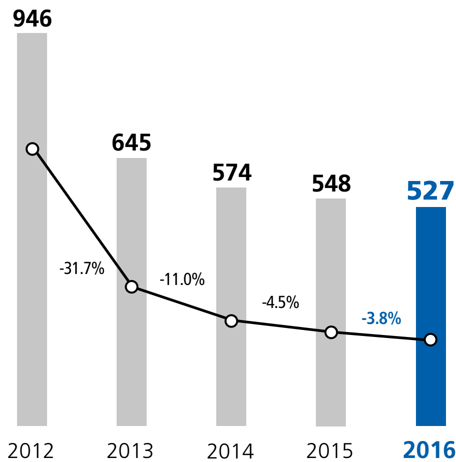
NET SALES

(in € million)



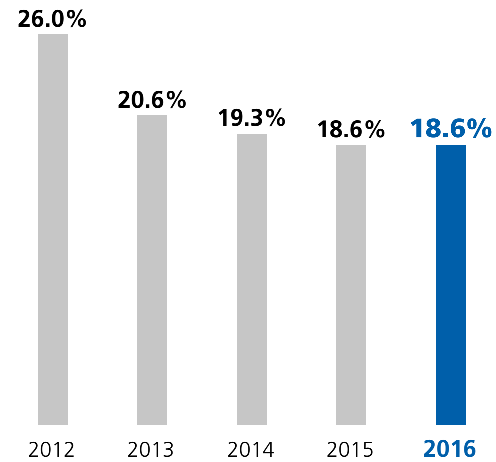
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

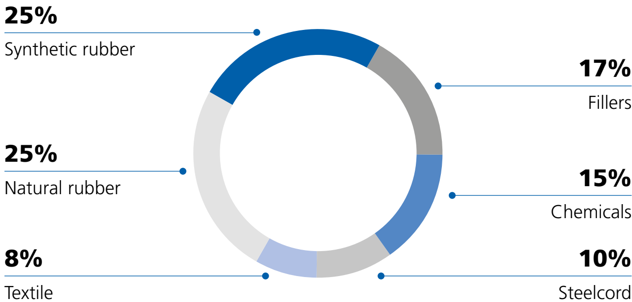
(as a % of net sales)



3.5 COST STRUCTURE

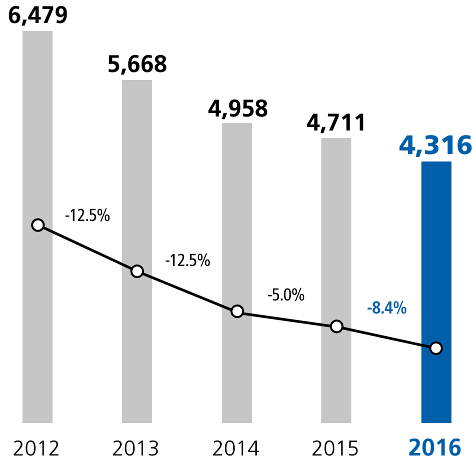
RAW MATERIAL COST

(in €, in 2016)



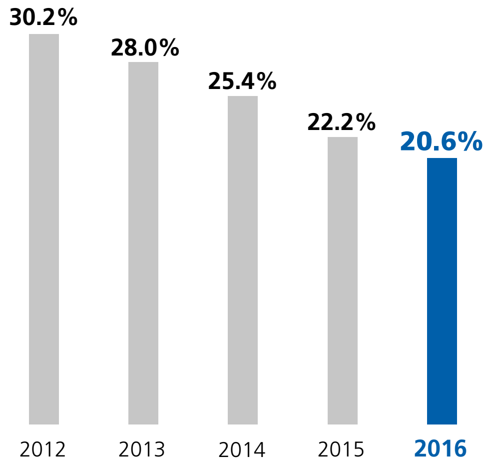
RAW MATERIAL COST

(in € million)



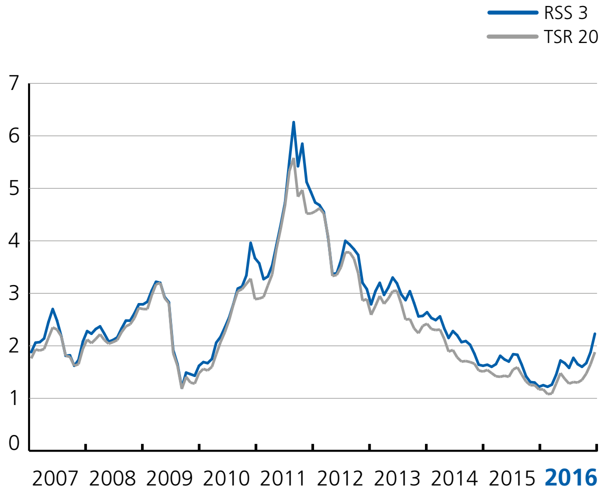
RAW MATERIAL COST

(as a % of net sales)



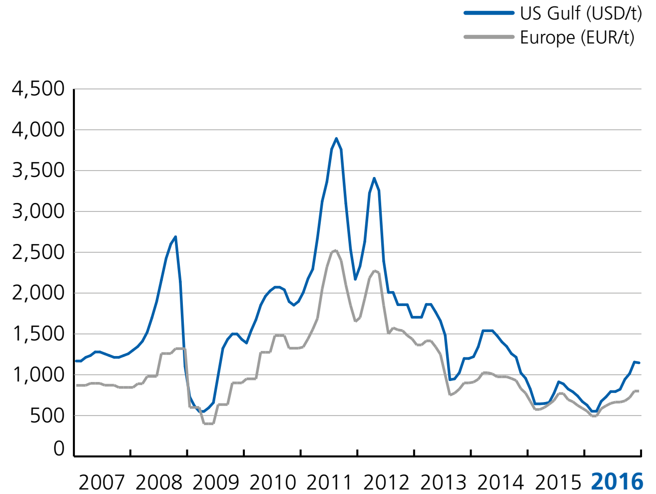
NATURAL RUBBER PRICES*

(in $/kg)



* *Monthly average.*

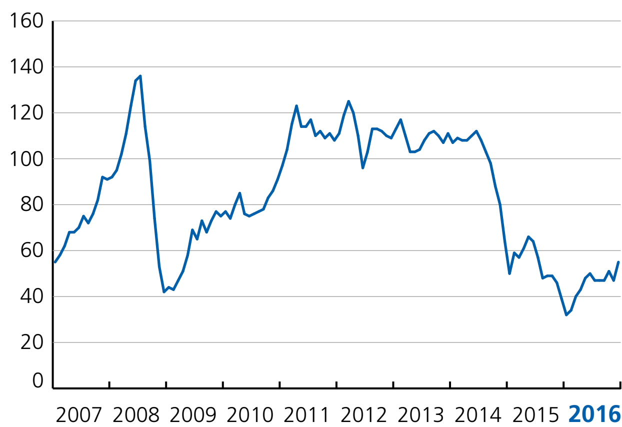
BUTADIENE PRICES*



* *Monthly average.*

BRENT OIL PRICES*

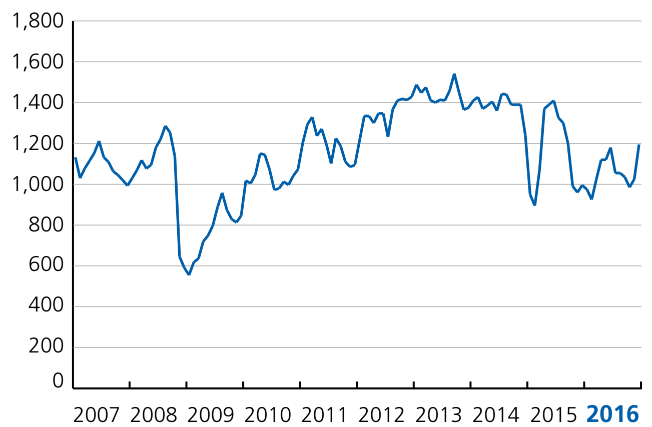
(in $/bbl)



* *Monthly average.*

STYRENE PRICES*

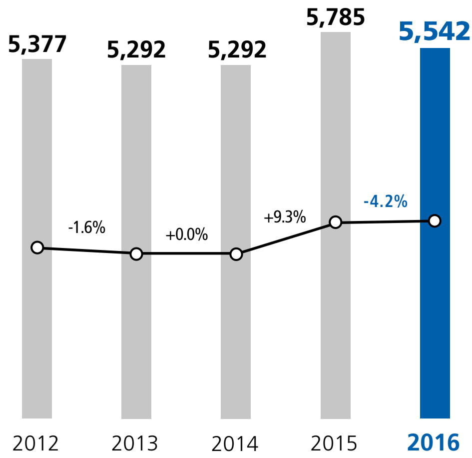
(in €/ton)



* *Monthly average.*

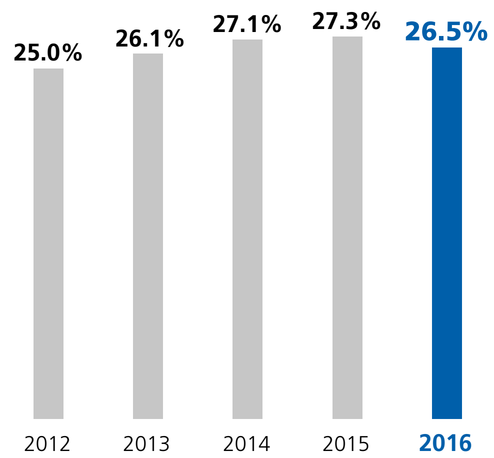
EMPLOYEE BENEFIT COSTS

(in € million)



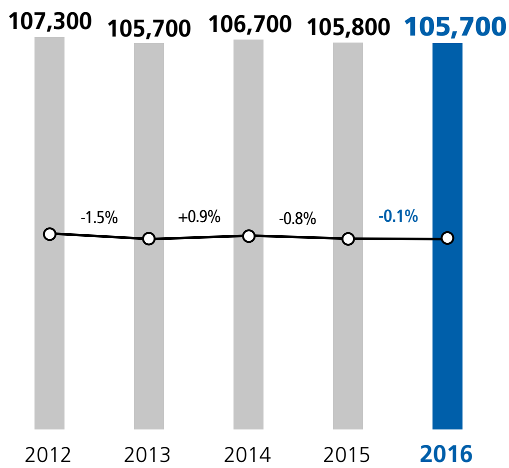
EMPLOYEE BENEFIT COSTS

(as a % of net sales)



NUMBER OF EMPLOYEE

(full-time equivalent employees at December 31)



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

	2016	2015	2014	2013	2012
Europe	61,200	61,400	61,300	62,100	63,100
North America	22,000	21,700	21,900	21,300	21,400
Asia (excluding India)	14,800	15,000	15,400	15,400	15,300
South America	6,000	6,000	6,300	5,100	5,500
Africa India Middle-East	1,700	1,700	1,800	1,800	2,000
TOTAL	**105,700**	**105,800**	**106,700**	**105,700**	**107,300**
including mature countries [(1)]	*67%*	*67%*	*66%*	*68%*	*68%*
including fast-growing countries	*33%*	*33%*	*34%*	*32%*	*32%*

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

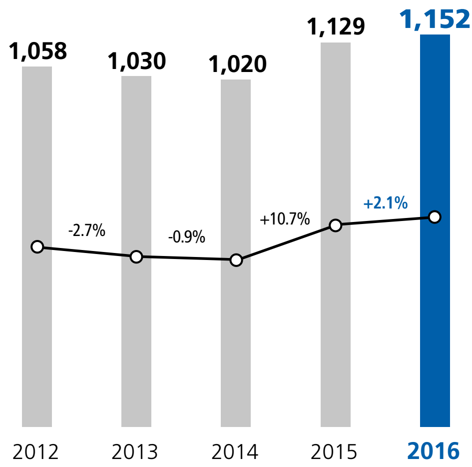
EMPLOYEES BY JOB CATEGORY

(total workforce at December 31)

	2016	2015	2014	2013	2012
Production workers	61.5%	61.5%	62.4%	61.4%	63.1%
Administrative and technical staff	30.0%	30.3%	30.0%	31.0%	30.1%
Managers	8.5%	8.2%	7.6%	7.6%	6.8%

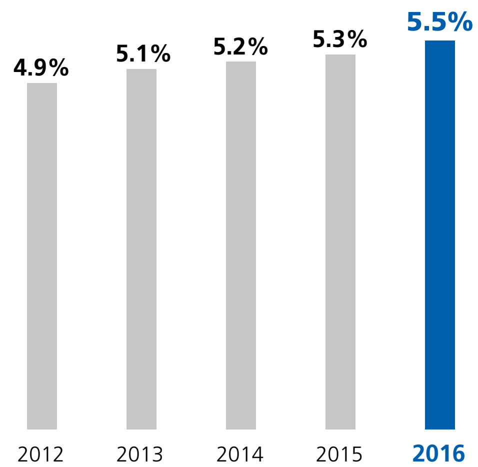
TRANSPORTATION COSTS

(in € million)



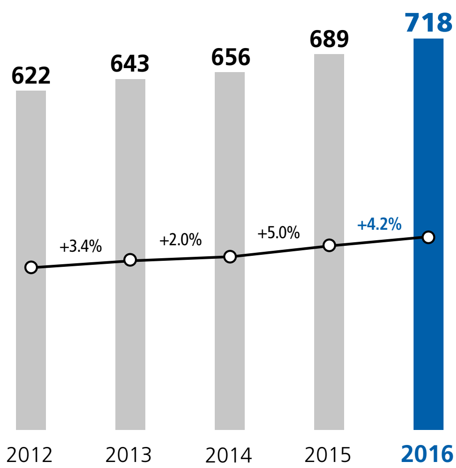
TRANSPORTATION COSTS

(as a % of net sales)



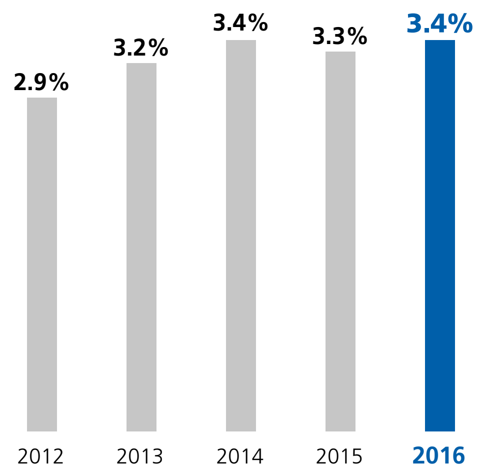
RESEARCH AND DEVELOPMENT COSTS

(in € million)



RESEARCH AND DEVELOPMENT COSTS

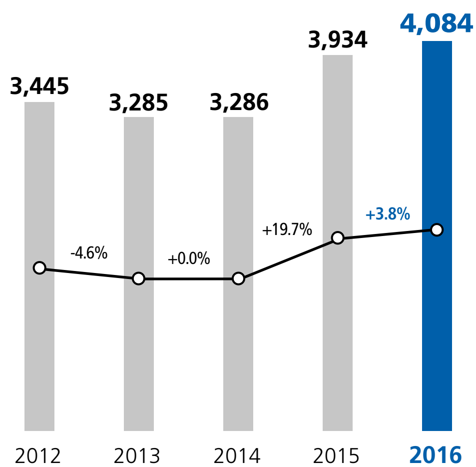
(as a % of net sales)



3.6 CASH FLOW AND BALANCE SHEET

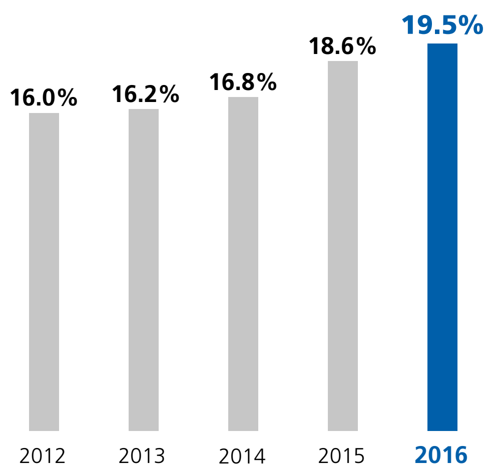
EBITDA FROM RECURRING ACTIVITIES (1)

(in € million)



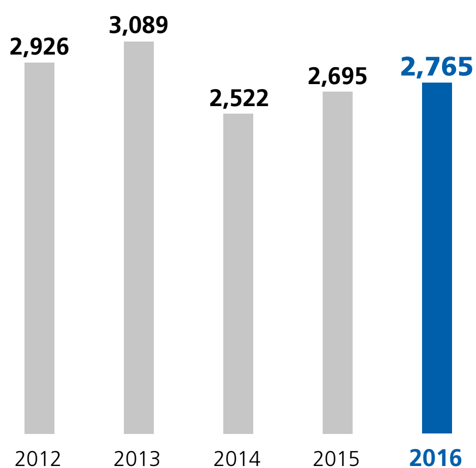
EBITDA FROM RECURRING ACTIVITIES (1)

(as a % of net sales)



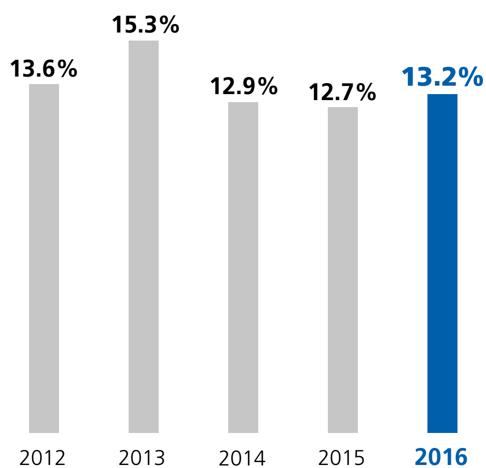
CASH FLOWS FROM OPERATING ACTIVITIES

(in € million)



CASH FLOWS FROM OPERATING ACTIVITIES

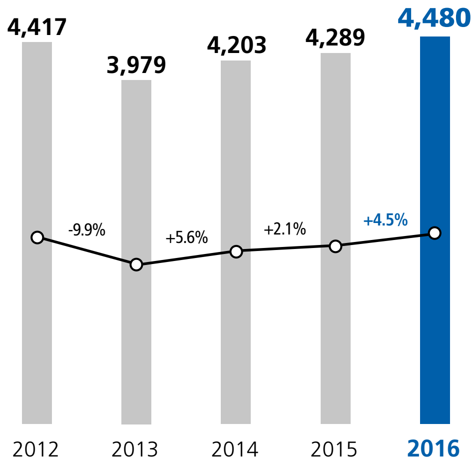
(as a % of net sales)



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

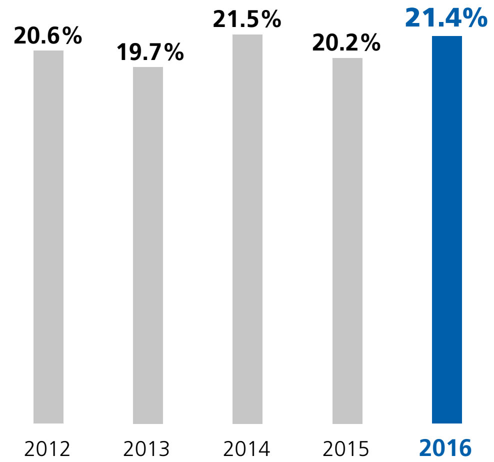
INVENTORIES

(in € million)



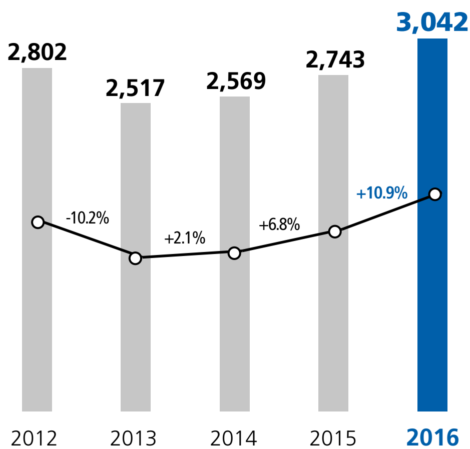
INVENTORIES

(as a % of net sales)



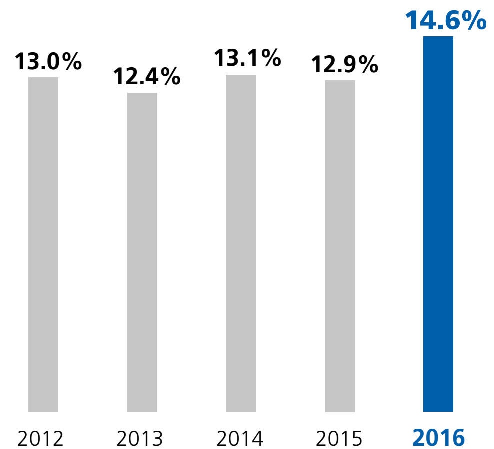
TRADE RECEIVABLES

(in € million)



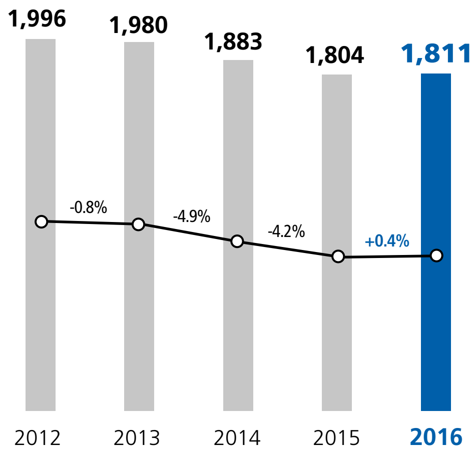
TRADE RECEIVABLES

(as a % of net sales)



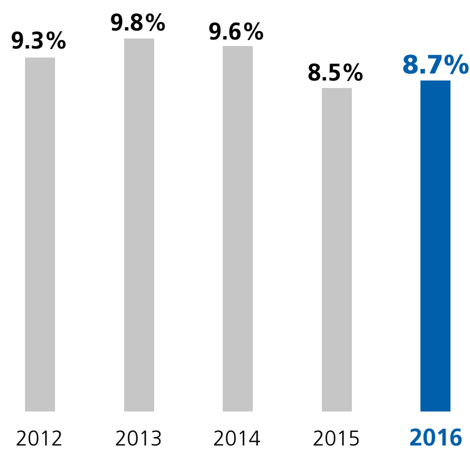
CAPITAL EXPENDITURE

(in € million €)



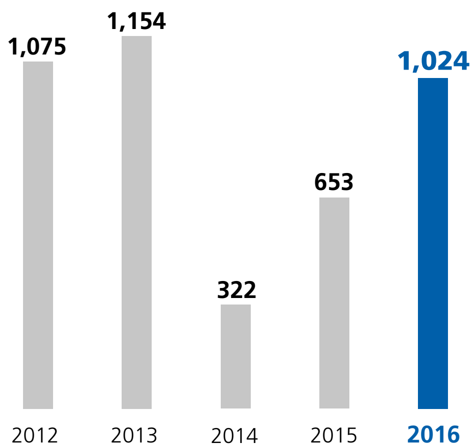
CAPITAL EXPENDITURE

(as a % of net sales)



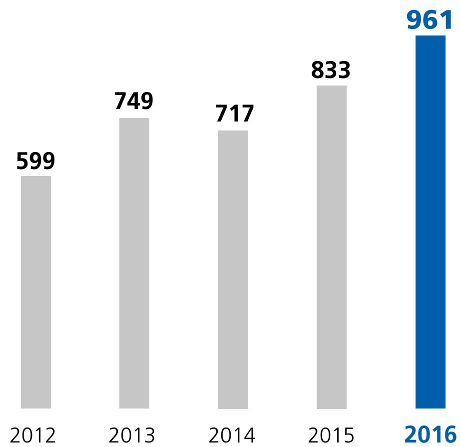
FREE CASH FLOW (1) (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)

(in € million)



STRUCTURAL FREE CASH FLOW (1)

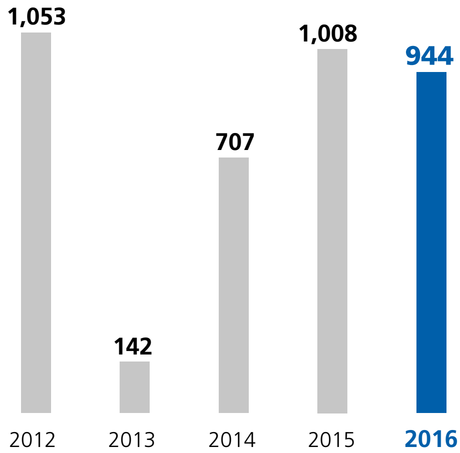
(in € million)



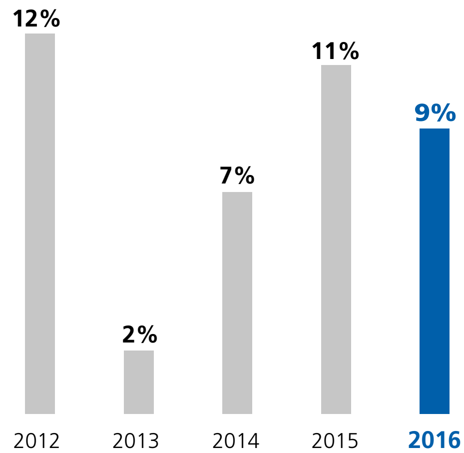
(1) This indicator is defined in section 3.5.3 of the present document.

NET DEBT [1]

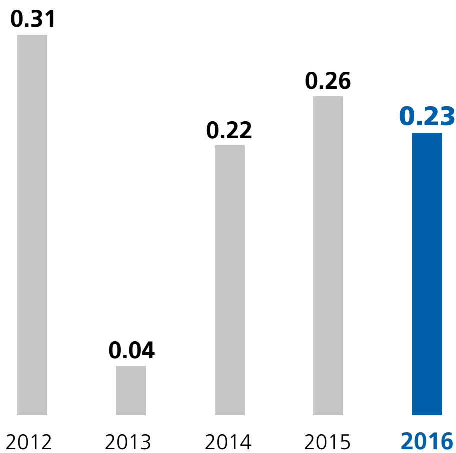
(in € million)



NET DEBT-TO-EQUITY RATIO [1]

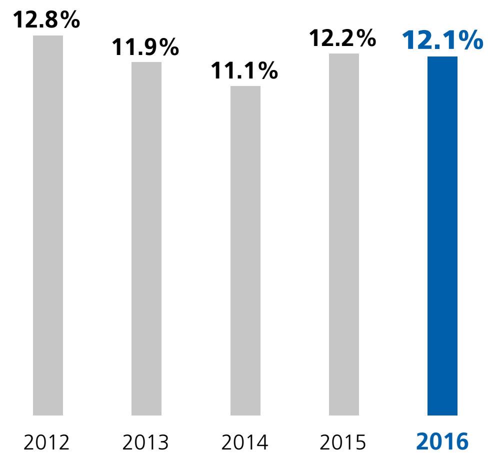


NET DEBT [1]-TO-EBITDA RATIO [2]



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 3.6 of the present document.

3.7 CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2016	2015	2014	2013	2012
Net sales	20,907	21,199	19,553	20,247	21,474
% change	-1.4%	+8.4%	-3.4%	-5.7%	+3.6%
Total employee benefit costs	5,542	5,785	5,292	5,292	5,377
as a % of sales	26.5%	27.3%	27.1%	26.1%	25.0%
Number of employees *(full time equivalent)*	105,700	105,800	106,700	105,700	107,300
Research and development expenses	718	689	656	643	622
as a % of sales	3.4%	3.3%	3.4%	3.2%	2.9%
EBITDA from recurring activities (1)	4,084	3,934	3,286	3,285	3,445
Operating income from recurring activities	2,692	2,577	2,170	2,234	2,423
Operating margin from recurring activities	12.9%	12.2%	11.1%	11.0%	11.3%
Operating income	2,791	2,207	1,991	1,974	2,469
Operating margin	13.3%	10.4%	10.2%	9.7%	11.5%
Cost of net debt	203	184	130	94	155
Other financial income and expenses	20	(30)	(43)	(15)	(22)
Income before taxes	2,464	1,869	1,651	1,702	2,307
Income tax	797	706	620	575	736
Effective tax rate	32.3%	37.8%	37.5%	33.8%	31.9%
Net income	1,667	1,163	1,031	1,127	1,571
as a % of sales	8.0%	5.5%	5.3%	5.6%	7.3%
Dividends (2)	522	463	464	438	378
Cash flows from operating activities	2,764	2,695	2,522	3,089	2,926
as a % of sales	13.2%	12.7%	12.9%	15.3%	13.6%
Gross purchases of intangible assets and PP&E	1,811	1,804	1,883	1,980	1,996
as a % of sales	8.7%	8.5%	9.6%	9.8%	9.3%
Net debt (3)	944	1,008	707	142	1,053
Equity	10,646	9,542	9,523	9,256	8,501
Gearing	9%	11%	7%	2%	12%
Net debt (3) / EBITDA (1)	0.23	0.26	0.22	0.04	0.31
Cash flows from operating activities / Net debt (3)	NS	NS	NS	NS	NS
Operating income from recurring activities / Net interest charge (4)	13.3	12.8	16.0	15.7	14.2
Free cash flow (5)	653	653	322	1,154	1,075
ROE (6)	15.7%	12.2%	10.8%	12.2%	18.5%
ROCE (7)	12.1%	12.2%	11.1%	11.9%	12.8%
Per share data *(in €)*					
Net assets per share (8)	59.1	52.5	51.3	49.8	46.6
Basic earnings per share	9.21	6.28	5.52	6.08	8.62
Diluted earnings per share	9.03	6.19	5.45	5.98	8.41
Price-earnings ratio (9)	11.5	14.0	13.6	12.7	8.3
Dividend for the year (10)	3.25	2.85	2.50	2.50	2.40
Pay-out ratio (11)	36.5%	37.0%	40.6%	35.0%	28.7%
Yield (12)	3.1%	3.2%	3.3%	3.2%	3.4%
Share turnover rate (13)	78%	99%	91%	99%	129%

(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 19, 2017.
(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

4.1	**ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES, AND EXECUTIVE MANAGEMENT**	**96**
4.1.1	Executive Management	96
4.1.2	Supervisory Bodies	96
4.1.3	Statutory Auditors	102
4.1.4	Non-Managing General Partner	103
4.1.5	Statements	103
4.2	**PRACTICES OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES**	**104**
4.2.1	An Experienced, Stable and Responsible Management Team	104
4.2.2	Independent Supervisory Bodies Reporting Directly to Shareholders	105
4.2.3	SAGES, a Non-Managing General Partner, Guaranteeing the Company's Long-Term Viability	109
4.3	**MANAGEMENT AND SUPERVISORY BOARD COMPENSATION**	**109**
4.3.1	Summary Information concerning the Chief Executive Officer and the Chairman of the Supervisory Board	109
4.3.2	Amounts Allocated to Jean-Dominique Senard, Chief Executive Officer and General Partner	112
4.3.3	Advisory Vote on the Components of the Compensation Due or Awarded to Jean-Dominique Senard, Chief Executive Officer, in Respect of 2016 and Submitted to Shareholders at the May 19, 2017 Annual Meeting	118
4.3.4	Amounts allocated to Michel Rollier, Chairman of the Supervisory Board	122
4.3.5	Advisory Vote on the Components of the Compensation Due or Awarded to Michel Rollier, Chairman of the Supervisory Board, in Respect of 2016 and Submitted to Shareholders at the May 19, 2017 Annual Meeting	122
4.3.6	Compensation Received by the Members of the Supervisory Board in 2016	123
4.3.7	Total Compensation Awarded to the Group Executive Committee	124

4.4 TRADING IN MICHELIN SHARES BY MANAGING PARTNERS, GENERAL PARTNERS AND SUPERVISORY BOARD MEMBERS AND THEIR CLOSE RELATIVES IN 2016 **124**

4.5 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE MEMBERSHIP OF THE SUPERVISORY BOARD, THE APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY, THE SUPERVISORY BOARD'S PRACTICES AND THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES **125**

4.5.1 Membership Structure of the Supervisory Board, Application of the Principle of Gender Equality and Supervisory Board Practices 125
4.5.2 Shareholder Participation at General Meetings 132
4.5.3 Michelin Group Internal Control and Risk Management Procedures 132

4.6 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 226-10-1 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD **140**

4.1 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES, AND EXECUTIVE MANAGEMENT

4.1.1 EXECUTIVE MANAGEMENT

Michelin is led by Jean-Dominique Senard, Chief Executive Officer and General Partner.

	Directorships and other positions held
JEAN-DOMINIQUE SENARD Born in 1953 16,797 shares owned as of December 31, 2016 First elected: May 13, 2011 (General Managing Partner) **Experience:** Graduate of HEC business school, MA in Law. From 1979 to 1996, held various management positions in finance and operations at Total then Saint-Gobain. Joined Pechiney in 1996 as Chief Financial Officer and member of the Executive Committee, then Director, Primary Aluminum Division, until 2004. Subsequently appointed as a member of Alcan group's Executive Committee and Chairman of Pechiney S.A. Joined Michelin in 2005 as Chief Financial Officer and member of the Executive Council, becoming Non-General Managing Partner in 2007. **Business address:** 23, place des Carmes-Déchaux 63000 Clermont-Ferrand France	**Chief Executive Officer** **2012-2013** Managing Partner of Compagnie Financière Michelin SCmA Director of Groupe SEB* *(until May 2013)* Director of Saint-Gobain* **2014-2016** Managing Partner of Compagnie Financière Michelin SCmA Director of Saint-Gobain*, Chairman of its Audit and Risk Committee

* *Listed company.*

4.1.2 SUPERVISORY BODIES

4.1.2 a) Membership of the Supervisory Board as of December 31, 2016

As of December 31, 2016, the Supervisory Board comprised nine members (seven of whom were qualified as independent).

	Directorships and other positions held
OLIVIER BAZIL Born in 1946 – French national 1,010 shares owned as of December 31, 2016 First elected: May 17, 2013 Current term expires: 2017 **Experience:** Olivier Bazil is a Director of Legrand* and a Member of the Board's Strategy and Social Responsibility Committee and Nominating and Governance Committee. He has spent his entire career with Legrand*, which he joined in 1973 as Deputy Company Secretary before becoming Chief Financial Officer (1979), a Director (1989), Deputy Chief Executive Officer and a Member of the Executive Committee (1994), and then Vice Chairman of the Board of Directors and Chief Operating Officer. He is a graduate of HEC and holds an MBA from Harvard Business School. **Business address:** Legrand 128, avenue de Lattre de Tassigny 87000 Limoges France	**Independent Member** **Chairman of the Audit Committee** **2012-2014** Director of Legrand* and a 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 a Member of the Board's Strategy and Social Responsibility Committee and Nominating and Governance Committee Director of Firmenich International S.A. and Chairman of its Audit Committee *(until October 2016)* 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

* *Listed company.*

	Directorships and other positions held
PAT COX Born in 1952 – Irish national 491 shares owned as of December 31, 2016 First elected: May 20, 2005 Current term expires: 2018 **Experience:** Pat Cox is a former Member of the Irish Parliament and of the European Parliament. He served as President of the European Parliament from January 2002 to June 2004. He is President of *Fondation Jean Monnet pour l'Europe,* European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, Chairman of the KPMG Ireland Public Interest Committee and Chairman of the Board of *Alliance Française Dublin*. **Business address:** 7 Maretimo Gardens East Blackrock County Dublin Ireland	**Independent Member** **Member of the Compensation and Appointments Committee** **2012** Member of the Board of Trustees of Friends of Europe Director of UCD Michael Smurfit Graduate School of Business Member of the President's Consultative Board, University College Cork Patron of the Blue Box Creative Learning Centre President of the European Parliament Former Members Association **2013** Member of the Board of Trustees of Friends of Europe Director of UCD Michael Smurfit Graduate School of Business Member of the President's Consultative Board, University College Cork Patron of the Blue Box Creative Learning Centre President of the European Parliament Former Members Association **2014-2015** Member of the Board of Trustees of Friends of Europe Patron of the Blue Box Creative Learning Centre **2016** President of *Fondation Jean Monnet pour l'Europe,* Switzerland Member of the Board of Trustees of Friends of Europe, Belgium Leader of Needs Assessment Mission on parliamentary reform for the European Parliament and the *Verkhovna Rada,* Kiev, Ukraine European Coordinator of the Scandinavian-Mediterranean TEN T Core Network (transportation) Corridor, European Union President of *Alliance Française Dublin* Honorary Vice President of the European Movement Ireland Member of the Board of the Institute of International and European Affairs, Dublin Member of the Board, Third Age Foundation, Ireland Member of the European Advisory Council, Liberty Global, Netherlands Member of the Yalta European Strategy (YES), Ukraine Chairman of the Public Interest Committee, KPMG, Ireland
BARBARA DALIBARD Born in 1958 – French national 485 shares owned as of December 31, 2016 First elected: May 16, 2008 Current term expires: 2018 **Experience:** Barbara Dalibard is Chief Executive Officer of the SNCF's Voyageurs Division. Before joining SNCF, she was a member of the France Telecom group Management Committee, in charge of enterprise communication solutions and prior to that she held various management positions within France Telecom and Alcatel. **Business address:** SITA 26, Chemin de Joinville P.O Box 31 1216 Cointrin Geneva Switzerland	**Independent Member** **Chairman of the Compensation and Appointments Committee** **2012-2014** Chief Executive Officer of SNCF Voyageurs Chairman of VSC Group Director of Nuovo Trasporto Viaggiatori S.p.A. (NTV) Member of the Supervisory Board of Wolters Kluwer Director of Eurostar International Limited **2015** Chief Executive Officer of SNCF Voyageurs Chairman of VSC Group Director of Nuovo Trasporto Viaggiatori S.p.A. (NTV) *(until her resignation at the end of 2015)* Member of the Supervisory Board of Wolters Kluwer *(until her resignation in mid-2015)* Director of Eurostar International Limited Member of the Board of Directors of Société Générale *(since June 2015)* **2016** Chief Executive Officer of SNCF Voyageurs *(until May 2016)* then Chief Executive Officer of SITA *(since July 2016)* Chairman of VSC Groupe *(until May 2016)* Director of Eurostar International Limited *(until May 2016)* Member of the Board of Directors of Société Générale

	Directorships and other positions held
ANNE-SOPHIE DE LA BIGNE Born in 1960 – French national 903 shares owned as of December 31, 2016 First elected: May 17, 2013 Current term expires: 2020 **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. 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. **Business address:** Airbus Group 12, rue Pasteur – BP 76 92152 Suresnes Cedex France	**Independent Member** **Member of the Audit Committee** **2012-2016** No other directorships
JEAN-PIERRE DUPRIEU Born in 1952 – French national 510 shares owned as of December 31, 2016 First elected: May 17, 2013 Current term expires: 2020 **Experience:** Jean-Pierre Duprieu was Executive Vice President of the Air Liquide group*. Between 2010 and 2016, he was a member of Air Liquide's Executive Management team, in charge of supervising the group's European and Healthcare activities as well as corporate functions, including information systems and Efficiency/Purchasing programs. He is a Director of Korian*. **Business address:** Air Liquide 75, quai d'Orsay 75006 Paris Cedex 07 France	**Independent Member** **Member of the Audit Committee** **2012** 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 **2013-2015** Executive Vice President of the Air Liquide group* Director of Air Liquide Santé International Chairman of the Board of Directors of Air Liquide Eastern Europe Director of Air Liquide Welding **2016** Executive Vice President of the Air Liquide group* *(until August 2016)* Director of Air Liquide Santé International *(until August 2016)* Chairman of the Board of Directors of Air Liquide Eastern Europe *(until August 2016)* Director of Air Liquide Welding Director of Korian*

* *Listed company.*

	Directorships and other positions held
ARUNA JAYANTHI Born in 1962 – Indian national 400 shares owned as of December 31, 2016 First elected: May 22, 2015 Current term expires: 2018 **Experience:** From 2011 until the end of 2015, Aruna Jayanthi was Chief Executive Officer of Capgemini India, responsible for overseeing all of the Capgemini group's operations in India, covering Consulting, Technology and Outsourcing Services provided by some 50,000 employees. On January 1, 2016, she became head of a new global Business Services unit comprising ITOPS and BPO (Capgemini and IGATE). After obtaining a Master's degree in finance management from the Narsee Monjee Institute of Management Studies in Mumbai, Aruna Jayanthi held various IT services positions between 1984 and 2000 (including at clients' offices in Europe and the United States), with Tata Consulting Services, Aptech and other companies. She joined the Capgemini group in 2000. **Business address:** Capgemini India Pvt. Ltd Godrej & Boyce Compound LBS Road, Vikhroli (West) Mumbai 400079 (India)	**Independent Member** **2012** Chairman of the Board of Directors of Capgemini India Private Limited Director of Capgemini Business Services India Limited **2013** Chairman of the Board of Directors of Capgemini India Private Limited Director of Capgemini Business Services India Limited Director of Pune Software Park Private Limited Director of Capgemini Technology Services Maroc S.A. **2014** Director of Capgemini Technology Services Maroc S.A. Chairman of the Board of Directors of Capgemini India Private Limited Director of Capgemini Business Services India Limited Director of Pune Software Park Private Limited Director of Capgemini 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. Chairman 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 Chairman of the Board of Directors of Capgemini Sverige AB *(since July 22, 2015)*

MONIQUE LEROUX
Born in 1954 – Canadian national
700 shares owned as of December 31, 2016
First elected: October 1, 2015
Current term expires: 2018

Experience:
Monique Leroux was Chair of the Board, President and Chief Executive Officer of Desjardins from 2008 until 2016. She is currently President of the International Cooperative Alliance, Chair of the Board of Invest Quebec and Chair of the Quebec Government's Advisory Committee on the Economy and Innovation.
Prior to joining Mouvement des Caisses Desjardins in 2001, she was Senior Executive Vice President and Chief Operating Officer at Québécor, Inc., Senior Vice President, Finance at RBC Royal Bank, Senior Vice President, Quebec Division at RBC Royal Bank and Managing Partner for services to the financial industry at Ernst & Young. She has also served as President of the *Ordre des Comptables Professionnels Agréés* Québec (CPA) and sat on the Boards of many Canadian companies.
She is a director of global companies and organizations such as Alimentation Couche-Tard Inc. (ATD), Crédit Industriel et Commercial (CIC), Bell (BCE) and S&P Global.
In addition, she is a member of various advisory committees set up by Canadian government bodies.
Monique Leroux is a member of the Order of Canada, an Officer of the *Ordre national du Québec* and a *Chevalier de la Légion d'honneur* (France) and has been awarded honorary doctorates by several Canadian universities.

Business address:
International Cooperative Alliance
Tour Sud – 40th floor
1, complexe Desjardins
Montréal (Québec)
H5B 1B2
Canada

Directorships and other positions held

Independent Member

2012-2013
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins
Chief Executive Officer of Desjardins Sécurité Financière
Chief Executive Officer of Desjardins Groupe d'Assurances Générales
Chair of the Board of Directors of Fédération des Caisses Desjardins du Québec/Mouvement des Caisses Desjardins
Vice Chair of the Executive Committee and Director of the International Confederation of Popular Banks (CIBP)
Member of the Executive Committee and Director of the European Association of Cooperative Banks

2014
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins
Chief Executive Officer of Desjardins Sécurité Financière
Chief Executive Officer of Desjardins Groupe d'Assurances Générales
Chair of the Board of Directors of Fédération des Caisses Desjardins du Québec/Mouvement des Caisses Desjardins
Vice Chair of the Executive Committee and Director of the International Confederation of Popular Banks (CIBP)
Member of the Executive Committee and Director of the European Association of Cooperative Banks
Member of the Board of Directors of Crédit Industriel et Commercial (CIC) *(since December 2014)*
Member of the Board of Directors of the Rideau Hall Foundation *(since November 2014)*

2015
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins
Chief Executive Officer of Desjardins Sécurité Financière
Chief Executive Officer of Desjardins Groupe d'Assurances Générales
Chair of the Board of Directors of Fédération des Caisses Desjardins du Québec/Mouvement des Caisses Desjardins
Vice Chair of the Executive Committee and Director of the International Confederation of Popular Banks (CIBP)
Member of the Executive Committee and Director of the European Association of Cooperative Banks
Member of the Board of Directors of 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 Montréal *(since June 2015)*
Member of the Board of Directors of Alimentation Couche-Tard *(since September 2015)*

2016
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins *(until April 2016)*
Chief Executive Officer of Desjardins Sécurité Financière *(until April 2016)*
Chief Executive Officer of Desjardins Groupe d'Assurances Générales *(until April 2016)*
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 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)*

	Directorships and other positions held
CYRILLE POUGHON Born in 1975 – French national 410 shares owned as of December 31, 2016 First elected: May 16, 2014 Current term expires: 2018 **Experience:** Cyrille Poughon is currently Workplace Quality of Life advisor at Manufacture Française des Pneumatiques Michelin. He began his career with the Michelin Group in 1996 and has held a variety of positions in sales and logistics. He served as Secretary of Michelin's European Works Council until 2014. In 2015, he followed the "Certified Corporate Director" training program organized by *Sciences-Po* and *Institut Français des Administrateurs.* **Business address:** Michelin 23, place des Carmes-Déchaux 63040 Clermont-Ferrand France	**Non-independent member (non-executive)** **2012-2014** Secretary of the Michelin European Works Council **2015-2016** No other directorships
MICHEL ROLLIER Born in 1944 – French national 24,392 shares owned as of December 31, 2016 First elected: May 17, 2013 Current term expires: 2017 **Experience:** Michel Rollier is Chairman of the *Plateforme de la Filière Automobile* and Member of the AFEP/MEDEF High Committee on Corporate Governance. He began his career at Aussedat-Rey (part of the International Paper group) in 1971, initially occupying the post of Financial Controller before going on to head up a business unit. He then held the position of Chief Financial Officer between 1987 and 1994 and subsequently Deputy Chief Executive Officer from 1994 to 1996. He joined Michelin in 1996 as Vice President, Financial & Legal Affairs and then served as Chief Financial Officer and a member of the Executive Council from 1999 to 2005. He was elected General Managing Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as General Managing Partner in May 2012. **Business address:** Michelin 27, cours de l'Île-Seguin 92100 Boulogne-Billancourt France	**Chairman of the Supervisory Board** **Member of the Compensation and Appointments Committee** **Non-independent member (non-executive)** **2012** General Managing Partner of Compagnie Générale des Établissements Michelin* *(until May 2012)* Managing Partner of Compagnie Financière Michelin SCMA (CFM) *(until June 2012)* Director of Lafarge Director of Moria S.A. **2013** Chairman of the Board of Directors of Siparex Associés Chairman of the Supervisory Board of Somfy* Director of Lafarge Member of the AFEP/MEDEF High Committee on Corporate Governance *(since October 8, 2013)* **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) *(since October 9, 2014)* **2016** Chairman of the Board of Directors of Siparex Associés Chairman of the Supervisory Board of Somfy SA* Chairman of the Remunerations Committee of Somfy SA* Director of Lafarge Member of the AFEP/MEDEF High Committee on Corporate Governance Chairman of *Association Nationale des Sociétés par Actions* (ANSA) Chairman of *Plateforme de la Filière Automobile* (PFA)

* *Listed company.*

4.1.2 b) Terms of office of Supervisory Board members at December 31, 2016

Name	First elected/ re-elected [(1)]	Current term expires [(2)]	Independent [(3)]
Olivier Bazil	May 17, 2013	2017	yes
Pat Cox	May 20, 2005		
	May 7, 2010		
	May 16, 2014	2018	yes
Barbara Dalibard	May 16, 2008		
	May 17, 2013		
	May 22, 2015	2019	yes
Anne-Sophie de La Bigne	May 17, 2013	2020	yes
Jean-Pierre Duprieu	May 17, 2013	2020	yes
Aruna Jayanthi	May 22, 2015	2019	yes
Monique Leroux	October 1, 2015 [(4)]	2018	yes
Cyrille Poughon	May 16, 2014	2018	no
Michel Rollier (Chairman)	May 17, 2013	2017	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 STATUTORY AUDITORS

Please refer to section 9.2 – Statutory Auditors.

4.1.4 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, 2016 271,040 shares owned by SAGES as of December 31, 2016 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	**2012** 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 Director of Greenship Holdings (Singapore) Director of Sinopacific Shipbuilding Group (China) Director of Piriou S.A.S. Non-voting Director of CBo Territoria S.A. **2013-2014** Chairman of BOURBON* Chairman of Cana Tera S.A.S. Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg) Chairman of Sapmer S.A. Chairman and Director of Greenship Holdings (Singapore) Director of Sinopacific Shipbuilding Group (China) **2015** Chairman of BOURBON* (France) Chairman of Cana Tera S.C.A. (Luxembourg) Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg) Chairman of Sapmer Holding Pte. Ltd (Singapore) Chairman of Sapmer S.A. Chairman and Director of Greenship Holdings (Singapore) Director of Sinopacific Shipbuilding Group (China) **2016** Chairman of BOURBON* (France) Statutory Manager of CT Lux Sarl (Luxembourg) Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg) Chairman of Sapmer S.A. (Listed on NYSE Euronext Paris) Chairman of Sapmer Holding (Singapore) Chairman and Director of Greenship Holdings (Singapore) Director of Sinopacific Shipbuilding Group (China)

* *Listed company.*

4.1.5 STATEMENTS

There are no family relationships between Michelin's Chief Executive Officer, any Supervisory Board members and the Chairman of SAGES (CGEM's Non-Managing General Partner).

To the best of the Company's knowledge, neither Michelin's Chief Executive Officer nor the Chairman of SAGES nor any Supervisory Board member, has, in the past five years, been (i) convicted of fraud, (ii) associated with a bankruptcy, receivership or liquidation, (iii) the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Neither Michelin's Chief Executive Officer nor the Chairman of SAGES nor any Supervisory Board member has a service contract with the Company or any of its subsidiaries.

There are no:

- Arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which they were selected as a Chief Executive Officer or as a member of the Supervisory Board or as Chairman of SAGES.
- Conflicts of interest between the duties to the Company of the Chief Executive Officer, the Supervisory Board members or the Chairman of SAGES and their private interests and/or other duties.
- Restrictions accepted by these persons on the disposal of their Michelin shares within a certain period of time, except for those resulting from insider dealing rules and the specific rules applicable to the Chief Executive Officer.

4.2 PRACTICES OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

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

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

This partnership model offers three main advantages:

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

There are two partner categories:

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

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

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

4.2.1 AN EXPERIENCED, STABLE AND RESPONSIBLE MANAGEMENT TEAM

4.2.1 a) Members

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

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

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

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

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

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

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

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

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

4.2.1 b) Role and responsibilities

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

As such, his core responsibilities are to:

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

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

(1) For biographical details about Jean-Dominique Senard, please refer to section 4.1.1.
(2) For details about SAGES, please refer to section 4.1.4.

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

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

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

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

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

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

- **Sonia Artinian-Fredou,** Executive Vice President, Corporate Development.
- **Yves Chapot,** Executive Vice President, Distribution.
- **Thierry Chiche,** Executive Vice President, Passenger Car and Light Truck Product Line.
- **François Corbin,** Executive Vice President, Progress and Geographic Zones.
- **Claire Dorland-Clauzel,** Executive Vice President, Communication, Brands and External Relations.
- **Terry Gettys,** Executive Vice President, Research and Development.
- **Jean-Christophe Guérin,** Executive Vice President, Materials Product Line.
- **Jean-Michel Guillon,** Executive Vice President, Personnel.
- **Marc Henry,** Chief Financial Officer and Executive Vice President, Specialty Product Lines.
- **Serge Lafon,** Executive Vice President, Truck Product Line.
- **Florent Menegaux,** Chief Operating Officer.
- **Laurent Noual,** Advisor to Jean-Dominique Senard [(1)].
- **Florence Vincent,** Executive Vice President, Quality, Audit and Risk Management.

4.2.1 c) Liability

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

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

4.2.2 INDEPENDENT SUPERVISORY BODIES REPORTING DIRECTLY TO SHAREHOLDERS

4.2.2 a) Supervisory Board

A description of the Supervisory Board's activities during 2016 is included in the report of the Chairman of the Supervisory Board on the Board's membership, the application of the principle of equal representation of men and women on the Board, the preparation and organization of the Board's work and the Group's internal control and risk management procedures (see section 4.5.1 b) below).

/ Members

In accordance with 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 [(2)]. The General Partners (including the Chief Executive Officer) may not take part in the vote. Supervisory Board members may be re-elected.

According to the bylaws, no more than one-third of Supervisory Board members may be aged over 75.

Supervisory Board member biographies can be found in section 4.1.2 a) above, while information concerning their compensation is presented in section 4.3.4 below.

The dates on which the Supervisory Board members in office at December 31, 2016 were first elected and the expiration dates of their current terms are shown in the table in section 4.1.2 b).

The main provisions of the internal rules setting out the roles and practices of the Supervisory Board and its Committees are presented below.

(1) Retired at the end of January 2017.
(2) Except when shorter periods are proposed in order to effectively stagger the terms of office of Supervisory Board members (see information given in section 4.1.2 b).

/ Role and responsibilities

The Supervisory Board exercises permanent oversight of the Company's management and assesses its quality for the benefit of the shareholders, presenting a report thereon at each Annual Shareholders Meeting. Its oversight procedures include:

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

The recommendation provided under Article 4 of the AFEP/MEDEF Code, according to which material transactions outside the scope of the firm's stated strategy should be subject to prior approval by the Board of Directors, cannot apply in this instance, because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company.

However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its bylaws [(1)] as well as the Supervisory Board's internal rules.

Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made.

This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate.

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.5.1 c) prepared in accordance with the "comply or explain" rule.

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

/ Independence

A majority of the members of the Supervisory Board must be 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), as determined based on the criteria listed in the AFEP/MEDEF Code.

See the Report of the Chairman of the Supervisory Board on the Board's work in section 4.5 below for further details of the independence review performed by the Compensation and Appointments Committee on which the Supervisory Board's decision is based.

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.

/ Supervisory Board practices

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.

/ Supervisory Board self-assessments

The Chairman carries out an annual assessment of the Supervisory Board's practices and part of one Board meeting is devoted to discussing this issue.

The conclusions of the annual assessment are presented in the Chairman's report on the Board's work (see section 4.5 below).

The Supervisory Board is assisted in its oversight role by two committees, the Audit Committee and the Compensation and Appointments Committee.

4.2.2 b) The Audit Committee

/ Members

The Audit Committee has at least three members appointed for their full term as Supervisory Board members. At least two-thirds of the members must be independent. Since May 17, 2013, 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 [(2)] and a member of Legrand's Strategy and Social Responsibility Committee and Nominating and Governance Committee. He is also a Director of Vallourec [(2)], Chairman of Vallourec's Audit Committee and a member of its Strategy Committee.

  He has spent his entire career with Legrand [(2)], which he joined in 1973 as Deputy Company Secretary before going on to become Chief Financial Officer (1979), a Director (1989), Deputy Chief Executive Officer and a member of the Executive Committee (1994), and then Vice Chairman of the Board of Directors and Chief Operating Officer.

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

- Jean-Pierre Duprieu, independent member.

  Jean-Pierre Duprieu was born in 1952 and is a French national. He is a Director of Korian and the former Executive Vice President of the Air Liquide Group [(2)]. He was a member of Air Liquide's Executive Management team from 2010 until 2016, in charge of supervising the group's European and Healthcare activities as well as corporate functions, including information systems and Efficiency/Purchasing programs.

(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) Listed company.

Mr. Duprieu has spent his entire career with the Air Liquide group [(1)], which he joined in 1976 as part of the International Marketing Department. He then successively served as Assistant to the Chief Executive Officer (1985), Vice President of Sales and Marketing for French Operations (1988) and Chief Operating Officer for the group's Industrial Gases business in France (1991), before going on to head up several group subsidiaries (notably in South America, Canada, Italy and France) as from 1995.

In 2000, he became Senior Vice President of Air Liquide S.A. [(1)] and joined the group's Executive Committee. In this role he was in charge of the group's operations in Europe, Africa and the Middle East and in 2005 took on responsibility for the Asia Pacific region and the Worldwide Electronics business line. He spent five years based in Tokyo, Japan.

Mr. Duprieu holds a master's degree in Agricultural Sciences from the *Institut national agronomique de Paris-Grignon* (Agro-Paris Tech), with a specialization in the food industry. He is also a graduate of the *Institut de contrôle de gestion* in Paris and the International Forum (an Advanced Management Program at Wharton University).

- Anne-Sophie de La Bigne, independent member.

  Anne-Sophie de La Bigne was born in 1960 and is a French national. Since 2008, she has been Vice President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group [(1)].

  She began her career in 1983 as a financial controller with the Matra group before joining the Strategy & Business Development Department of the Lagardère group, where she worked from 1985 to 1999. She subsequently became Head of the Strategic Analysis Department at Aerospatiale Matra/EADS, a position she held until 2001.

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

  Ms. de La Bigne is a graduate of *École des hautes études commerciales* (HEC).

Due to the extensive experience acquired during their careers, notably as part of the executive management and strategic advisory teams of large corporations, the Audit Committee's three members have a deep understanding of financial and accounting matters.

/ Role and responsibilities

The main provisions of the Audit Committee's internal rules are outlined below.

The Audit Committee assists the Supervisory Board in fulfilling its oversight role. It operates as a specialized committee tasked with addressing issues related to the preparation and control of accounting and financial information in accordance with Articles L. 823-19 and L. 823-20-4 of the French Commercial Code.

The Audit Committee's role includes:

- Reviewing the annual and interim financial statements, as approved by the Chief Executive Officer and audited by the Statutory Auditors, as well as the quarterly financial information.
- Obtaining assurance that the Group's accounting methods and policies are appropriate and are applied consistently, and overseeing the quality of information given to the shareholders.
- Reviewing off-balance sheet commitments.
- Assessing the effectiveness of internal control and risk management systems.
- Reviewing all of the Group's risks, assessing the effectiveness of measures taken to control these risks and examining their accounting treatment and the related disclosures in the Group's communications.
- Reviewing the Statutory Auditors' annual audit programs.
- Reviewing the Quality, Audit and Risk Management Department's internal audit programs and recommending internal audits of specific financial risks.
- Verifying the Statutory Auditors' independence and objectivity and expressing an opinion about their appointment or re-appointment.

The Audit Committee's activities during 2016 are described in the report of the Chairman of the Supervisory Board (see section 4.5.1 d) below).

/ Committee practices

The Committee's work program and meeting schedule are decided by the Supervisory Board, in agreement with the Management.

In view of the distance they may have to travel to attend meetings and the other business commitments not only of the Supervisory Board and Audit Committee members but also of the members of Executive Management, the Audit Committee conducts its formal review of the financial statements half a day before they are examined by the Supervisory Board.

However, to enable the Committee to perform its work as efficiently as possible:

- The documents concerning the financial statements are made available to the Committee members several days in advance.
- The Chairman of the Audit Committee meets with the Group's Chief Financial Officer in advance to review the financial statements and prepare the Committee's meeting.

This process ensures that the discussion of the financial statements by the Committee and the Board is both efficient and of a high quality, in accordance with the recommendations in the AFEP/MEDEF Code on the organization of the Audit Committees' work.

The Committee may also call on the services of independent experts. In addition, the Committee meets with the Statutory Auditors once a year without any members of management being present.

The Committee chooses the location of its meetings and may decide to conduct meetings by videoconference.

The Committee's Chairman reports on the Committee's work to the Supervisory Board several times a year.

4.2.2 c) Compensation and Appointments Committee

/ Members

The Compensation and Appointments Committee has at least three members, appointed for their full term as Supervisory Board members. The Chairman and a majority of the members must be qualified as independent.

The current members of the Compensation and Appointments Committee are:

- Barbara Dalibard, an independent member of the Board since her election and Chair of the Committee since October 2015. Barbara Dalibard was born in 1958 and is a French national. She is Chief Executive Officer of SITA and was previously Chief Executive Officer of SNCF Voyageurs. Prior to joining SNCF Voyageurs, she held various executive positions with France Telecom and the Alcatel Group.

(1) Listed company.

- Pat Cox, an independent member of the Board, who was born in 1952 and is an Irish national. He is a former member of the Irish Parliament and of the European Parliament. He served as President of the European Parliament from January 2002 to June 2004. He is President of *Fondation Jean Monnet pour l'Europe,* European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, Chairman of the KPMG Ireland Public Interest Committee and Chairman of the Board of *Alliance Française Dublin*.
- Michel Rollier, a non-executive non-independent member, who was born in 1944 and is a French national. He is Chairman of the *Plateforme de la Filière Automobile* and a member of the AFEP/MEDEF High Committee on Corporate Governance.

  He began his career at Aussedat-Rey (part of the International Paper group) in 1971, initially occupying the post of Financial Controller before going on to head up a business unit. He then held the position of Chief Financial Officer between 1987 and 1994 and subsequently Deputy Chief Executive Officer from 1994 to 1996.

  He joined Michelin in 1996 as Vice President, Financial & Legal Affairs and then served as Chief Financial Officer and a member of the Executive Council from 1999 to 2005. He was elected General Managing Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as General Managing Partner in May 2012.

  Michel Rollier is a graduate of the *Institut d'études politiques de Paris* (IEP) and holds an MA in Law.

The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting. However, the Compensation and Appointments Committee does not include any member representing employees.

In view of the limited number of Committee members and their current situation in relation to the AFEP/MEDEF Code's independence rules, the inclusion on the Committee of the Supervisory Board member representing employees would have the effect of reducing the proportion of independent members to just half of the members, versus the majority required by the AFEP/MEDEF Code.

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.5.1 c) 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 Compensation and Appointments Committee is responsible for reviewing:

- Senior management compensation policy, including the criteria used to determine:
  - Fixed and variable compensation paid to members of the Executive Committee.
  - Variable compensation paid to other senior executives.
- The stock option and performance share allocation policy.
- Senior management appointments policy; senior management career and succession plans.
- The policy concerning the appointment of Managing Partners, including career and succession plans, developed jointly with the Non-Managing General Partner (SAGES).

Concerning the specific issue of the compensation paid to the Chief Executive Officer (the only Managing Partner), in light of the legal provisions specifically applicable to partnerships limited by shares and the provisions of the bylaws, the Committee makes proposals to the Supervisory Board about the various components of the Chief Executive Officer's package which currently includes (i) variable profit shares that depend on one or several performance criteria and (ii) fixed compensation paid by a subsidiary in respect of his duties within the subsidiary.

The Committee's proposals help the Supervisory Board to formulate recommendations to the Non-Managing General Partner about the different components of the profit share payable to the Chief Executive Officer.

The Committee also reviews all amounts and benefits awarded or to be awarded to the Chief Executive Officer for the previous year by Group companies.

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

The Committee also ensures that the components of the Chief Executive Officer's compensation are balanced, by (i) assessing the components of his variable compensation (profit-share allocation) calculated over one year and several years, and (ii) ensuring that his profit shares never exceed a reasonable percentage of his fixed compensation.

In assessing the level of his variable compensation, the Committee considers (i) the inherent variability of the Company's profits, (ii) projected future profits and (iii) the fact that General Partners are in an unusual situation to the extent that they have unlimited joint and personal liability for the Company's debts.

In addition to working on this review process and issuing the corresponding recommendations for the Board, the Committee prepares and submits to the Board and the Non-Managing General Partner its conclusions on the components of the compensation due or paid by the Company to the Chief Executive Officer for the previous year, in order to help the Board prepare its report to the Annual Shareholders Meeting for the advisory vote on the Chief Executive Officer's compensation.

/ Committee practices

The Committee chooses the location of its meetings and may decide to conduct meetings by videoconference.

The Committee's Chairman reports on the Committee's work to the Supervisory Board several times a year.

Further information about the work performed by the Compensation and Appointments Committee is provided in the Chairman's report in section 4.5.1 below.

The Compensation and Appointments Committee may invite the Executive Vice President, Personnel or any internal or external expert to attend its meetings, depending on the agenda items.

Meetings of the Committee are attended by the Chief Executive Officer, except when his compensation or succession plan, or the succession plans of the Supervisory Board members, are being discussed, in accordance with AFEP/MEDEF Code recommendation 17.1 [1].

(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).*

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

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

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

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

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

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

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

4.3 MANAGEMENT AND SUPERVISORY BOARD COMPENSATION

The data and tables in this section:

- Present the compensation of Jean-Dominique Senard, Chief Executive Officer and sole executive director *(dirigeant mandataire social exécutif),* Michel Rollier, Chairman of the Supervisory Board and sole non-executive non-independent director *(dirigeant mandataire social non exécutif),* and the Supervisory Board members who are qualified as non-executive directors *(mandataires sociaux non exécutifs).*
- Have been prepared in accordance with the AFEP/MEDEF Code (November 2016) and related implementation guidelines (December 2016).
- Comply with AMF recommendation 2012-02 (as updated on January 25, 2016) on "corporate governance and executive compensation in companies that refer to the AFEP/MEDEF Code – Consolidated presentation of the recommendations contained in the AMF's annual reports", as well as with AMF recommendation 2009-16 (as updated on April 13, 2015), which serves as a guide to preparing registration documents.
- Michelin's Executive Management and Supervisory Board have decided to apply the recommendations of the AFEP/MEDEF Code concerning an advisory "say-on-pay" shareholder vote on the individual compensation awarded to executive officers. The information required by shareholders for the purpose of their advisory vote on the components of the 2016 compensation of the Chief Executive Officer and the Chairman of the Supervisory Board is presented in sections 4.3.3 and 4.3.5 of this Registration Document, as provided for in the AFEP/MEDEF Code and its implementation guidance.

4.3.1 SUMMARY INFORMATION CONCERNING THE CHIEF EXECUTIVE OFFICER AND THE CHAIRMAN OF THE SUPERVISORY BOARD

4.3.1 a) Compensation, stock options and performance shares awarded to Jean-Dominique Senard (in €) (based on Table 1 in the AFEP/MEDEF Code)

Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	2016	2015
Compensation due for the year	3,303,789	2,383,869
Value of stock options granted during the year	0	0
Value of performance shares granted during the year	0	0
Value of other long-term compensation plans	0	0
TOTAL	**3,303,789**	**2,383,869**
Reference CGEM consolidated net income	*1,667,252,073*	*1,163,401,238*

(1) *See section 4.1.4 for biographical details about the Chairman of SAGES.*

Michel Rollier, Chairman of the Supervisory Board	2016	2015
Compensation due for the year	90,000	68,000
Value of stock options granted during the year	0	0
Value of performance shares granted during the year	0	0
Value of other long-term compensation plans	0	0
TOTAL	**90,000**	**68,000**

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

	2016		2015	
Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	**Due**	**Paid [1]**	**Due**	**Paid**
Fixed compensation [2]	1,100,000	1,100,000	1,100,000	1,100,000
Annual variable compensation	1,700,597 [3]	1,276,975 [4]	1,276,975 [4]	750,037 [5]
Exceptional compensation	0	0	0	0
Attendance fees	0	0	0	0
Fringe benefit (car)	8,076	6,894	6,894	6,894
TOTAL	**2,808,673**	**2,383,869**	**2,383,869**	**1,856,931**
Reference CGEM consolidated net income	*1,667,252,073*	*1,163,401,238*	*1,163,401,238*	*1,031,090,189*

(1) This table does not include amounts paid that are due solely for prior years (see section 4.3.2 c), Table 2, of the 2016 Registration Document).
(2) Compensation paid by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, in consideration of his role as Non-General Managing Partner of the Company.
(3) Amount before withholding tax estimated based on applying the performance criteria. It is proportional to CGEM's 2016 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 share of profits by CGEM shareholders at the next Annual Meeting on May 19, 2017 (see section 4.3.2 b). It includes the estimated €50,000 statutory share of the 2016 profit of Compagnie Financière Michelin SCmA (CFM) (Profit Share) that is payable by that company subject to approval by its shareholders at the 2017 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 2015.
(5) Entirely variable Profit Shares contingent on profit generated in 2014. Paid by CGEM and CFM in 2015 following approval of the related resolutions at their 2015 Annual Shareholders Meetings.

4.3.1 c) Compensation due and paid to Michel Rollier (in €) (based on Table 2in the AFEP/MEDEF Code)

	2016		2015	
Michel Rollier, Chairman of the Supervisory Board	**Due**	**Paid**	**Due**	**Paid**
Fixed compensation	0	0	0	0
Annual variable compensation	0	0	0	0
Exceptional compensation	0	0	0	0
Attendance fees	90,000 [1]	68,000	68,000	68,000
Fringe benefit (car)	0	0	0	0
TOTAL	**90,000**	**68,000**	**68,000**	**68,000**

(1) New amount decided by the Supervisory Board, corresponding to the increase in total attendance fees approved by the Annual Meeting of May 13, 2016 (see section 4.3.4 a).

4.3.1 d) Attendance fees and other compensation received by the Supervisory Board members (based on Table 3 in the AFEP/MEDEF Code)

See the table in section 4.3.6 below.

4.3.1 e) Stock options granted during the year to Jean-Dominique Senard and Michel Rollier 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 2016 to the Chief Executive Officer or the Chairman of the Supervisory Board.

No stock options have been granted to either the Chief Executive Officer or the Chairman of the Supervisory Board since 2005.

	Plan no. and date	Type of options (purchase or subscription)	Value of the options calculated by the method used for the consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Jean-Dominique Senard	-	-	0	0	-	-
Michel Rollier	-	-	0	0	-	-

4.3.1 f) Stock options exercised during the year by the Chief Executive Officer and the Chairman of the Supervisory Board (based on Table 5 in the AFEP/MEDEF Code) [(1)]

	Plan no. and date	Number of options exercised during the year	Exercise price
Jean-Dominique Senard	-	0	-
Michel Rollier	-	0	-

4.3.1 g) Performance shares granted during the year to the Chief Executive Officer and the Chairman of the Supervisory Board by the issuer and any other Group company (based on Table 6 in the AFEP/MEDEF Code) [(2)]

Of the 120,520 performance share rights granted on November 25, 2016 pursuant to the authorization given at the May 13, 2016 Annual Shareholders Meeting, none were granted to the Chief Executive Officer or the Chairman of the Supervisory Board.

	Plan no. and date	Number of performance share rights granted during the year	Value of the performance shares calculated by the method used for the consolidated financial statements	Vesting date	End of lock-up period	Performance conditions
Jean-Dominique Senard	-	0	0	-	-	-
Michel Rollier	-	0	0	-	-	-

4.3.1 h) Performance shares granted to the Chief Executive Officer and the Chairman of the Supervisory Board during the year (based on Table 7 in the AFEP/MEDEF Code) [(2)]

	Plan no. and date	Number of performance shares whose sale restrictions were lifted during the year	Vesting conditions
Jean-Dominique Senard	-	0	-
Michel Rollier	-	0	-

4.3.1 i) Past awards of stock options – Information about stock options (based on Table 8 in the AFEP/MEDEF Code)

See the table in section 5.5.4 a) below.

(1) Refer also to the Managing Partners' Special Report and to the details of current plans, as presented in the table in section 5.5.4 concerning stock options.
(2) Refer also to the Managing Partners' Special Report and to the details of current plans in section 5.5.5 concerning performance shares.

4.3.1 j) Past awards of performance shares – Information about performance shares (based on Table 9 in the AFEP/MEDEF Code)

See the table in section 5.5.5 a) below.

4.3.1 k) Long-term variable compensation awarded to the Chief Executive Officer and the Chairman of the Supervisory Board (based on Table 10 in the AFEP/MEDEF Code)

For Jean-Dominique Senard, see the tables in section 4.3.2 c).

For Michel Rollier: not applicable.

4.3.1 l) Employment contracts, supplementary pension benefits and other benefits (based on Table 11 in the AFEP/MEDEF Code)

	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	
Executive officer	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Jean-Dominique Senard Position: Chief Executive Officer and General Partner Start date of term of office: 2011 Expiration of term of office: 2019 (1)		X	X (2)		X (3)		X (4)	
Michel Rollier Position: Chairman of the Supervisory Board Start date of term of office: 2013 Expiration of term of office: 2017		X		X		X		X

(1) See section 4.2.1 a).
(2) Defined benefit pension plan set up for senior executives of MFPM (for detailed explanations, see section 10.2.1.1 d).
(3) Benefit defined in the CGEM bylaws:
– set by the Non-Managing General Partner with the endorsement of the Supervisory Board;
– only payable in the event of forced departure due to a change of strategy or of control;
– capped at two years' fixed and variable compensation (this cap includes any other benefits payable on termination of office such as a non-compete indemnity);
– subject to performance conditions (see section 10.2.1.1 e).
(4) Indemnity payable in his capacity as an executive officer of CGEM:
– with the possibility for the Board to waive the implementation of the non-compete clause;
– capped at 16 months' worth of his most recent aggregate compensation;
– deducted, where appropriate, from the cap equal to two years' fixed and variable compensation, applicable to all benefits payable on termination of office, including the termination benefit payable in the event of a forced departure as a result of a change in the Company's strategy or control (for detailed explanations, see section 10.2.1.1 f).

4.3.2 AMOUNTS ALLOCATED TO JEAN-DOMINIQUE SENARD, CHIEF EXECUTIVE OFFICER AND GENERAL PARTNER

In his capacity as a General Partner of CGEM, Jean-Dominique Senard has unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners (1) each receive a portion of the Company's profits as provided for in the bylaws (2). This means that their interests are fully aligned with those of the shareholders, as they are paid this consideration only if the Company makes a profit.

As in prior years, the Compensation and Appointments Committee of the Supervisory Board has reviewed all the components of the compensation due, awarded or to be awarded to Jean-Dominique Senard, Chief Executive Officer and sole executive director, pursuant to the compensation policy described in the Supervisory Board's report presented in section 10.2.1.1 of the 2016 Registration Document (page 310).

4.3.2 a) Fixed compensation

In 2016, Mr. Senard received fixed compensation of €1,100,000 from MFPM for his role as the Company's Non-General Managing Partner, unchanged since 2014.

(1) At December 31, 2016, the Company had two General Partners: Jean-Dominique Senard, Chief Executive Officer, and SAGES, Non-Managing General Partner (see presentation in section 4.1.4).
(2) See Article 30 of the bylaws, reproduced in section 5.1.2 e) below.

4.3.2 b) Variable compensation

/ 4.3.2 b) 1 Annual variable compensation

Shared features

Details of the Annual Variable Components of Mr. Senard's compensation were announced by the Supervisory Board in a press release posted on the Company's website on May 27, 2016.

The Annual Variable Components of Mr. Senard's compensation are paid out of the Profit Shares allocated to the two General Partners, which amounted to €10,003,512.44 for 2016 (1).

Based on the Group's consolidated net income of €1,667,252 thousand (1), the Compensation and Appointments Committee has noted that the Consolidated Calculation Base of 0.6% of consolidated net income amounts to €10,003,512.44 for 2016.

Given the mutually agreed division of the Profit Share between the General Partners, and the results achieved in 2016 in relation to the performance conditions, as presented below, the total amount payable to Mr. Senard stands at €1,700,597.

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 €800,281 for 2016 (2), i.e. 72.8% of the fixed compensation.

Multi-Criteria Annual Variable Component

Quantitative criteria	Annual growth in unit sales	Annual savings from the Efficiency project to reduce overheads	Annual structural free cash flow
Indicator	Volume *(tonnes)*	Appropriate SG&A/gross margin ratio	Amount
Target (trigger point) (1)	Proportionate to observed increase	Achieved in stages as from a minimum ratio	Achieved in stages as from a minimum amount
Indicator: 2016 Actual	2.1%	56.70%	€961 million
Maximum value	50/150ths	25/150ths	25/150ths
Achievement rate		50.71/150ths	

(1) For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of these performance targets.

Qualitative criteria	Chief Executive Officer succession plan	Deployment of the Group's four progress initiatives (Customer Service, Simplification of Operating Procedures, Empowerment, Digitalization)
Maximum value		50/150ths
Achievement rate		48/150ths

Condition : Triggered when cumulative achievement rate	For the five criteria is at least 50/150ths: Achieved
Overall achievement rate (quantitative and qualitative criteria)	100/150ths (1)
Amount awarded according to quantitative and qualitative criteria *(in €)*	900,316
As a % of fixed compensation	81.8%

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

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

- In particular, concerning the two qualitative criteria which together account for up to 50/150ths, the Committee considered that the achievement rate was 48/150ths, as follows:
  - Concerning the Chief Executive Officer succession plan, having observed that Mr. Senard had examined this issue in detail with continuous input from the members of the Compensation and Appointments Committee, the Committee rated his performance in relation to the objective as very good.
  - Concerning deployment of the Group's four progress initiatives (Customer Service, Simplification of Operating Procedures, Empowerment, Digitalization), the indicators defined by the Committee showed that significant progress had been achieved.

In conclusion of its analysis concerning the Multi-Criteria Annual Variable Component, the Committee recommended to the Supervisory Board that cumulative actual performance in relation to these quantitative and qualitative criteria should be rated as 100 out of 150. Based on the Consolidated Calculation Base of €10,003,512.44, the application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €900,316 for 2016.

After discussing the matter during its meeting on February 9, 2017, the Supervisory Board approved the Compensation and Appointments Committee's recommendations.

The Chair of the Compensation and Appointments Committee then submitted its recommendations to the General Partners (SAGES and Mr. Senard), which approved them.

(1) See the 2nd and 3rd resolutions to be presented to the Annual Shareholders Meeting of May 19, 2017.
(2) This amount is net of the sum payable by CFM as compensation for Mr. Senard's role as General Managing Partner of this subsidiary, estimated at €50,000.

4.3.2 b) 2 Cash-settled deferred variable component awarded in 2016 (long-term incentive bonus)

This long-term incentive bonus was announced by the Supervisory Board in a press release posted on the Company's website on May 27, 2016.

It was determined by the Supervisory Board in application of the compensation policy defined in section 10.2.2.1 of the 2016 Registration Document.

The long-term incentive bonus is calculated on a base amount of €1,800,000, as increased or reduced to reflect the percentage gain or loss in Michelin's share price over three years (2016-2018 period).

The amount obtained by applying the adjustment clause will be modulated by the application of three criteria set by the Supervisory Board and applicable over the above three-year period. These criteria are the same as the ones used for performance share grants and reflect implementation of the Ambitions for 2020 described in section 1.1 of the 2016 Registration Document [1].

As this is a long-term incentive plan, the Supervisory Board noted that no amount was due in respect of 2016.

Details of the performance criteria and related intermediate achievement rates are presented in Table 1.3 of section 4.3.2 c) of the 2016 Registration Document.

The long-term incentive bonus is subject to the shareholders' "say-on-pay" advisory vote on 2016 compensation.

It is not reported in CGEM's financial statements because (i) it does not represent a commitment given by CGEM or any other Group company, and (ii) its payment is subject to several conditions that are uncertain of being fulfilled (including the availability of sufficient Profit Shares at the end of the long-term period) and achievement of certain performance criteria.

There is no way of reliably simulating the amount to be paid with respect to this incentive bonus in 2019, as the bonus:

- Is not paid by Michelin but is deducted from the General Partners' Profit Shares, and, as such, is not recorded in the Company's financial statements.
- Is subject to the achievement of highly uncertain conditions and criteria, as indicated above, over a period of three years, of which only one has passed.

In the same way as for the long-term incentive bonuses awarded in 2014 and 2015:

- If the Chief Executive Officer were to cease to be a General Partner before the end of the performance assessment period (for reasons other than death or disability), he would forfeit his rights to the long-term incentive bonus.
- 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 2016 incentive bonus and to retain these shares for as long as he remains in office, after which the shares may be sold on a phased basis over four years.

4.3.2 c) Cash-settled long-term incentive bonus

Tables 1: Cash-settled long-term incentive bonuses awarded since 2014 [2]

Table 1.1 – Cash-settled long-term incentive bonus awarded in 2014

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2014-2016 [(1)] period	Annual average growth in consolidated net sales (based on a comparable consolidation scope, at constant exchange rates and accounting methods, excluding non-recurring items)	Annual average return on capital employed (ROCE) (based on a comparable consolidation scope, at constant exchange rates and accounting methods, excluding non-recurring items)
Type of criterion	Financial	Business	Financial
Weighting	33.3%	33.3%	33.3%
Objective	Target gradually met from the point at which Michelin's share price performance exceeds that of shares in the 4th quartile [(1)]	Trigger point	Target gradually met once observed ROCE is significantly greater than the weighted average cost of capital employed
Indicator: achieved	Growth in the Michelin share price [(1)] (2nd quartile) = +25.2% Growth in average share price of stocks in CAC 40 [(1)] 4th quartile = -12.9%	2014 = -1.9% 2015 = +1.0% 2016 = +0.4%	2014 = 11.1% 2015 = 12.2% 2016 = 12.1%
Achievement rate	22%	0%	0%
Base amount	€1,800,000, as increased or reduced by the % change in the Michelin share price over the 2014-2016 [(1)] period.		
Ceiling	▸ 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2014, 2015 and 2016. ▸ Amount of Profit Shares available for distribution in 2017 out of 2016 profit, after deducting annual variable and multi-criteria variable compensation due for 2016.		
Amount due		€495,116	
Payment year		2017, after approval of the 2016 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 2016 compared to the average share price for the second half of 2013.

(1) These criteria and related objectives are presented in the Registration Documents for 2015 (pages 299-301) and in section 5.5.5 and section 10.2.2.1 of the 2016 Registration Document.

(2) No liability is recognized for these incentive bonuses in the Company's financial statements because they are deducted from the General Partners' Profit Shares which in turn are paid out of the Company's profit for the year.

The 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).

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 2017 amounted to €495,116.

Mr. Senard is committed to investing 20% of this amount in Michelin shares which he will continue to hold for as long as he remains in office, with any subsequent sales to be carried out on a phased basis over four years.

Table 1.2 – Cash-settled long-term incentive bonus awarded in 2015

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2015-2017 (1) period	Annual average growth in consolidated net sales (based on a comparable consolidation scope, at constant exchange rates and accounting methods, excluding non-recurring items)	Annual average return on capital employed (ROCE) (based on a comparable consolidation scope, at constant exchange rates and accounting methods, excluding non-recurring items)
Type of criterion	Financial	Business	Financial
Weighting	33.3%	33.3%	33.3%
Objective	Target gradually met from the point at which Michelin's share price performance exceeds that of shares in the 3rd quartile (1)	Trigger point	Target gradually met once observed ROCE is significantly greater than the weighted average cost of capital employed
Indicator: intermediate assessment	Growth in the Michelin share price (2) (1st quartile) = +24.8% Growth in average share price of stocks in CAC 40 (2) 3rd quartile = -0.8%	2015 = +1.0% 2016 = +0.4%	2015 = 12.2% 2016 = 12.1%
Base amount	€1,800,000, as increased or reduced by the % change in the Michelin share price over the 2015-2017 (1) period.		
Ceiling	▶ 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2015, 2016 and 2017. ▶ Amount of Profit Shares available for distribution in 2018 out of 2017 profit, after deducting annual variable and multi-criteria variable compensation due for 2017.		
Payment year	2018, after approval of the 2017 financial statements		
Commitment	Commitment to invest in Michelin shares 20% of the long-term incentive bonus received at the end of the three-year period and to retain these shares for as long as Mr. Senard remains in office, after which the shares may be sold on a phased basis over four years.		

(1) Average share price for the second half of 2017 compared to the average share price for the second half of 2014.
(2) Average share price for the second half of 2016 compared to the average share price for the second half of 2014.

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).

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 long-term 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.

Table 1.3 – Cash-settled long-term incentive bonus awarded in 2016

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2016-2018 [(1)] period	Michelin's Environmental Footprint (as measured by the "MEF" indicator) [(2)]	Employee Engagement Rate (as measured by the annual "Moving Forward Together" survey)	Growth in consolidated operating income (in € millions, before non-recurring items, at constant exchange rates and accounting methods)
Type of criterion	Financial performance	Environmental and CSR performance	Environmental and CSR performance	Business performance
Weighting	35%	15%	15%	35%
Maximum objective	If the gain in Michelin's share price is at least 15 points more than the gain in the CAC 40 [(1)], the achievement rate will be 100% and the maximum 35% of the maximum potential bonus will be received.	If the average MEF over three years is less than 60, the achievement rate will be 100% and the maximum 15% of the maximum potential bonus will be received.	If the average engagement rate exceeds 80%, the achievement rate will be 100% and the maximum 15% of the maximum potential bonus will be received.	If average annual growth in operating income exceeds €150 million, the achievement rate will be 100% and the maximum 35% of the maximum potential bonus will be received.
Target objective	If the gain in Michelin's share price is between 0 and 15 points more than the gain in the CAC 40 [(1)], the result will be: (gain in the Michelin share price - gain in the CAC 40 index) x (35%/15).	If the average MEF over three years is between 60 and 63, the result will be: (1-(average MEF - 60)/(63 - 60)) *15%.	If the engagement rate is between 77% and 80%, the result will be: (average engagement rate - 77%)/(80% - 77%) *15%.	If average annual growth in operating income is between €70 million and €150 million, the result will be: (operating income - €70m)/(€150m - €70m) *15%.
Trigger point	If the gain in Michelin's share price is less than the gain in the CAC 40 [(1)], the achievement rate will be 0%.	If the average MEF over three years is more than 63, the indicator will be 0%.	If the average engagement rate is less than 77%, the indicator will be 0%.	If average annual growth in operating income is less than €150 million, the indicator will be 0%.
Indicator: intermediate assessment	Growth in the Michelin share price [(3)] = +7.9% Growth in the CAC 40 [(3)] = -6.1%	2016 = 56.9	2016 = 80%	2016 = +€243m
Base amount	€1,800,000, as increased or reduced by the % change in the Michelin share price over the 2016-2018 period.			
Ceiling	▶ 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2016, 2017 and 2018. ▶ Amount of Profit Shares available for distribution in 2019 out of 2018 profit, after deducting annual variable and multi-criteria variable compensation due for 2018.			
Payment year	2019, after approval of the 2018 financial statements			
Commitment	Commitment to invest in Michelin shares 20% of the long-term incentive bonus received at the end of the three-year period and to retain these shares for as long as Mr. Senard remains in office, after which the shares may be sold on a phased basis over four years.			

(1) Average share price for the second half of 2018 compared to the average share price for the second half of 2015.
(2) Michelin site Environmental Footprint (MEF) indicator: energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled.
(3) Average share price for the second half of 2016 compared to the average share price for the second half of 2015.

The long-term incentive bonus performance criteria and objectives were presented at the Annual Shareholders Meeting of May 13, 2016 and were approved by a majority of 99.60% of the votes cast (25th resolution).

The Compensation and Appointments Committee noted the above intermediate assessment of performance in relation to the various criteria.

Mr. Senard is committed to investing 20% of the incentive bonus in Michelin shares which he will continue to hold for as long as he remains in office, with any subsequent sales to be carried out on a phased basis over four years.

/ Table 2: Cash-settled long-term incentive bonuses awarded between 2007 and 2011 (plans closed in 2012)

Grant year	2007	2008	2009	2010	2011
Number of units awarded (in 2007 and 2008)	18,646	20,719	-	-	-
Amount awarded (2009 to 2011) *(in €)*	-	-	0 (waived)	368,034.00	0 (waived)
Unit exercise price *(in €)*	87.85	59.85	-	-	-
Exercise period	May 14, 2011 to May 14, 2016	May 19, 2012 to May 18, 2017	-	April 30, 2015 to April 29, 2019	-
Units exercised or incentive bonuses paid in 2016 *(gross amount in €)*	133,318.90 [(1)]	0	0	0	0
Units or incentive bonuses cancelled/expired	0	0	0	0	0
Units or incentive bonuses outstanding at December 31, 2016 *(in €)*	0	20,719 units	0	€368,034.00	0

(1) Gross amount before payroll tax and other deductions.

The long-term incentive bonuses (ILTs) in respect of 2007 and 2008 were awarded in the form of units whose value is equal to the difference between (i) the value of Michelin shares on the date the units are cashed in and (ii) the benchmark share price, defined as the exercise price of the stock options granted to Group employees on May 14, 2007 and May 29, 2008. The other terms and conditions of the awards (notably the vesting period, eligibility criteria and the cap on gains) are identical to those of the stock option plans, except for certain minor adjustments made to reflect the legal status of a Non-General Managing Partner (which Mr. Senard was during this period). The number of units and the exercise price were adjusted under the same terms and conditions as the stock option plans following the October 25, 2010 share issue.

As allowed under ILT plan rules, in April 2016 Mr. Senard cashed in his 2007 ILT, representing a gross amount of €133,318.90 based on the opening Michelin share price of €95 on the settlement date.

The maximum capped cost to the Company of the 2008 ILT as of December 31, 2016 may be analyzed as follows:

- €949,966 theoretically payable to Mr. Senard, corresponding to the number of 2008 ILT units multiplied by the difference between the Michelin share price on December 31, 2016 (€105.70) and the exercise price of the 2008 ILT unit (€59.85).
- €313,489 in payroll taxes due by the Company upon payment of the 2008 ILT, estimated in accordance with current legislation.

The long-term incentive bonus awarded in 2009 was calculated on the basis of Mr. Senard's annual variable compensation. However, given the recessionary economic environment and the various measures implemented by the Group in response during 2009, Mr. Senard waived his right to this compensation.

Mr. Senard's 2010 ILT was equal to the average amount, in €, of the variable compensation paid to him for 2008, 2009 and 2010.

This ILT is indexed to the long-term change in the Michelin share price, as determined by comparing the average share price for the quarter preceding the 2010 ILT award date to the average price for the quarter preceding the date when Mr. Senard elects to cash in the 2010 ILT.

The adjustment may be positive or negative, depending on whether the average share price rises or falls, and is capped at 100% of the variable compensation used as the basis for calculating the 2010 ILT.

Payment of the 2010 ILT is deferred because it may only be cashed in between the fifth and ninth anniversaries of the reference year, unless Mr. Senard is removed from office due to mismanagement.

The maximum capped cost to the Company of the 2010 ILT as valued at December 31, 2016 may be analyzed as follows:

- €368,034 theoretically payable to Mr. Senard, corresponding to the average amount, in €, of the variable compensation paid to him in respect of 2008 (waived), 2009 (€494,807) and 2010 (€609,294).
- €368,034 in a provision covering the maximum impact of indexation on the ILT due, corresponding to an assumed Michelin share price of at least €107.
- €242,902 in applicable payroll taxes due by the Company upon payment of the ILT, estimated in accordance with current legislation and based on the maximum indexed amount.

In 2012, Mr. Senard waived his rights to his 2011 ILT calculated on the same basis as the 2010 ILT (i.e. the average amount, in €, of the variable compensation paid to him in respect of 2009, 2010 and 2011).

4.3.2 d) Fringe benefits, stock options, performance shares, attendance fees

In line with the Group's compensation policy [(1)], Mr. Senard did not receive any attendance fees in 2016 from any Group companies, 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 4.3.1 b).

4.3.2 e) Pension benefits

The pension plan's structure and rules are described in section 10.2.1.1 d) 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 2015.

- Mr. Senard's reference compensation for 2016 was made up solely of the fixed compensation paid by MFPM and amounted to €1,100,000.

Based on the assumptions set out in the above-mentioned enabling legislation of February 23, 2016, his estimated annual pension under the plan will amount to €132,000. 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 2015 (fixed compensation and variable Profit Shares), the actual gross replacement rate represented by pension benefits paid under the plan would be well below the 45% ceiling recommended in the AFEP/MEDEF Code.

4.3.2 f) Compensation for loss of office

No compensation for loss of office was paid in 2016.

4.3.2 g) Non-compete clause

No non-compete indemnity was paid in 2016.

4.3.3 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO JEAN-DOMINIQUE SENARD, CHIEF EXECUTIVE OFFICER, IN RESPECT OF 2016 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 19, 2017 ANNUAL MEETING [(2)]

Michelin decided to apply the recommendations of the AFEP/MEDEF Code concerning an advisory "say-on-pay" shareholder vote on the individual compensation awarded to executive officers as soon as they were published.

In line with the recommendation of the Compensation and Appointments Committee, the Supervisory Board has issued a favorable opinion on the total compensation due or awarded to Mr. Senard in respect of 2016 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 19, 2017 (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 4.3.1 and 4.3.2 of the 2016 Registration Document.

(1) See section 10.2.1.1.
(2) Presented in accordance with paragraph 26 of the AFEP/MEDEF Code (November 2016 version) and its implementation guidance (dated December 2016), available on their respective websites www.afep.com and www.medef.com.

Compensation due or awarded for 2016	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	1,100,000	**Unchanged from the previous year.** This corresponds to the gross annual fixed compensation due by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, as consideration for the duties performed by Mr. Senard in his capacity as Non-General Managing Partner of that company. Its amount was set by MFPM's General Partner in 2014 and has not been changed since then. For more information, see sections 4.3.2 a) Fixed compensation and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 112 and 310 respectively).
Annual variable compensation	1,700,597	**Details of the Annual Variable Components of Mr. Senard's compensation were announced by the Supervisory Board in a press release posted on the Company's website on May 27, 2016.** **Shared features** The basis used to calculate the Annual Variable Components (the Consolidated Calculation Base) corresponds to 0.6% of the Group's consolidated net income, The Annual Variable Components of Mr. Senard's compensation are paid out of the share of profit (Profit Shares) allocated to the two General Partners of CGEM – Jean-Dominique Senard and SAGES – that is now split between them on a mutually agreed basis. The consolidated net income to be presented at the Annual Shareholders Meeting on May 19, 2017, amounts to €1,667,552 thousands. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2016 is €10,003,512.44. Given the mutually agreed division of the Profit Share between the General Partners, and the performance achieved in 2016 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Senard represents €1,700,597 (before applicable withholding tax), as follows: **Single-Criterion Annual Variable Component** This component is equal to 8% of the Consolidated Calculation Base. The Compensation and Appointments Committee noted that the Single-Criterion Annual Variable Component amounts to €800,281 for 2016. **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 2016 variable compensation of the Executive Committee members and Group managers) was 50.71/150ths, compared to a maximum rate of 100/150ths. Concerning the two qualitative criteria, the Committee concluded that: ▶ Concerning the Chief Executive Officer succession plan, having observed that Mr. Senard had examined this issue in detail with continuous input from the members of the Compensation and Appointments Committee, the Committee rated his performance in relation to the objective as very good. ▶ Concerning deployment of the Group's four progress initiatives (Customer Service, Simplification of Operating Procedures, Empowerment, Digitalization), the indicators defined by the Committee showed that significant progress had been achieved. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 48/150ths compared with a maximum rate of 50/150ths. 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 a rounded up result of 100 out of 150. Based on the Consolidated Calculation Base of €10,003,512.44, the application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board results in a Multi-Criteria Annual Variable Component of €900,316 for 2016. For more information, see sections 4.3.2 b) Variable compensation and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 113 and 311 respectively).

(1) For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of these performance targets.

Compensation due or awarded for 2016	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2016	No cash-settled deferred variable compensation was due for 2016	**This long-term incentive bonus was announced by the Supervisory Board in a press release posted on the Company's website on May 27, 2016.** The long-term incentive bonus is calculated on a base amount of €1,800,000, as increased or reduced to reflect the percentage gain or loss in Michelin's share price over three years (2015-2017 period). The amount obtained by applying the adjustment clause will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the above three-year period: ▶ Share performance ▶ Environmental and corporate social responsibility performance: employee engagement and environmental performance of manufacturing operations (as measured by the MEF) ▶ Growth in operating income (1) These criteria are the same as the ones applicable to the 2016 performance share plan for Group employees, which is not open to Mr. Senard. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full. The long-term incentive bonus is not due by Michelin but would be deducted from the General Partners' allocated Profit Shares. The final amount receivable under the long-term incentive plan will be: ▶ Capped at 150% of the average of the Annual Variable Components paid to Mr. Senard for 2016, 2017 and 2018. ▶ Paid out of the Profit Shares allocated to the General Partners in respect of 2018 and payable in 2019 after the 2018 financial statements have been approved: – Subject to the availability of Profit Shares payable in 2019 out of 2018 profit; and – Up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2018. The Supervisory Board noted that no amount was due in respect of 2016 because this is a long-term incentive plan. In the same way as for the long-term incentive bonuses awarded in 2014 and 2015: ▶ If the Chief Executive Officer were to cease to be a General Partner (for reasons other than death or disability) 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. ▶ Mr. Senard will be required to invest 20% of the long-term incentive bonus in Michelin shares at the end of the three-year period and to retain these shares for as long as he remains in office, after which the shares may be sold on a phased basis over four years. For more information, see sections 4.3.2 b) Variable compensation and 4.3.2 c) Cash-settled long-term incentive bonus (Table 1.3) and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 113 and 310 respectively).
Cash-settled deferred incentive bonus awarded in 2014 and due in 2017 in respect of 2016	495,116	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). 2016 was the last calculation year for this bonus and the Compensation and Appointments Committee therefore noted the achievement rates for each of the performance criteria, as follows: ▶ Growth in the Michelin share price compared with that of the CAC 40 index: 22% achievement rate. ▶ Average annual growth in Group net sales: 0% achievement rate. ▶ Average annual return on capital employed (ROCE): 0% achievement rate. Based on the Calculation Base increased by 25.20%, the Supervisory Board noted that the gross amount due for the long-term incentive bonus is €495,115 (before applicable withholding tax). For more information, see Table 1.1 in section 4.3.2 c) of the 2016 Registration Document (page 114). 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.
Stock options, performance shares and other long-term compensation	N/A	No stock options granted No performance shares awarded No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	N/A	Mr. Senard does not receive any attendance fees
Value of fringe benefits	8,076	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 2016 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 2016	**The detailed information in this section is unchanged from 2015.** 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 sections 4.3.2 f) Compensation for loss of office and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 118 and 310 respectively).
Non-compete indemnity	No indemnity was due under a non-compete clause in 2016	**The detailed information in this section is unchanged from 2015.** 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 sections 4.3.2 g) Non-compete indemnity and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 118 and 310 respectively).
Supplementary pension benefits	No supplementary pension benefits were due for 2016	**The pension plan structure and rules are unchanged from 2015.** This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard participates in the supplementary pension plan set up for MFPM senior executives (the Michelin Executive Supplementary Pension Plan). This plan, which is governed by Article L. 137-11 of the French Social Security Code and Article 39 of the French General Tax Code and is not restricted to Non-General Managing Partners (executive officers), has the following main features: ▶ Participants must have served for at least five years as a senior executive. ▶ 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the best three years of compensation out of the last five years preceding the beneficiary's retirement). ▶ The replacement rate including benefit entitlements under compulsory plans is capped at 35%. ▶ An evaluation is carried out in accordance with Group accounting policies. ▶ Benefit entitlement is conditional on participants ending their career at MFPM as an executive employee or executive officer, in accordance with Article L. 137-11 of the French Social Security Code. ▶ 70% of the prior year's benefit obligation funded through a contribution to an insured plan. Mr. Senard's reference compensation is made up solely of the fixed compensation paid by MFPM and amounts to €1,100,000 for 2016. 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 €132,000. The pension benefits will be taxed at the rate of 32%. As the reference compensation represents less than half of the aggregate amount received by Mr. Senard for 2016 (fixed compensation and variable Profit Shares), the actual gross replacement rate represented by benefits paid under the plan would be well below the 45% ceiling recommended in the AFEP/MEDEF Code.

(1) Unlike for joint stock companies (sociétés anonymes, or S.A.s) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or S.C.A.) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).
The fact that the specific system applicable to S.A.s concerning related-party commitments does not apply to S.C.A.s is corroborated by Article L. 226-10-1 of the 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 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.

4.3.4 AMOUNTS ALLOCATED TO MICHEL ROLLIER, CHAIRMAN OF THE SUPERVISORY BOARD

Michelin's Executive Management and Supervisory Board have decided to apply the new recommendation of the AFEP/MEDEF Code concerning an advisory "say-on-pay" shareholder vote on the individual compensation awarded to non-executive officers. For this reason, in addition to the figures presented in section 4.3.1 above and the information provided below, section 4.3.5 of this Registration Document sets out information required for shareholders' advisory vote on the components of the compensation due, awarded or to be awarded to Michel Rollier, Chairman of the Supervisory Board, for 2016, as provided for in the AFEP/MEDEF Code and its implementation guidance.

The Compensation and Appointments Committee of the Supervisory Board has reviewed all the components of the compensation due, awarded or to be awarded to Michel Rollier, Chairman of the Supervisory Board and sole non-independent non-executive director, pursuant to the compensation policy described in the Supervisory Board's report presented in section 10.2.1.2 of the 2016 Registration Document.

4.3.4 a) Attendance fees

In 2016, Michel Rollier received total attendance fees of €68,000 in respect of 2015.

Based on the increased total attendance fees approved by the Annual Shareholders Meeting of May 13, 2016 and the allocation and payment policy decided by the Supervisory Board in 2016, attendance fees totaling €90,000 have been awarded to Mr. Rollier for 2016, payable in 2017.

4.3.4 b) Other components of compensation

No other compensation was paid or awarded to Michel Rollier for 2016.

4.3.5 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO MICHEL ROLLIER, CHAIRMAN OF THE SUPERVISORY BOARD, IN RESPECT OF 2016 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 19, 2017 ANNUAL MEETING (1)

Michelin decided to apply the recommendations of the AFEP/MEDEF Code concerning an advisory "say-on-pay" shareholder vote on the individual compensation awarded to non executive officers.

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 2016.

These components of Mr. Rollier's compensation will be presented to shareholders at the Annual Meeting on May 19, 2017 (7th resolution).

All data are presented in line with the standard tables set out in the AFEP/MEDEF Code and included in sections 4.3.1 c) and 4.3.4 of the 2016 Registration Document.

Compensation due or awarded for 2016	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	N/A	No fixed compensation
Annual variable compensation	N/A	No annual variable compensation
Cash-settled deferred variable compensation	N/A	No cash-settled deferred variable compensation
Stock options, performance shares and other share-based payments	N/A	No stock options granted No performance shares awarded No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	90,000	Total amount allocated in respect of his duties as Chairman of the Supervisory Board and member of the Compensation and Appointments Committee. Mr. Rollier's attendance rate at meetings of the Board of Directors and the Committee of which he is a member was 100% in 2016. For more information, see sections 4.3.4 a) Attendance fees and 10.2.1.2 Compensation policy 2016 compensation of the 2016 Registration Document (pages 122 and 313 respectively).
Value of fringe benefits	N/A	No fringe benefits

(1) Presented in accordance with paragraph 26 of the AFEP/MEDEF Code (November 2016 version) and its implementation guidance (dated December 2016), available on their respective websites www.afep.com and www.medef.com.

Components of compensation due or awarded for 2016 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

4.3.6 COMPENSATION RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD IN 2016

ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY THE NON-EXECUTIVE MEMBERS OF THE SUPERVISORY BOARD IN 2016 (BASED ON TABLE 3 IN THE AFEP/MEDEF CODE)

Non-executive Supervisory Board members	Amount paid in 2016 (for 2015)	Amount paid in 2015 (for 2014)
Olivier Bazil		
Attendance fees	53,000	53,000
Other compensation	0	0
Pat Cox		
Attendance fees	46,000	46,000
Other compensation	0	0
Barbara Dalibard		
Attendance fees	40,250 (1)	36,000
Other compensation	0	0
Anne-Sophie de La Bigne		
Attendance fees	46,000	46,000
Other compensation	0	0
Jean-Pierre Duprieu		
Attendance fees	46,000	43,240
Other compensation	0	0
Aruna Jayanthi *(elected on May 22, 2015)*		
Attendance fees	21,000 (1)	0
Other compensation	0	0
Monique Leroux *(appointed on October 1, 2015)*		
Attendance fees	9,000 (1)	0
Other compensation	0	0
Laurence Parisot *(resigned on July 24, 2015)*		
Attendance fees	31,000 (1)	53,000
Other compensation	0	0
Cyrille Poughon		
Attendance fees	36,000	14,400 (1)
Other compensation	0	0
Michel Rollier		
Attendance fees	68,000	68,000
Other compensation	0	0
TOTAL	**396,250**	**365,640**

(1) Corresponding to the fees earned during the period from the date of appointment or up to the date of retirement.

4.3.7 TOTAL COMPENSATION AWARDED TO THE GROUP EXECUTIVE COMMITTEE

In 2016, the members of the Group Executive Committee received aggregate gross compensation of €10,389,271 (including €3,382,704 corresponding to the variable component for 2015 which was paid during the first half of 2016). In 2015 the gross aggregate compensation received by Group Executive Committee members totaled €10,329,303 (including €2,085,012 corresponding to the variable component for 2014 which was paid during the first half of 2015).

The Group Executive Committee members do not receive any attendance fees as members of the Boards of any Group companies.

4.4 TRADING IN MICHELIN SHARES BY MANAGING PARTNERS, GENERAL PARTNERS AND SUPERVISORY BOARD MEMBERS AND THEIR CLOSE RELATIVES IN 2016

/ Supervisory Board

Aruna Jayanthi

200 shares purchased on March 21, 2016 at a unit price of €89.78 a share.

Monique Leroux

400 shares purchased on February 18, 2016 at a unit price of €85.33 a share.

300 shares purchased on August 5, 2016 at a unit price of €92.90 a share.

Cyrille Poughon

10 shares purchased on November 15, 2016 of which 5 at a unit price of €76.38 a share, and 5 by way of a Group contribution in the framework of an employee shareholding plan.

/ SAGES (Non-Managing General Partner)

20,132 shares purchased on June 21, 2016 at a unit price of €88.97 a share.

To the best of the Company's knowledge, no other transactions in the Company's shares were carried out by the Chief Executive Officer, SAGES, Supervisory Board members or their close relatives during the year.

4.5 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE MEMBERSHIP OF THE SUPERVISORY BOARD, THE APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY, THE SUPERVISORY BOARD'S PRACTICES AND THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

4.5.1 MEMBERSHIP STRUCTURE OF THE SUPERVISORY BOARD, APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY AND SUPERVISORY BOARD PRACTICES

4.5.1 a) Members – Board 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.

According to the bylaws, no more than one-third of Supervisory Board members may be aged over 75.

The Supervisory Board currently has nine members, whose names are listed below along with details of their current position. This information is disclosed in accordance with Article L. 226-4-1 of the French Commercial Code introduced by French Act 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 Vallourec (2).
- **Pat Cox,** President of Fondation Jean Monnet pour l'Europe, European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, former President of the European Parliament and former member of the Irish Parliament.
- **Barbara Dalibard,** Chief Executive Officer of SITA (3).
- **Anne-Sophie de La Bigne,** Vice-President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group (2).
- **Jean-Pierre Duprieu,** Director of Korian (2), former Executive Vice-President of the Air Liquide group (2).
- **Aruna Jayanthi,** Chief Executive Officer of Capgemini India.
- **Monique Leroux,** President of the International Cooperative Alliance, former Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins.
- **Cyrille Poughon,** Workplace Quality of Life advisor at Manufacture Française des Pneumatiques Michelin.
- **Michel Rollier,** Chairman of the Supervisory Board, Chairman of *Plateforme de la Filière Automobile* and Member of the AFEP/MEDEF High Committee on Corporate Governance.

In summary, the Supervisory Board's diversity in terms of experience and backgrounds is illustrated by the fact that, in 2016:

- 45% of the Board members are women.
- 78% of the Board members are independent.
- 34% of the Board members are foreign nationals.

4.5.1 b) Report on the Supervisory Board's activities during 2016

/ General activities

At its meetings on February 11 and July 22 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2015 and (ii) the interim financial statements for the six months ended June 30, 2016. It also examined and expressed its opinion on the financial information communicated to the markets.

The issues examined by the Supervisory Board – based in some cases on presentations made by the Chief Executive Officer or by members of line management – were as follows:

- Quarterly financial information and interim and annual results – based in part on a review of the management scorecards used by the Executive Committee – and the corresponding press releases, including a discussion of investor relations.
- The planning process and budget assumptions.
- The Audit Committee's report.
- Capital allocation policy between the Company and shareholders.
- Preparation of communications for the Investor Day organized on June 6, 2016.
- Expiry of the Statutory Auditors' appointment.
- Internal control and risk management, and the Chairman's report on these topics and on Supervisory Board practices.
- The strategic plan for the Group and the plans for each major business unit.

(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) *Since July 1, 2016.*

- Competitor analysis.
- Proposed acquisitions.
- Deployment of digital activities.
- Project to streamline the Group's organization and business processes.
- Industrial restructuring projects.
- Report of the Compensation and Appointments Committee.
- Membership of the Supervisory Board and the Committees of the Board, including three candidates for election to the Board.
- Annual assessment of Supervisory Board members' independence.
- Annual self-assessment of the Board's work and external review.
- Chief Executive Officer succession plan.
- Compensation policies.
- Preparation of the Annual Shareholders Meeting.

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

In addition, the independent members of the Board held a closed session.

The Supervisory Board continued the process initiated in 2015 to enable the member representing employees to act as a neutral observer of the Group's social dialog processes in order to make an informed contribution to the Board's discussions.

During 2016, Cyrille Poughon, the member representing employees, visited Group facilities in Brazil, the United States, Thailand and Europe (Italy and Hungary). He subsequently presented to the Supervisory Board a summary of the challenges and opportunities identified during his conversations with the local team in each country, along with his observations.

In addition, in line with legal requirements, the Company decided that the Supervisory Board of its main French subsidiary, Manufacture Française des Pneumatiques Michelin, should also continue to include an employee representative, appointed by the Company's Central Works Council.

/ Members' availability

The Supervisory Board met six times in 2016 – on February 11, April 21, May 19/20, July 22, October 4 and December 1 – with an average attendance rate (including meetings of Board Committees) of 97.7%.

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

	Participation at meetings held in 2016		
Supervisory Board members	**Supervisory Board (6 meetings)**	**Audit Committee (4 meetings)**	**Compensation and Appointments Committee (4 meetings)**
Olivier Bazil	6/6	4/4	N/A
Pat Cox	6/6	N/A	3/4
Barbara Dalibard	6/6	N/A	4/4
Anne-Sophie de La Bigne	6/6	4/4	N/A
Jean-Pierre Duprieu	6/6	4/4	N/A
Aruna Jayanthi	6/6	N/A	N/A
Monique Leroux	5/6	N/A	N/A
Cyrille Poughon	6/6	N/A	N/A
Michel Rollier	6/6	N/A	4/4

N/A: Not applicable.

/ 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.

In 2016, the two members who joined the Supervisory Board in 2015 participated in a special program to deepen their knowledge and understanding of the Group, particularly its manufacturing operations.

The Supervisory Board held one of its 2016 meetings at the recently opened Urbalad research, development and process engineering campus on the site of the Ladoux Technology Center in Clermont-Ferrand.

Board members spent half a day visiting the new campus and listening to a presentation by the Executive Vice President, Research and Development, of the Michelin innovation process and the main development projects at various stages of maturity.

In addition, a two-day seminar was organized for the Supervisory Board in China.

Half a day was devoted to a strategic review of the Group's investments, marketing and manufacturing projects and priorities in this country.

On the second day, the Board members were given a guided tour of one of the Group's major plants. They visited the production lines dedicated to passenger car/light truck and truck tires and semi-finished products, gaining valuable insight into manufacturing processes and the production shops' organization and procedures. They also had the opportunity to appreciate the plant's excellent quality and productivity performance.

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.

/ Changes in the membership of the Supervisory Board and the Statutory Auditors in 2016

A major part of the Board's work in 2016 entailed preparing for the expiration of Supervisory Board members' terms of office and the Auditors' appointments.

The Compensation and Appointments Committee reviewed the proposed re-election of Anne-Sophie de La Bigne, Jean-Pierre Duprieu, ratification of the appointment to the Board of Monique Leroux. The Audit Committe reviewed the candidates for appointment as Statutory Auditors and Substitute Auditors.

The General Partners were not involved in the processes for the election of members of the Supervisory Board and the appointment of Statutory Auditors.

Re-election and ratification

Anne-Sophie de La Bigne and Jean-Pierre Duprieu have informed the other Supervisory Board members that they wish to stand for re-election.

In reviewing their proposed re-election, the Compensation and Appointments Committee took into account the main candidate assessment criteria, covering their skills, experience, independence and availability (i.e. that they do not hold too many other directorships) and the commitment to promoting Board diversity in terms of both culture and background.

When examining the individual situations of Anne-Sophie de La Bigne and Jean-Pierre Duprieu, 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 diversity of the Board in terms of gender balance and cultural backgrounds.

Anne-Sophie de La Bigne, Vice-President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group [(1)] has been a member of the Supervisory Board and its Audit Committee since 2013 and is considered by the Supervisory Board as being an independent member because:

- She does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- She is not currently and never has been an employee of Michelin or any of its subsidiaries.
- She has not been a member of the Supervisory Board for more than 12 years.
- She is not 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 is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.
- 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.

The Board examined Ms. de La Bigne's candidature for re-election for a four-year term based on the above criteria, and particularly took into account:

- Her contribution to the Board's consideration of the Group's overall strategy and related decisions.
- Her familiarity with French and international industrial strategies.
- Her independent viewpoint as someone who comes from outside the tire business.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Anne-Sophie de La Bigne be re-elected for a further four-year term. Ms. de La Bigne did not take part in the Board's discussion or vote. She was re-elected at the Annual Shareholders Meeting of May 13, 2016.

Jean-Pierre Duprieu, Director of Korian and former Executive Vice-President [(1)] of the Air Liquide group [(2)], has been a member of the Supervisory Board and its Audit Committee since 2013 and is considered by the Supervisory Board as being an independent member because:

- He does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- He is not currently and never has been an employee of Michelin or any of its subsidiaries.
- He has not been a member of the Supervisory Board for more than 12 years.
- He is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- He has not been an auditor of Michelin in any of the past five years.
- He is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.
- He is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.

The Board examined Mr. Duprieu's candidature for re-election for a four-year term based on the above criteria, and particularly took into account:

- His contribution to the work of the Board and its Audit Committee.
- His availability and attendance rate at Board and Audit Committee meetings.
- His excellent understanding of the challenges facing the Group.
- His participation in Board discussions.
- His experience in the manufacturing sector.
- His familiarity with international markets, especially Asia.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Jean-Pierre Duprieu be re-elected for a further four-year term. Mr. Duprieu did not take part in the Board's discussion or vote. He was re-elected at the Annual Shareholders Meeting of May 13, 2016.

Monique Leroux, President of the International Cooperative Alliance, former Chair of the Board, President and Chief Executive Officer [(2)] of Mouvement des Caisses Desjardins, Canada's largest cooperative financial group [(1)], has been a member of the Supervisory Board since October 1, 2015 and is considered by the Supervisory Board as being an independent member because:

- She does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- She is not currently and never has been an employee of Michelin or any of its subsidiaries.

(1) Listed company.
(2) Until 2016.

- 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.

Monique Leroux gives the Group the benefit of the experience she acquired in one of the largest North American financial institutions, leading the bank's dynamic growth while making it the world's fifth strongest financial institution.

Her participation in many international bodies gives her solid insight into the global markets.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that shareholders ratify Monique Leroux's appointment to the Board for two years, corresponding to the remaining term of her predecessor, Laurence Parisot. Her appointment was ratified at the Annual Shareholders Meeting of May 13, 2016.

Re-appointment of the Statutory Auditors

- During several of its meetings and based on Finance Department analyses and presentations, the Audit Committee examined the question of re-appointing the auditors or appointing new auditors at the 2016 Annual Shareholders Meeting.
- The Audit Committee noted that, following an extensive call for bids in 2009, the audit fees paid by Michelin were among the lowest of the CAC 40 companies.
- The quality of the work performed by the two audit firms, PricewaterhouseCoopers Audit and Deloitte & Associés, was considered satisfactory and the fees for services provided by their networks represented only a small part of their total fees.
- The Audit Committee considered that the continuous improvement approach that aims to better organize the work of the two firms and their interaction with the Company and its subsidiaries was preferable to calling into question the choices made in 2010.
- Based on the further improvements proposed by the two firms, the Audit Committee recommended that shareholders be asked to renew the appointments of PricewaterhouseCoopers Audit and Deloitte & Associés as Statutory Auditors, and of B.E.A.S. as substitute for Deloitte & Associés, and to appoint Jean-Baptiste Deschryver as substitute for PricewaterhouseCoopers Audit in place of Pierre Coll, at PricewaterhouseCoopers Audit's request, in all cases for a period of six years.
- These re-appointments were approved by the Annual Shareholders Meeting of May 13, 2016.

/ Preparing recommendations for re-electing Supervisory Board members and other resolutions to be presented at the 2017 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 2017 Annual Shareholders Meeting.

The Committee's procedures and recommendations are presented in the Supervisory Board's report on the resolutions to be submitted to the 2017 Annual Shareholders Meeting (see section 10.2.2.1. of the 2016 Registration Document).

/ Review of Supervisory Board members' independence and any conflicts of interest

The Board has chosen to refer exclusively to the criteria listed in the AFEP/MEDEF Code for its assessment of its members' independence [1].

In the first phase, the Compensation and Appointments Committee checks that each Supervisory Board member has formally declared, in relation to the provisions and abstention obligations of the Board's internal rules, that:

- They have no close family ties with the Managing Partner or their fellow Supervisory Board members.
- They have not been convicted of fraud during the past five years, or been associated with a bankruptcy, receivership or liquidation during the past five years, or been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer during the past five years.
- They do not have a service contract with the Company or any of its subsidiaries.
- They have not been selected to serve as a Supervisory Board member pursuant to any arrangement or agreement with a principal shareholder, customer, supplier or other stakeholder.
- To the best of their knowledge, there are no restrictions on the disposal within a certain period of time of their Michelin shares, except for those resulting from insider dealing rules.
- To the best of their knowledge, there are no conflicts of interest between their obligations towards the Company in their capacity as Supervisory Board member and their personal interests and/or other obligations.

Where applicable, the Committee also checks any notifications given to the Board by its members.

In the second phase, to complete the earlier statements and observations, the Committee:

- Checks that none of the Board members had been an auditor of the Company during the past five years.
- Reviews the period served on the Board by members since they were first elected, in particular for members who have served on the Board for 12 or more years.
- Checks that no Board member has received any variable compensation in cash or shares or any other performance-based compensation from the Company or the Group.

(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.

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 (sales in relation to consolidated sales, purchase volumes, etc.) [1].

The Compensation and Appointments Committee conducted an independence review in 2016. Its conclusions were presented to the Supervisory Board which discussed and then adopted them. The review process can be summarized as follows:

The Committee also examined the situation of **Anne-Sophie de La Bigne** in light of her position with Airbus Group as Vice President in charge of Civil Affairs in the Public Affairs Division France. The Committee noted that (i) Ms. de La Bigne does not hold an executive position at Airbus with responsibility for purchasing or selling products or services and (ii) her area of responsibility is limited to France.

The Committee nevertheless decided to examine the volume of business conducted between Michelin and the Airbus Group, as some of the latter's subsidiaries purchase products and/or services from Michelin.

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 2015 from the sale of products and services not only to Airbus Group companies but also to these companies' customers that own or lease aircraft. The sales figure was then compared to Michelin's consolidated sales for 2016.

The comparison showed that the sales in question represented significantly less than 1% of the Group's consolidated sales for the year.

Consequently, the Committee proposed considering that Anne-Sophie de La Bigne's indirect business relationship with Michelin by virtue of her position with the Airbus Group was not material.

The Committee also examined the business relationship between Michelin and the Capgemini group, whose Indian subsidiary is headed by **Aruna Jayanthi.**

Worldwide transactions between the Capgemini group and Michelin represent only a small proportion of Michelin's purchases of IT services and consulting services, and do not account for a significant portion of Capgemini's global revenue.

Consequently, the Committee proposed considering that Aruna Jayanthi's indirect business relationship with Michelin by virtue of her position with the Capgemini group was not material.

The Committee also decided to proactively examine the situation of **Pat Cox,** in light of the new rules in the AFEP/MEDEF Code concerning the calculation of the time served on the Supervisory Board for the purpose of assessing members' independence. The Committee decided that, based on the above rules, Pat Cox will no longer qualify as independent as from May 20, 2017, corresponding to the date on which he will have served for 12 years on the Supervisory Board. Pat Cox, who is a member of the Committee, did not take part in the discussion of his situation and was not involved in determining the Committee's conclusions.

Cyrille Poughon, who was elected to the Supervisory Board on May 16, 2014, is an employee of Manufacture Française des Pneumatiques Michelin, one of the Group's largest operating companies and its largest French subsidiary. Despite his independent mindset and conspicuous participation in Supervisory Board meetings, the Board considered that Mr. Poughon could not be qualified as independent because of the implicit requirement for him, as a Michelin employee, to demonstrate loyalty to the Group.

Concerning **Michel Rollier,** Chairman of *Plateforme de la Filière Automobile,* the Compensation and Appointments Committee considered that he should continue to be qualified as a non-independent member of the Supervisory Board because less than five years have elapsed since he resigned from his position as an executive officer of Michelin. His situation will be re-examined when the five-year period has elapsed. 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, at its meeting on February 9, 2017, the Supervisory Board decided that all of its members with the exception of Michel Rollier and Cyrille Poughon 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.

/ Assessment of the Supervisory Board's practices

In addition to the exchanges of views that took place at several Supervisory Board meetings in 2016, the agenda for the meeting on February 9, 2017 included a formal discussion of the Board's practices.

As decided in 2015 and mentioned in the report on the Supervisory Board's activities during that year (see 2015 Registration Document, p.120), the Supervisory Board retained the services of a firm of consultants to assess its overall practices and the contributions of individual members.

(1) The Committee took into account the changes in the positions held by Barbara Dalibard, Monique Leroux and Jean-Pierre Duprieu, all of whom hold new positions in companies or organizations that do not conduct any material business relations with Michelin.

The assessment was carried out during the fourth quarter of 2016 using a tried and tested method, based on one-on-one interviews with Board members, the Board Secretary and the Chief Executive Officer supported by reviews of all relevant documents.

Concerning the Board's overall practices, the following points were examined:

- The information given to the Board.
- The Board's membership.
- The Board's areas of expertise and working methods.
- The Board's relations with Executive Management, shareholders and other stakeholders.
- The role of the Chairman of the Supervisory Board and the Chairs of the Board Committees.
- The role of the Chief Executive Officer.

The conclusions of this assessment of the Board's practices were presented by the consulting firm's representative to the Compensation and Appointments Committee and then to the Supervisory Board at its meeting on February 9, 2017.

Each Supervisory Board member also received feedback about his or her perceived personal contribution to the work of the Board.

The Board's responsiveness and performance are considered very satisfactory and its governance practices place Michelin among the best major listed groups, regardless of their legal form (public limited company or partnership limited by shares).

In particular, the Board efficiently addresses issues that are important for the Group's future.

The main areas for improvement concern:

- Inviting other members of the management team to participate in Supervisory Board presentations.
- Examining human resources-related issues in more detail.
- Organizing more regular closed sessions restricted to independent Board members, led by a member who could have special functions.

4.5.1 c) Implementation of the "comply or explain" rule

In accordance with Article L. 225-68 of the French Commercial Code and paragraph 25.1 of the AFEP/MEDEF Code and the corresponding implementation guidance, the Supervisory Board considers that it complies with the recommendations of the AFEP/MEDEF Code, as adapted to the Company's structure as a French partnership limited by shares (S.C.A.) that was adopted at the time of its formation in 1863, except as explained below [(1)]:

Code recommendation	Explanation
Material transactions outside the scope of the firm's stated strategy should be subject to prior approval by the Board of Directors (Recommendation 3.2)	This recommendation is not directly applicable because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company. However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its bylaws [(1)] as well as the Supervisory Board's internal rules. Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made. This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate. This approach complies with the spirit and aims of the recommendation.
Appointment to the Compensation Committee of a Director representing employees (Recommendation 17.1)	The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting. However, the Compensation and Appointments Committee does not include any member representing employees. In view of the limited number of Committee members and their current situation in relation to the AFEP/MEDEF Code's independence rules, the inclusion on the Committee of the Supervisory Board member representing employees would have the effect of reducing the proportion of independent members to just half of the members, versus the majority required by the AFEP/MEDEF Code.

(1) 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 (...)".

(1) Due to amendments to the AFEP/MEDEF Code, the point concerning the Audit Committee's procedures has been removed from this table (see Organization of the Audit Committee's work, section 4.2.2 b) page 106.

4.5.1 d) Report on the Audit Committee's work in 2016

Due to extensive experience acquired during their careers, notably as part of the executive management and strategic advisory teams of large corporations, the Audit Committee's three members have a deep understanding of financial and accounting matters.

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 2016 – on February 10, April 20, July 21 and November 30 – with a 100% attendance rate.

During its meetings, the Audit Committee made inquiries of:

- The Chief Financial Officer.
- The Accounting Director.
- The Insurance Director.
- The Internal Control and Quality Director.
- The Budget Controller.
- The Investor Relations Director.
- The Executive Vice President, Corporate Development.
- The Executive Vice President, Quality, Audit and Risk Management.
- The Legal Affairs Director.
- The Chief Safety Officer.
- The Head of the OPE Business Process Management System.
- Both Statutory Auditors.

The main purpose of the meetings held in 2016 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2015. In particular, the Audit Committee analyzed the accounting treatment of acquisitions, employee benefits, 2015 consolidated key figures and significant events of the year, material changes in consolidated income statement and balance sheet items, the main components of consolidated free cash flow, and the main items in the separate financial statements of the Company. It noted that the audit of the accounts had gone smoothly. The Statutory Auditors reported to the Committee on their audit behind closed doors, without any members of management being present. They issued unqualified opinions on both the separate and consolidated financial statements for 2015, and their reports did not include any emphasis of matter.
- The interim consolidated financial statements for the six months ended June 30, 2016. The Committee mainly reviewed the changes in accounting methods and in the scope of consolidation, restructuring cost estimates, free cash flow and working capital. The Statutory Auditors reported to the Committee on their limited review of the interim financial statements for the six months ended June 30, 2016. Their limited review report did not contain any qualifications or emphasis of matter. The Auditors also presented their audit plan for 2016.
- The Group's financial communication process. The Investor Relations Director presented this process, the Group's policy concerning the guidance issued to the markets and the characteristics of Michelin shares.
- The Group's insurance policy. The Insurance Director presented the Group's insurance network, the structure of the insurance programs and the risk coverage policy.
- Risk management, the internal audit program and the Quality function. The Executive Vice President, Quality, Audit and Risk Management presented the risk map, detailing the actions that had been taken with regard to several material risks, and the Internal Audit Department's organization and ongoing initiatives.
- Ethical risk management. The Legal Affairs Director presented the Group's rules, organization, whistle-blowing procedures and internal control procedures, as well as a review of the situation regarding ethical risks.
- Safety risk management. The Chief Safety Officer presented the policies and measures adopted to protect employees and assets, as well as providing information about sensitive projects.
- Employee benefit obligations. The Chief Financial Officer presented the key factors in managing the risk exposures of employee benefit plan assets.
- M&A and new business integration process. The Executive Vice President, Corporate Development presented the core focus of the process.
- Review of the OPE Business Process Management System Program. The head of this program presented its objectives and current status, and also reviewed program spending compared to the budget.
- New European regulations governing statutory audits. The Accounting Director and Corporate Legal Director presented the new rules and their implications for the Audit Committee's practices and for relations between the Statutory Auditors, the Company and the Audit Committee.
- Expiry of the Statutory Auditors' appointment. During several of its meetings and based on Finance Department analyses and presentations, the Audit Committee examined the question of re-appointing the auditors or appointing new auditors at the 2016 Annual Shareholders Meeting. The Committee made a recommendation on the choice of auditors, which was put to the Annual Shareholders Meeting on May 13, 2016.
- Internal control review. The Internal Control Director presented an overview of internal control processes, methods and results.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 11, April 21 and July 22, 2016, and February 9, 2017.

4.5.1 e) Report on the Compensation and Appointments Committee's work in 2016

The Committee met four times in 2016 – on January 29, April 21, July 19 and November 4 – with a 91.7% attendance rate.

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

/ Assessment of the Supervisory Board's practices

The Committee examined the assessment of the Supervisory Board's practices prepared by an independent firm of consultants (see detailed information about this assessment in section 4.5.1 b).

/ Review of the Chief Executive Officer's compensation

In early 2016, the Committee analyzed and submitted to the Board its conclusions about the achievement rates for the performance conditions used to determine the variable compensation due or awarded by the Company to the Chief Executive Officer for 2015, 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 13, 2016 and was approved by a majority of 97.39% of the votes cast (6th resolution).

The Compensation and Appointments Committee also proposed the components of the Chief Executive Officer's 2016 variable compensation for approval by the Non-Managing General Partner (SAGES).

In early 2017, the Committee analyzed the various components of the Chief Executive Officer's compensation and noted the achievement rates for the applicable performance criteria.

With the agreement of the Non-Managing General Partner, the Supervisory Board prepared and recommended the components to be submitted to the Annual Shareholders Meeting of May 19, 2017 ("say-on-pay" advisory vote on the compensation due or awarded to the Chief Executive Officer (sole executive director) for 2016, 6th resolution) [(1)].

With the agreement of the General Partners, the Committee also confirmed the compensation policy applicable to the Chief Executive Officer, including the long-term incentive bonus policy as adapted in order to align the related performance criteria with the vesting criteria for employee performance share grants.

/ Review of the compensation of the Chairman of the Supervisory Board

Based on the increased total attendance fees approved by the Annual Shareholders Meeting of May 13, 2016, the Supervisory Board examined the amount awarded to its Chairman and prepared and recommended the components of his compensation to be submitted to the Annual Shareholders Meeting of May 19, 2017 ("say-on-pay" advisory vote on the compensation due or awarded to the Chairman of the Supervisory Board for 2016, 7th resolution) [(2)].

/ Review of 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 [(3)].

/ Chief Executive Officer succession plan

The Committee analyzed the appraisals of key executives performed by Executive Management and an independent consulting firm, holding high quality discussions that enabled it to effectively assess the quality of the Chief Executive Officer succession plan.

The Committee considered that very good results had been achieved in the implementation of the succession plan, which was one of the qualitative objectives used to determine the Chief Executive Officer's 2016 compensation.

/ Recommendations concerning the election/re-election/ratification of Supervisory Board members at the Annual Shareholders Meetings of May 13, 2016 and May 19, 2017

At the Supervisory Board's request, the Committee reviewed the proposed elections/re-election/ratification of Supervisory Board members and re-appointments of the Statutory Auditors.

The Committee's work and its recommendations to the Supervisory Board are described in detail in the report of the Chairman of the Supervisory Board (see section 4.5.1 b of this Registration Document) and, for the re-elections and re-appointments to be proposed at the Annual Shareholders Meeting of May 19, 2017, in the Supervisory Board's report on the proposed resolutions (see section 10.2.2.1 of this Registration Document).

/ 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.

4.5.2 SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS

The specific rules concerning shareholder participation at General Meetings are presented in section 5.1.2 f) of the 2016 Registration Document and in the Shareholders Guide, which may be downloaded from the website at www.michelin.com (in the section entitled "Finance/Individual shareholders/Documents").

4.5.3 MICHELIN GROUP INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

In compliance with Article L. 225-68 of the French Commercial Code, the Chairman of the Supervisory Board has prepared a report describing the internal control and risk management procedures defined and implemented by the Company.

It reflects information compiled and contributed by several Corporate Departments, including Finance, Legal Affairs, Personnel, Quality and Audit and Risks. After being reviewed and validated by the Chief Executive Officer, the entire report was submitted to the Statutory Auditors for discussion.

It was also examined by the Audit Committee and then reviewed and approved by the Supervisory Board on February 9, 2017, in accordance with the French Law of July 3, 2008.

(1) See detailed description in sections 4.3.2 and 10.2.1.1 of the Registration Document.
(2) See detailed description in sections 4.3.4 and 10.2.1.2 of the Registration Document.
(3) See the detailed description in section 4.5.1 b).

Risk management and internal control processes

/ Reference framework

The Group has defined its risk management and internal control guidelines and structured the related processes in line with the Reference Framework published by France's *Autorité des marchés financiers* (AMF) in January 2007 and reaffirmed on July 22, 2010. In compliance with the AMF Recommendation of November 5, 2013, this report presents the required disclosures according to the template defined in the Reference Framework.

The risk management and internal control processes are carefully aligned and designed to meet closely related objectives, thereby enabling the Company to seamlessly control all of its business activities.

/ Risk management and internal control objectives

Objectives of the risk management process

The risk management process helps to:

- create and preserve the Group's value, assets and reputation;
- secure the Group's decision-making and business processes to meet its objectives;
- promote consistency between the Group's actions and its values;
- encourage employees to embrace a shared vision of the main risks.

The risk management process is designed to identify, analyze and manage the main risks confronting the Group and its subsidiaries.

The internal control process ensures that the risk management process has been deployed and is effectively managing these risks.

In this way, risk management encompasses a holistic set of resources, practices, procedures and actions aligned with the characteristics of each business, which together help to contain risks at a tolerable level.

This iterative, integrated and optimized process comprises four key phases:

1. **Identifying risks.** A prerequisite for successful risk management, this phase involves identifying any internal and external events that could have an adverse effect on Michelin's objectives, earnings or reputation. The information is summarized in the form of risk maps at both the corporate level and at the level of each unit, including each Geographic Zone and Product Line. The risk maps are updated annually according to a formal process.

   The process is overseen by the Group Audit and Risk Management Department, which consolidates all of the risk maps. The consolidated risk maps are then used to diagnose the Group's risks and help to identify critical risks that require action plans which are implemented by the operating units under the supervision of the Risk Manager.
2. **Setting risk management priorities.** This phase consists of making informed decisions about the risks to be addressed on a priority basis taking into account the resources that will have to be deployed, in order to implement the risk management strategy.

   In this way, risk management is seamlessly integrated into the Group's strategic management process. The strategic plan involves a number of key milestones, including (i) a diagnostic review performed before the strategic plan is formally documented, (ii) the plan's operational roll-out to the different units, and (iii) the preparation of action plans by the units to help them meet their set objectives. Risk management issues are addressed at each of these milestones, for example, by using the risk map during the preliminary diagnostic phase, determining the steps to be taken by the units to mitigate their operational risks and implementing the appropriate risk management plans.
3. **Managing risks.** This phase consists of deploying the necessary resources to manage the risks for which the decision has been made to implement an action plan. These include prevention programs to keep the risk from occurring, and protective measures to mitigate any adverse effects if it does. Some risks may be transferred to insurance companies, while a crisis management process has been defined to respond effectively in the event that the risk leads to a sensitive or critical situation.
4. **Tracking and controlling risks.** The goal of this phase is to ensure that any residual exposure remaining after implementing the risk management process is consistent with the Group's risk tolerance. In particular, this entails monitoring the action plans deployed as part of the risk management phase, tracking indicators that measure changes in risks, and using control systems and, where necessary, alert systems.

Objectives of the internal control process

The internal control process is specifically designed to ensure:

- application of the instructions and guidelines issued by the Chief Executive Officer and the Executive Committee;
- compliance with laws and regulations;
- the proper functioning of internal processes, particularly those relating to the protection of corporate assets;
- the reliability of financial information.

It comprises a set of resources, procedures, practices and actions aligned with the characteristics of the Group's businesses, which:

- contribute to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources;
- enable it to assess all of its material operational, financial and compliance risks appropriately.

In general, the risk management process has been designed to encourage informed, shared risk-taking in accordance with the Group's values of responsibility, integrity and ethical behavior.

/ Scope of risk management and internal control

The Group ensures that risk management and internal control procedures are implemented in every unit.

In 2016, the system covered substantially all of the Group's operations, including all of the Geographic Zones and business units (manufacturing, sales and dealership networks).

Risk management procedures apply to all strategic, operating, reputational and compliance risks. In addition to the close ties maintained between corporate strategy and risk analysis, risk management is factored into the strategic management process on both:

- a multi-year basis, in the five-year business plan;
- an annual basis, in the budget and annual forecasts.

Each unit is requested to integrate any critical risks into their five-year business plans and to determine the resources necessary to manage them.

During the annual forecasting exercise, they define risk management action plans and allocate the resources required for their implementation. Progress on the plans is then tracked throughout the course of the year.

In the case of newly acquired companies, procedures have been defined to gradually integrate them into the Group's risk management and internal control system. Currently, all of the significant manufacturing subsidiaries apply the general process described herein.

For further details concerning the scope of consolidation, please refer to the Notes to the Consolidated Financial Statements, which include a list of the major consolidated units.

/ Coordination of risk management with internal control

Coordinating risk management with internal control within a holistic risk management ecosystem is a constant concern for every process stakeholder. The synergies and complementarities are reviewed annually in a commitment to continuously enhancing the effectiveness of the measures undertaken by all of the participating units.

For example:

- The risk management process is designed to identify and analyze the main risks. These risks are then managed by deploying action plans, which can call for adjustments in the organization or in project management procedures, as well as for the introduction of control mechanisms. The controls form part of the internal control process, and may be revised to reflect the findings of the risk mapping exercises.
- The internal control process relies on the risk management process to identify the main risks to be addressed.
- The audit plan is prepared by using the risk map to determine the risks for which the quality of the management process should be assessed and to gauge the effectiveness of the internal control procedures.

/ Limitations

However, a risk management and internal control process can only provide reasonable, but never absolute, assurance that all of the Group's risks are entirely under control and that its objectives will be met. The probability of meeting these objectives is subject to limitations inherent in any internal control system, which stem from the judgments underlying a given decision, the need to weigh the opportunities against the cost of risk management measures before controls are introduced, along with the various problems caused by human failure and error.

In alignment with the objectives presented above, the Group's risk management and internal control process is based on the following foundations:

- a sustainable, optimized organization;
- a comprehensive, holistic risk management process;
- internal control objectives pursued by the internal control process;
- ongoing management of the entire system through action plans designed to drive continuous improvement.

Organization of the risk management and internal control processes

Coordinating the two processes depends on the control ecosystem – comprising in particular the Group's unique risk and control culture and its ethical values – which serves as their shared foundation.

/ Organization

The Group is organized around Product Lines, each of which is dedicated to a specific business and has its own marketing, development, production and sales resources. It is also supported by comprehensive retail networks – comprising integrated dealerships (Euromaster, TCi), franchised dealerships (TyrePlus) and e-commerce sites (Blackcircles) – and wholesale networks (Euromaster, Meyer Lissendorf and Ihle).

The Product Lines are backed by Corporate Departments that are responsible for support functions such as Purchasing, Legal Affairs, Personnel, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around seven regions (Geographic Zones) – Western Europe, Eastern Europe, North America, South America, China, East Asia-Australia, Africa-India-Middle East.

/ Delegations of authority

The role, responsibilities and organization of each of these units have been defined by the Group, along with their contribution to strategic decisions, their performance metrics and their relationship with the other units.

In addition, formal criteria and procedures have been defined covering the appointment of corporate officers of Group subsidiaries and the renewal of their terms of office, as well as the conditions applicable for exercising and delegating their authority.

/ Corporate values

The Group places great importance on responsibility, integrity and ethical conduct. These values are presented in the Michelin Performance and Responsibility Charter, which is widely circulated both within and outside the Group. It describes how the Group endeavors to put into practice its key values of respect for customers, shareholders, people, the environment and facts.

The Michelin Performance and Responsibility Charter is supplemented by the Code of Ethics.

The Code of Ethics defines the standards of behavior to be observed in the conduct of the Group's business and the guidelines to be followed by Group employees when making decisions on ethical issues. It is regularly updated.

A Corporate Ethics and Compliance Committee has been set up in each Geographic Zone and Business Line.

In 2016, the Group and regional Ethics and Compliance Committees met regularly to ensure the sustained roll-out of the Code of Ethics, identify any possible ethics violations and take any appropriate corrective measures. Ethics hotlines have been opened in almost every host country, providing an additional channel for employees to report potential ethics violations. During the year, audits and inspections were also performed concerning various ethics issues.

/ Corporate risk management and internal control standards and procedures

An Internal Governance Manual was published in July 2010 to help employees respond proactively to support tighter management of operations.

In particular, the Manual describes:

- the units' roles and responsibilities;
- their planned operating procedures and governance structures;
- the behavior expected of managers, in line with Michelin's corporate values.

In addition to the Registration Document, an Annual and Sustainable Development Report describes the Group's operations and results for the year as well as the Performance and Responsibility approach.

/ Risk management and internal control stakeholders

To make it easier to understand what the various risk management and internal control stakeholders do, they are presented below according to three lines of responsibility.

Governance bodies

The three lines of responsibility are supervised by the Group's decision-making bodies, which play a major role in governing these systems.

Risk management is therefore governed at several levels of the organization:

1. **The Audit Committee** is made up of three Supervisory Board members who represent the shareholders. It meets several times a year to track the effectiveness of risk management systems in compliance with the governmental order of December 8, 2008 transposing into French law the 8th EU Company Law Directive. The Group ensures that all of the Committee's comments concerning this issue are taken into account. The Audit Committee's primary responsibilities are described on page 107.
2. **The Chief Executive Officer and the Group Executive Committee** meet regularly to oversee the risk management process as part of their management duties. In this role, they approve the Group risk map, define risk management policies and determine priorities in this regard, make decisions concerning resource allocation and verify that the action plans for priority risks are being implemented according to plan.
3. **Unit and regional Risk Committees** are being gradually set up. Once they are in place, they meet two to three times a year to track the major risks within their remit.

First line of responsibility: management, employees and operating unit executives

Every employee helps to enhance the internal control process through his or her skills and expertise. In addition, everyone is expected to deploy the process and track its proper application. Also involved are the Geographic Zone and Company managers, as well as all of the leading Business Process Owners.

The operating units (Product Lines, Tactical Operational Units, Geographic Zones) manage risks on a daily basis.

In particular, they are responsible for identifying and managing their unit's risks, in accordance with the guidelines and recommendations defined by the support units. They implement the necessary risk management procedures and resources, covering prevention, protection and business continuity. They rely on their internal control process to manage their operational risks. Their responsibility encompasses:

- risk-prevention measures;
- measures to protect people, equipment and other assets in order to mitigate losses or injury in the event of risk occurrence;
- plans to ensure continuity of operations in the event of a major incident.

Each operating unit has its own Risk Manager who leads, implements and oversees the risk management process in his or her unit. Unit Risk Managers are members of the risk management network and are assisted by managers from the Group Quality, Audit and Risk Management Department, who support them at every stage in the process.

Group managers can detect any weaknesses in their internal control processes through the systems used to monitor their operations. In addition, internal reviews are performed within the entities by specialists in the fields concerned.

Strict procedures are in place for receiving, analyzing and responding to customer complaints concerning product quality.

Second line of responsibility: the support units

The support units (Corporate Departments and Technology Centers) analyze Group-level risks. They recommend risk management guidelines, estimate the resources required to deploy prevention and protection measures, track changes in risks, and verify that their recommendations are effectively applied.

Each support unit has its own Risk Manager, who also belongs to the risk management network. Unit Risk Managers lead, implement and oversee the risk management process in their unit, and are also assisted by managers from the Group Quality, Audit and Risk Management Department, who support them at every stage in the process.

Taking this approach a step further, the Group Quality, Audit and Risk Management Department's Internal Control unit oversees internal control consistency by leading a network of Internal Control Managers appointed within the various Corporate Departments. The Internal Control Managers prepare internal control manuals describing the main risks in each business process or cycle, the corresponding control objectives, and the control activities and related tests aimed at meeting the objective and thereby mitigating the identified risk. These manuals are updated periodically to reflect, in particular, best process execution practices and changes in the applicable standards and regulations. They are implemented operationally at various levels of the organization. The Group's risk management processes form part of the Michelin Quality System, which sets out procedures and instructions, allocates roles and responsibilities and defines the relevant methods and controls.

As part of this system, audits are also performed to ensure compliance with Group quality standards, which are largely based on the applicable international standards. In addition, a number of certifications have been earned from independent organizations.

Lastly, the system also provides for regular management reviews to assess the effectiveness and efficiency of the entire process and to pinpoint areas for improvement.

Third line of responsibility: the Internal Audit Department

The Group Quality, Audit and Risk Management Department reports directly to the Chief Executive Officer and is totally independent from the operating units. It comprises a team in charge of auditing Group operations worldwide. It regularly assesses internal control procedures and ensures that the risks in the 13 risk families tracked by the Group are properly managed.

The Department's scope of reference covers all of the Group's processes and entities.

It leads the overall risk management process, defining the methodology, organizing its deployment and fostering a risk-aware culture within the Group. It ensures that the most significant risks are effectively controlled by the units concerned, and tracks progress on all of the action plans related to these priority risks. It also verifies the quality of risk management by performing audits.

Moreover, it submits risk management agenda items at Group Executive Committee meetings, during which the most significant risks identified in the risk map are reviewed and a certain number are tracked.

In addition, the Quality, Audit and Risk Management Department regularly assesses the procedures applied to manage risks.

This may involve analyzing a risk in depth, so as to prepare recommendations enabling the Group to attenuate its exposure.

Alternatively, it may involve verifying that the recommended actions are being properly implemented and measuring the ensuing attenuation. To perform these assignments, the Group Quality, Audit and Risk Management Department has developed and deployed a process to verify that the priority risk management action plans are capable of mitigating the related risk (coverage, appropriateness, feasibility, management procedures). It has also defined risk management indicators, which have been deployed across the Group.

A third type of audit consists of assessing the quality of internal controls over a specific risk family.

Periodic summaries of internal audit findings and the implementation of the recommendations are presented to the various line managers, the Chief Executive Officer and the Audit Committee.

Other outside stakeholders

Michelin also leverages outside expertise that helps to drive continuous improvement in its risk management and internal control process.

Among these sources of expertise are the statutory and contractual auditors. Based on the observations made in the course of their audit work, these auditors submit internal control recommendations to accounting and finance managers, as well as to host country-based internal control staff, who are tasked with implementing them. Their annual findings and recommendations are also reported to the corporate internal control teams and internal auditors for consolidation and communication to Group management.

In addition, the work performed by a variety of independent certification organizations is also helping to strengthen the current process.

/ Process implementation

Corporate objectives are defined by the Chief Executive Officer both for financial performance and for areas in which Michelin is committed to achieving a particular level of excellence, such as people management, quality, innovation, working conditions and the environment.

These general objectives, which are updated and communicated every year to the various units, represent a corporate strategic roadmap that is subsequently translated into a five-year strategic vision and annual targets by all of the units described above. These targets cover both operational and improvement goals aimed at enhancing performance and service quality.

Objectives are based on past performance and detailed diagnostics, as well as an understanding of the changing business environment.

Operational risk assessment forms an integral part of the planning process during which critical success factors are determined and a sensitivity analysis is performed on the main assumptions underlying the objectives. This process also specifically addresses the related strategic risks.

In addition to strategic risks, Michelin is committed to effectively managing its operational risks, which have been classified into 13 separate families:

- ethical risk;
- the health and safety of people;
- the environment;
- the safety and performance of products and services;
- accounting and finance;
- business interruption;
- continuity of supply;
- protection of property;
- knowledge retention;
- employee relations and personnel management;
- legal and tax;
- information systems and technology;
- project management.

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

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

/ Preparation and processing of accounting and financial information

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

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

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

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

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

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

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

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

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

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

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

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

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

/ Management of accounting and finance internal control

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

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

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

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

/ Recurring assessments of the accounting and financial information preparation process

Self-assessments

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

It defines internal control standards, coordinates and sets up internal control information systems and day-to-day management procedures.

It also assists the network of internal controllers in the host regions and the main business lines in implementing these systems and procedures.

Its role includes:

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

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

This self-assessment system encompasses the following 16 processes:

- purchasing, from ordering to supplier payment;
- sales, from customer order to payment;
- inventory management;
- 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;
- 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 implemented by line personnel.

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

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

Findings of the Financial Internal Control assessment

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

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

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

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

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

Michelin's contribution to the Carbon Disclosure Project consists of a report describing the risks arising from the effects of climate change on its business. The potential effects on the natural environment are not currently identified as giving rise to substantial risks, because any problems in sourcing synthetic rubber or chemicals are addressed in our business continuity plans. Similarly, stricter regulations are not currently considered as giving rise to a substantial risk. The Group considers that regulatory changes represent an opportunity rather than a risk because, provided they are taken on board sufficiently in advance, they can determine the direction of its long-term capital spending plans.

Actions undertaken to strengthen the risk management and internal control process

/ Main achievements in 2016

The risk map was updated in 2016 to take into account certain risk assessments that were revised based on the results of audits and action plans carried out during the year and in response to certain changes in the risk environment.

The Chief Executive Officer and the Group Executive Committee met four times in 2016 to oversee the risk management process as part of their management duties. During these meetings, they verified that the action plans addressing the priority risks identified during the risk mapping exercise were progressing as planned. They observed that implementation of the various risk prevention, protection and control measures had reduced the Group's exposure to these priority risks. They also ensured that their investment decisions were aligned with the Group's risk policy.

Fraud awareness campaigns were pursued during the year among all employee groups concerned, to support implementation of stricter measures to combat this risk. Initiatives to reduce fraud risk included measures to tighten up information systems access management, notably to ensure that task segregation rules are adhered to, and deployment of applications to perform detailed analyses of data and transactions recorded in the ERP systems.

The new crisis management system was deployed in all of the Geographic Zones, establishing a more efficient and consistent process for managing crises throughout the Group. Simulations were carried out in the Corporate Departments and the plants to ensure that staff were familiar with crisis management methods and tools. The exercises were aligned with the specific features of each Geographic Zone. In addition, new Risk Manager training modules were developed and deployed to enhance the Risk Management network's skill-sets.

An internal control manual dealing with the extension of internal control processes to risk families other than accounting and financial risks was deployed during the year. It consolidates all key control activities covering the Group's major business processes and risks. The manual served as a reference framework for the first self-assessment and testing exercises. A change management plan was led by the Group Quality, Audit and Risk Management Department, supported by an internal communication plan and appropriate tools to promote internal stakeholder buy-in. The internal control information system was replaced by a more efficient system that will ultimately cover all the entities concerned. The new system will help to embed the internal control management model more deeply (control libraries, organizations, directories, self-assessment exercises, testing exercises and action plans to address instances of non-compliance). All people involved in internal control will find it easier to access these resources and the data consolidation process will go faster.

/ Outlook for 2017 as part of the continuous improvement process

In 2017, the risk management process will be strengthened. The Group Quality, Audit and Risk Management Department plans to embed the risk culture more deeply throughout the organization. The aim is to professionalize all employees and make them more accountable, so that they make a real contribution to managing the Group's risks. To this end, a charter will be adopted, supported by a communication plan and training modules for all employees. Self-assessment exercises will be carried out to ensure that the Risk Managers' role and responsibilities accurately reflect Group guidelines and permit the identification and sharing of best risk management practices.

A geopolitical risk family will be added to the Group's risk map and the risk maps of the operating units (including the Geographic Zones) will be revised to improve their alignment with the Group risk map.

In the area of crisis management, a serious game developed in 2016 will be made available to all of the Group's management teams. The game's scenario, based on multiple crises at the Group's plants, will enable these teams to play out their chosen role in various crisis situations. Its purpose is to train teams between two crisis simulation exercises. New simulation exercises will be organized in 2017 at priority sites including the headquarters buildings and sensitive facilities.

A single internal control manual will be issued to internal control stakeholders during the year, covering all of the Group's business processes and risk families. A scorecard based on the initial results of compliance tests and managed by the Group Quality, Audit and Risk Management Department will be used to consolidate the reports prepared at Group level and at the level of each Geographic Zone describing required improvements. Each Corporate Department and Geographic Zone will then deploy a specific action plan to improve their level of compliance. The 2017 self-assessment and testing exercises will be conducted using the new information system. Digital training modules will be introduced to support these exercises.

The Corporate Departments will support the continuous improvement process by integrating other operational risks according to the needs of their specific activities and identifying any opportunities to automate key controls.

4.6 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 226-10-1 OF THE FRENCH COMMERCIAL CODE ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD

For the year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' report issued in the French language 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 auditing standards applicable in France.

To the shareholders of Compagnie Générale des Établissements Michelin

In our capacity as Statutory Auditors of Compagnie Générale des Établissements Michelin ("the Company"), and in accordance with Article L. 226-10-1 of the French Commercial Code *(Code de commerce),* we hereby report to you on the report prepared by the Chairman of the Supervisory Board of your Company ("the Chairman") in accordance with Article L. 226-10-1 of the French Commercial Code for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Article L. 226-10-1 of the French Commercial Code, in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by Article L. 226-10-1 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

/ Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman's report, prepared in accordance with Article L. 226-10-1 of the French Commercial Code.

/ Other information

We attest that the Chairman's report sets out the other information required by Article L. 226-10-1 of the French Commercial Code.

Neuilly-sur-Seine, February 13, 2017

PricewaterhouseCoopers Audit
Éric Bulle

Deloitte & Associés
Pascale Chastaing-Doblin

The Statutory Auditors
Members of the "Compagnie régionale de Versailles"

5 / INVESTOR RELATIONS

5.1	**INFORMATION ABOUT THE COMPANY**	**142**
5.1.1	General Information	142
5.1.2	Articles of Incorporation and Bylaws	142
5.2	**SHARE INFORMATION**	**143**
5.2.1	The Michelin Share	143
5.2.2	Share Data	144
5.2.3	Per-Share Data	145
5.2.4	Capital and Ownership Structure	145
5.3	**INVESTOR RELATIONS**	**145**
5.4	**DOCUMENTS ON DISPLAY**	**146**
5.5	**SHARE INFORMATION**	**146**
5.5.1	Changes in Share Capital	146
5.5.2	Financial Authorizations	147
5.5.3	Potential Shares	150
5.5.4	Stock Options	151
5.5.5	Performance Shares	153
5.5.6	Employee Share Ownership	157
5.5.7	Information Concerning a Share Buyback Program Currently in Effect	157
5.5.8	Description of the Share Buyback Program Submitted for Shareholder Approval at the Annual Shareholders Meeting of May 19, 2017	158

5.1 INFORMATION ABOUT THE COMPANY

5.1.1 GENERAL INFORMATION

Legal and commercial name of the Company

- Compagnie Générale des Établissements Michelin.

Place of registration and registration number

- The Company is registered in the Clermont-Ferrand Trade and Companies Register under number 855 200 887.

Date of incorporation and term

- The Company was incorporated on July 15, 1863. Its term will end on December 31, 2050, unless it is wound up before that date or its term is extended.

Registered office

- The Company's registered office is located at 12, cours Sablon, Clermont-Ferrand (Puy-de-Dôme), France.
- Phone: + 33 (0)4 73 98 59 00.

Legal form and governing law

- The Company is a *société en commandite par actions* (partnership limited by shares) governed by Articles L. 226-1 to L. 226-14 of the French Commercial Code.

Main business

- Managing subsidiaries and other interests held in any and all countries.

5.1.2 ARTICLES OF INCORPORATION AND BYLAWS

The Bylaws, in French and English, can be downloaded from the Company's website (www.michelin.com).

5.1.2 a) General Partners (Article 1 of the Bylaws)

- Jean-Dominique Senard (Managing Chairman).
- Société Auxiliaire de Gestion – SAGES (registered in the Clermont-Ferrand Trade and Companies Register under number 870 200 466), a simplified joint stock company chaired by Jacques de Chateauvieux (please refer to the presentation and role of this company, section 4.1.4).

5.1.2 b) 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.

5.1.2 c) Managing Partners (Article 10 of the Bylaws)

The Company is led by a Managing Chairman and managed by one or more Managing Partners, who are individuals and who may or may not be General Partners.

5.1.2 d) Fiscal year (Article 29 of the Bylaws)

The Company's fiscal year begins on January 1 and ends on December 31.

5.1.2 e) 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 and Compagnie Financière Michelin SCmA. 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.

5.1.2 f) Shareholders 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 Shareholders 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.

5.2 SHARE INFORMATION

5.2.1 THE MICHELIN SHARE

Traded on the NYSE Euronext Paris stock exchange

- Compartment A;
- Eligible for the SRD deferred settlement system;
- ISIN: FR 0000121261;
- Par value: €2.00;
- Traded in units of: 1.

Market capitalization

- €19,033 million at December 31, 2016.

Average daily trading volume

- 554,262 shares since January 1, 2016.

Indices

The Michelin share is included in two leading stock market indices. As of December 31, 2016, it represented:

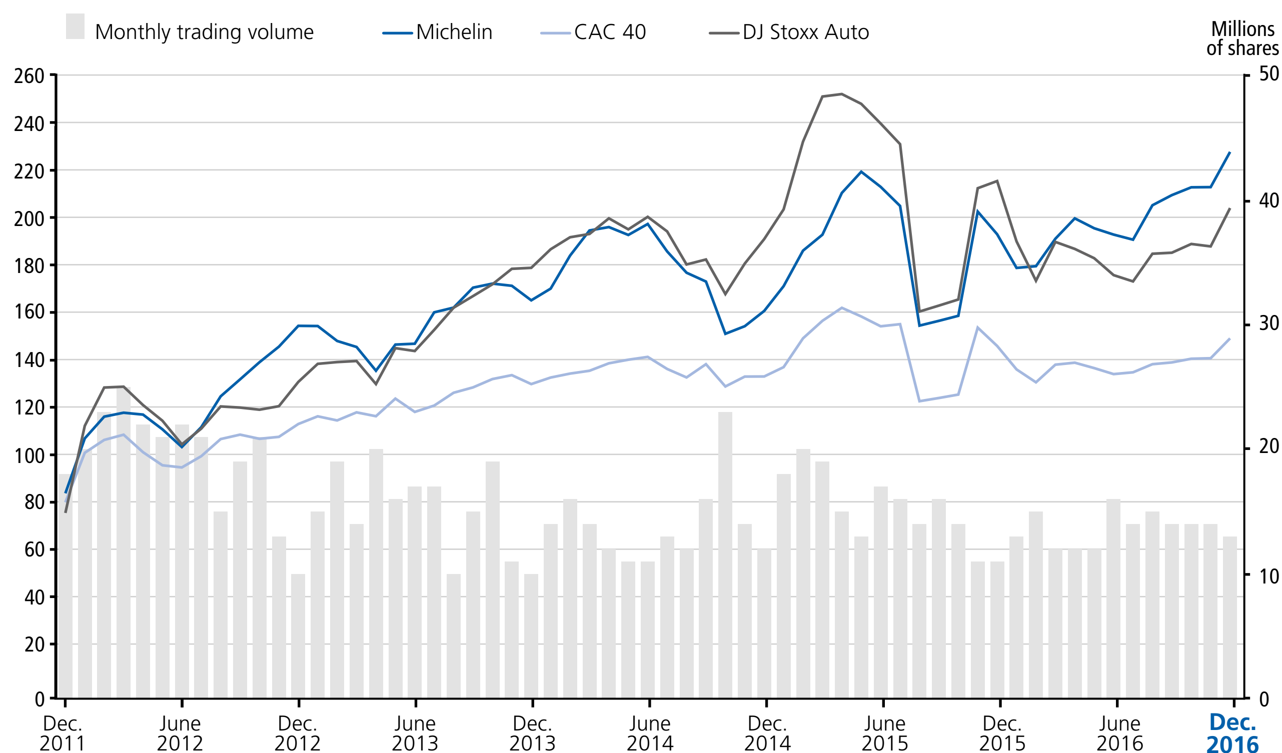
- 1.83% of the CAC 40 index;
- 0.81% of the Euronext 100 index.

Michelin is also included in the main Socially Responsible Investing (SRI) Indices:

- Dow Jones Sustainability Index (DJSI) Stoxx for European sustainability leaders and DJSI World for global sustainability leaders;
- Ethibel Sustainability Index (ESI) Europe.

SHARE PERFORMANCE

(Closing price at December 31, 2016)



5.2.2 SHARE DATA

Share price *(in €)*	**2016**	**2015**	**2014**	**2013**	**2012**
High	106.80	103.90	94.33	84.71	72.58
Low	77.40	71.60	65.10	57.23	45.32
High/low ratio	1.38	1.45	1.45	1.48	1.60
Closing price, end of period	105.70	87.90	75.27	77.25	71.59
Average share price over the period	91.97	90.26	82.10	72.28	57.15
Change over the period	+20.3%	+16.8%	-2.6%	+7.9%	+56.7%
Change in the CAC 40 index over the period	*+4.9%*	*+8.5%*	*-0.5%*	*+18.0%*	*+15.2%*
Market value *(at end of period, in € billion)*	**19.03**	**15.98**	**13.98**	**14.35**	**13.07**
Average daily trading volume over the period	554,262	719,709	662,063	719,464	913,167
Average shares outstanding	182,122,667	185,960,394	185,954,390	184,901,269	181,099,501
Volume of shares traded over the period	142,445,218	184,245,619	168,826,055	183,463,371	233,770,814
Share turnover ratio	**78%**	**99%**	**91%**	**99%**	**129%**

5.2.3 PER-SHARE DATA

(in € per share, except ratios)	2016	2015	2014	2013	2012
Net assets per share	59.1	52.5	51.3	49.8	46.6
Basic earnings per share	9.21	6.28	5.52	6.08	8.62
Diluted earnings per share [1]	9.03	6.19	5.45	5.98	8.41
Price-earnings ratio	**11.5**	**14.0**	**13.6**	**12.7**	**8.3**
Dividend for the year	3.25*	2.85	2.50	2.50	2.40
Pay-out ratio	36.5%	37.0%	40.6%	35.0%	28.7%
Yield [2]	3.1%	3.2%	3.3%	3.2%	3.4%

(1) Earnings per share adjusted for the impact on net income and on average shares outstanding of the exercise of outstanding dilutive instruments.
(2) Dividend/share price at December 31.
** To be submitted to shareholder approval at the Annual Meeting on May 19, 2017.*

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, 2016, Michelin's share capital amounted to €360,132,242.

	At December 31, 2016			At December 31, 2015		
	Number of shareholders	Shares outstanding	Voting rights outstanding	Number of shareholders	Shares outstanding	Voting rights outstanding
French institutional investors	5,023	22.7%	25.4%	3,183	21.4%	24.1%
Non-resident institutional investors		63.1%	61.4%		63.0%	60.8%
Individual shareholders	109,410	12.1%	10.6%	119,307	13.8%	12.7%
Employee Shareholder Plan	79,284	2.1%	2.6%	69,068	1.8%	2.4%
TOTAL	**193,717**	**180,066,121 SHARES***	**241,849,548 VOTING RIGHTS**	**191,558**	**181,902,182 SHARES***	**242,005,720 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, the Shareholders Guide, 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 2016 six shareholder information meetings were organized in France, in Annecy, Bordeaux, Cannes, Pau, Rouen and Strasbourg, as well as a meeting with shareholders in Paris led by Jean-Dominique Senard in June. Site visits were also organized for individual shareholders.

During the year, some 1,800 institutional investors and financial analysts were contacted.

Created in 2003, the Shareholders Consultative Committee is composed of a maximum of 14 members, including two employee shareholders. Through its input and recommendations, it helps to improve the quality of our financial and/or image communication with individual shareholders. In 2016, the Committee met twice and actively participated in the Annual Shareholders Meeting.

Each year, all shareholders and proxy solicitors are notified of the date of the Annual Shareholders Meeting and of the voting procedures.

In accordance with the Company Bylaws, shares held in the same name for at least four years carry double voting rights.

5.4 DOCUMENTS ON DISPLAY

Historical financial information, Registration Documents, Letters to Shareholders, Notices and Minutes of Shareholders Meetings, the Company Bylaws, and all of the regulatory filings within the meaning of Article 221-1 of the AMF General Regulations (particularly press releases, quarterly reports and the Interim and Annual Reports), also available on the French website of record, www.info-financiere.fr, can be viewed in French or English at www.michelin.com or at the Company's registered office.

5.5 SHARE INFORMATION

5.5.1 CHANGES IN SHARE CAPITAL

		Change in capital		
Year	**Transaction**	**Number of shares**	**Par value** *(in €)*	**Share premium** *(in €)*
2012	**At December 31, 2012**	**182,556,713**	**365,113,426**	
2013	Conversion of OCEANE bonds	6	12	527
	Dividend reinvestment	4,467,601	8,935,202	239,776,146
	Exercise of stock options	573,295	1,146,590	26,718,664
	Vesting of performance shares	1,288	2,576	0
	Cancellation of shares	(1,809,260)	(3,618,520)	(132,887,705)
	At December 31, 2013	**185,789,643**	**371,579,286**	
2014	Conversion of OCEANE bonds	2	4	185
	Exercise of stock options	866,320	1,732,640	44,398,643
	Vesting of performance shares	80,571	161,142	0
	Cancellation of shares	(1,010,336)	(2,020,672)	(84,643,593)
	At December 31, 2014	**185,726,200**	**371,452,400**	
2015	Conversion of OCEANE bonds	28	56	2,718
	Exercise of stock options	909,999	1,819,998	64,070,030
	Vesting of performance shares	227,489	454,978	0
	Cancellation of shares	(4,961,534)	(9,923,068)	(441,024,693)
	At December 31, 2015	**181,902,182**	**363,804,364**	
2016	Employee share issue	657,366	1,314,732	48,894,883
	Conversion of OCEANE bonds	7,230	14,460	709,379
	Exercise of stock options	723,420	1,446,840	47,219,717
	Vesting of performance shares	122,963	245,926	0
	Cancellation of shares	(3,347,040)	(6,694,080)	(293,905,884)
	AT DECEMBER 31, 2016	**180,066,121**	**360,132,242**	

5.5.2 FINANCIAL AUTHORIZATIONS

5.5.2 a) Granted by the Annual Shareholders Meeting of May 16, 2014

/ 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 €106[(1)] *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	12th	26 months (July 2016)	▶ €6.89 billion (shares) ▶ €1.50 billion[(4)] (securities carrying rights to shares)	€130 million[(2)(3)] (less than 35% of issued capital)	None
Issuance of new shares by capitalizing reserves	16th	26 months (July 2016)	€4.24 billion	€80 million	None

(1) CGEM share price at December 31, 2016, 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 €130 million, excluding any shares issued under the 16th and 18th resolutions (19th resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 12th, 13th and 14th resolutions (15th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 11th, 12th, 13th, 14th, 15th and 17th resolutions not to exceed €2 billion (19th 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 €106[(1)] *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	13th	26 months (July 2016)	▶ €1.97 billion (shares) ▶ €1 billion[(4)] (securities carrying rights to shares)	€37.15 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)*	14th	26 months (July 2016)	▶ €1.97 billion (shares) ▶ €1 billion[(4)] (securities carrying rights to shares)	€37.15 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	17th	26 months (July 2016)	€1.97 billion	€37.15 million[(5)]	None

(1) CGEM share price at December 31, 2016, 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 €130 million, excluding any shares issued under the 16th and 18th resolutions (19th resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 12th, 13th and 14th resolutions (15th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 11th, 12th, 13th, 14th, 15th and 17th resolutions not to exceed €2 billion (19th resolution).
(5) Amount to be included in the maximum total capital increase authorized under the 13th resolution.

/ Employee share issues

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Issuance of new shares	18th	26 months (July 2016)	Less than 2% of issued capital	None
Grant of performance shares	21st	38 months (July 2017)	▶ Excluding the Chief Executive Officer ▶ Performance conditions over 3 years ▶ Capped at 0.5% of issued capital	None

/ 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	11th	26 months (July 2016)	€1 billion	None

5.5.2 b) Granted by the Annual Shareholders Meeting of May 22, 2015

/ Share buyback program

Corporate action	Resolution	Duration (expiry date)	Ceilings	Utilization during the year
Share buybacks	5th	18 months (November 2016)	▶ Statutory limit of 10% of issued capital ▶ Maximum purchase price: €140	Buyback of 1,237,360 shares(1)
Capital reduction by cancelling shares	9th	18 months (November 2016)	10% of issued capital	None

(1) Please refer to section 5.5.7 of the 2015 and 2016 Registration Document.

5.5.2 c) 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 €106(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)	▶ €6.73 billion (shares) ▶ €2.5 billion(4) (securities carrying rights to shares)	€127 million(2) (3) (less than 35% of issued capital)	None
Issuance of new shares by capitalizing reserves	20th	26 months (July 2018)	€4.24 billion	€80 million	None

(1) CGEM share price at December 31, 2016, 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 €106[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)	▶ €1.90 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	18th	26 months (July 2018)	▶ €1.90 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)	€1.90 billion	€36 million[5]	None

(1) CGEM share price at December 31, 2016, 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]	None

(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).

/ 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	657,366[1]
Grant of performance shares	25th	38 months (July 2018)	▶ Excluding the Chief Executive Officer ▶ Performance conditions over 3 years ▶ Capped at 0.5% of issued capital	Issuance of 120,520 rights[2]

(1) Please refer to section 5.5.6.
(2) Please refer to section 5.5.5.

/ Share buyback program

Corporate action	Resolution	Duration (expiry date)	Ceilings	Utilization during the year
Share buybacks	5th	18 months (November 2017)	▶ Statutory limit of 10% of issued capital ▶ Maximum purchase price: €140	Buyback of 2,109,680 shares[1]
Capital reduction by cancelling shares	24th	18 months (November 2017)	10% of issued capital	Cancellation of 3,347,040 shares[2]

(1) Please refer to section 5.5.7.
(2) Please refer to sections 5.5.1 and 5.5.7.

5.5.3 POTENTIAL SHARES

5.5.3 a) Outstanding securities convertible, exchangeable, redeemable or otherwise exercisable for shares

/ OCEANE bonds

In March 2007, the Company issued bonds convertible and/or exchangeable for new or existing shares of common stock (OCEANEs). The issue, which was fully subscribed, was described in a prospectus filed with the French securities regulator (AMF) on March 12, 2007, under No. 07-082.

The main characteristics of this bond issue were as follows:

- Listing: Euronext Paris;
- ISIN: FR0010449264;
- Issue, cum-interest and settlement date: March 21, 2007;
- Term: 9 years and 286 days;
- Total nominal value issued: €699,999,913.16;
- Number of bonds issued: 6,742,438;
- Number of bonds outstanding at December 31, 2016: 5,396,099;
- Nominal value: €103.82;
- Issue price: at par;
- Nominal interest rate: none (zero-coupon bonds);
- Gross annual yield to maturity: 3.07% (for bonds not converted or exchanged and not redeemed early);
- Repayment: in full at maturity on January 1, 2017 at €139.57 per bond;
- Early redemption at the Company's option from March 21, 2011 if, over 20 consecutive trading days, the average share price and the average conversion or exchange ratio exceed 1.3 times the early redemption price;
- Conversion or exchange ratio (subject to change in line with the provisions for the issue contract):
  - Ratio set at the issue date: 1 share for 1 bond,
  - Ratio applicable as of the date of filing of this report: 1.036 shares for 1 bond (as adjusted on October 26, 2010 – see Euronext Paris announcement of the same date);
- No bonds were bought back by the Company in 2016.

/ Options to purchase new shares of common stock

Please refer to the detailed information in section 5.5.4.

/ Performance shares

Please refer to the detailed information in section 5.5.5.

5.5.3 b) Estimated maximum number of potential new shares at December 31, 2016

(in number of shares with a par value of €2)	Maximum number of potential new shares	Issued capital *(in €)*
ISSUED CAPITAL AT DECEMBER 31, 2016		**360,132,242**
/ OCEANE bonds		
Estimated number if all of the 5,396,099 bonds outstanding as of December 31, 2016[(1)] are redeemed for new shares on the basis of 1.036 shares for 1 bond with a nominal value of €103.82 (the bonds may also be redeemed for existing shares)		
Maturity: January 2017	5,590,359	11,180,718

(1) Of the 6,742,438 bonds issued in total, 21 were converted into shares in 2007 (21 new shares issued), 317 in 2010 (346 new shares issued), 12 in 2011 (14 new shares issued), none in 2012, when 511,404 were bought back, 4 in 2013 (6 new shares issued), when 367,006 were bought back, 1 in 2014 (2 new shares issued), when 460,575 were bought back, 23 in 2015 (28 new shares issued) and 6,976 in 2016 (7,230 new shares issued), when no shares were bought back.

/ Stock options outstanding as of December 31, 2016

Grant date	Adjusted exercise price *(in €)*	Vesting date	Expiry date	Number of options outstanding	
May 19, 2008	59.85	May 19, 2012	May 18, 2017	75,662	
November 23, 2009	51.16	November 23, 2013	November 22, 2018	317,554	
May 12, 2010	52.13	May 12, 2014	May 11, 2019	102,910	
May 19, 2011	66.00	May 19, 2015	May 18, 2020	93,288	
June 25, 2012	51.16	June 25, 2016	June 24, 2021	82,614	
TOTAL STOCK OPTIONS OUTSTANDING				**672,028**	**1,344,056**

/ Performance shares outstanding at December 31, 2016

Grant date	Vesting period ends	Performance shares outstanding	
November 29, 2013	November 29, 2017	78,168	
November 27, 2014 *(Excellence)*	November 27, 2018	279,864	
November 27, 2014 *(Excellence Management)*	November 27, 2018	106,224	
November 25, 2015 *(Excellence Management)*	November 25, 2019	84,140	
November 25, 2016 *(Excellence)*	November 25, 2020	120,520	
TOTAL PERFORMANCE SHARES OUTSTANDING		**668,936**	**1,337,872**
MAXIMUM POTENTIAL SHARES AS OF DECEMBER 31, 2016 (+3.85%)			**373,994,888**

5.5.4 STOCK OPTIONS

5.5.4 a) Stock option plans in effect at December 31, 2016[1] (Table 8 of the AFEP/MEDEF Corporate Governance Code)

	Plan 1	Plan 2	Plan 3	Plan 4	Plan 5	Plan 6	Plan 7	Plan 8	Plan 9	Plan 10	Plan 11	Plan 12	Plan 13	Plan 14
Date of the shareholder authorization	05/18/2001	05/18/2001	05/18/2001	05/18/2001	05/18/2001	05/14/2004	05/14/2004	05/12/2006	05/12/2006	05/12/2006	05/15/2009	05/15/2009	05/15/2009	05/15/2009
Date granted by the Managing Partners	05/19/2002	05/19/2003	11/24/2003	05/17/2004	07/05/2004	05/23/2005	11/07/2005	05/15/2006	05/14/2007	05/19/2008	11/23/2009	05/12/2010	05/19/2011	06/25/2012
Total number of new or existing shares that may be purchased upon exercise of the options	722,635	245,047	230,386	184,088	132,772	226,057	942,215	141,463	1,230,323	321,095	1,447,372	260,138	252,900	143,276
Of which options granted to:														
▸ Jean-Dominique Senard[2], Managing Partner	0	0	0	0	0	10,359	0	6,216	0	0	0	0	0	0
▸ Michel Rollier[3], Chairman of the Supervisory Board	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Vesting date	05/19/2006	05/19/2007	11/24/2007	05/17/2008	07/05/2008	05/23/2009	11/07/2009	05/15/2010	05/14/2011	05/19/2012	11/23/2013	05/12/2014	05/19/2015	06/25/2016
Expiry date	05/18/2011	05/18/2012	11/23/2012	05/16/2013	07/04/2013	05/22/2014	11/06/2014	05/14/2015	05/13/2016	05/18/2017	11/22/2018	05/11/2019	05/18/2020	06/24/2021
Exercise price	€42.47	€31.13	€32.82	€38.61	€42.96	€46.34	€46.34	€55.99	€87.85	€59.85	€51.16	€52.13	€66.00	€51.16
Number of options exercised as of December 31, 2016	647,332	239,847	207,064	182,088	117,189	223,557	864,725	138,663	798,635	241,878	1,075,732	157,228	65,528	50,912
Number of options cancelled or expired	75,303	5,200	23,322	2,000	15,583	2,500	77,490	2,800	431,688	3,555	54,086	0	93,784	9,750
NUMBER OF OPTIONS OUTSTANDING AS OF DECEMBER 31, 2016	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**75,662**	**317,554**	**102,910**	**93,288**	**82,614**

(1) In compliance with stock option plan rules and prevailing legislation (notably Articles L. 225-181 and R. 225-140 of the French Commercial Code), the number of shares to be issued on exercise of these options and the option exercise price, for all plans in effect as of October 25, 2010, have been adjusted to maintain grantee rights following the share issue with pre-emptive subscription rights placed on record on October 25, 2010.

(2) Prior to his appointment as Managing Partner.

(3) Granted in his capacity as Chairman of the Supervisory Board.

5.5.4 b) Stock options granted and exercised during the year

Stock options granted by CGEM[1] to the ten grantees other than Managing Partners who received the greatest number of options and options exercised by the ten grantees other than Managing Partners who exercised the greatest number of options	Number of options granted/exercised	Exercise price *(in €)*	End of exercise period	Grant date
Options granted	0	-	-	-
Options exercised (new shares issued)	66,833	87.85 59.85 51.16 52.13 66.00	05/13/2016 05/18/2017 11/22/2018 05/11/2019 05/18/2020	05/14/2007 05/19/2008 11/23/2009 05/12/2010 05/19/2011

(1) No options have been granted by any qualifying company apart from CGEM.

5.5.4 c) Special report of the Chief Executive Officer

No stock options were granted during the year and no Managing Partner exercised any stock options in 2016.

The ten employees other than Managing Partners who exercised the greatest number of options exercised 66,833 options at a unit price of €87.85 for options granted on May 15, 2006, €59.85 for options granted on May 19, 2005, €51.16 for options granted on November 23, 2009, €52.13 for options granted on May 12, 2010, and €66.00 for options granted on May 19, 2011.

At December 31, 2016, no Managing Partners held exercisable or non-exercisable stock options.

Clermont-Ferrand, February 9, 2017

Jean-Dominique Senard
Chief Executive Officer

5.5.5 PERFORMANCE SHARES

5.5.5 a) Performance share plans in effect at December 31, 2016 (Table 9 of the AFEP/MEDEF Corporate Governance Code)

A plan was launched on November 25, 2016. The plan provides for a vesting period of four years ending on November 25, 2020 for all grantees, with no lock-up period. The plan is not available to the Company's Managing Partners.

	Plan 1	**Plan 2**	**Plan 3**	**Plan 4** *(Excellence)*	**Plan 5** *(Excellence Management)*	**Plan 6** *(Excellence Management)*	**Plan 7** *(Excellence)*
Date of the shareholder authorization	May 13, 2011	May 13, 2011	May 13, 2011	May 16, 2014	May 16, 2014	May 16, 2014	May 13, 2016
Date granted by the Managing Partners	November 28, 2011	November 28, 2012	November 29, 2013	November 27, 2014	November 27, 2014	November 25, 2015	November 25, 2016
Number of rights granted	287,944	371,936	81,400	288,426	108,292	84,892	120,520
O/w to:							
▶ Jean-Dominique Senard, Managing Partner	0	0	0	0	0	0	0
▶ Michel Rollier, Chairman of the Supervisory Board	0	0	0	0	0	0	0
Vesting date *(in years)*	November 28, 2014 (France) (3 years) November 28, 2015 (other countries) (4 years)	November 28, 2015 (France) (3 years) November 28, 2016 (other countries) (4 years)	November 29, 2017 (4 years)	November 27, 2018 (4 years)	November 27, 2018 (4 years)	November 25, 2019 (4 years)	November 25, 2020 (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	N/A	N/A
Performance conditions[1] (period over which criteria are applied: 3 years)	▶ Average annual sales volume growth of at least 3% in 2011, 2012 and 2013 ▶ Average annual consolidated operating income of at least €1.4 billion in 2011, 2012 and 2013	▶ Average annual growth in sales value of at least 3% in 2012, 2013 and 2014 ▶ Average annual consolidated operating income of at least €2 billion in 2012, 2013 and 2014	▶ Average annual growth in sales value of at least 3% in 2013, 2014 and 2015 ▶ Average annual consolidated operating income of at least €2.4 billion in 2013, 2014 and 2015	▶ Average annual growth in sales value of at least 2% in 2014, 2015 and 2016 ▶ Average annual growth in consolidated operating income of €150 million in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 72% in 2014, 2015 and 2016	▶ Average annual growth in sales value of at least 2% in 2014, 2015 and 2016 ▶ Average annual growth in consolidated operating income of €150 million in 2014, 2015 and 2016 ▶ Arithmetic average annual return on capital employed (ROCE) of at least 12% in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 72% in 2014, 2015 and 2016	▶ Average annual growth in sales value of at least 2% in 2015, 2016 and 2017 ▶ Average annual growth in consolidated operating income of €150 million in 2015, 2016 and 2017 ▶ Arithmetic average annual return on capital employed (ROCE) of at least 12% in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 73% in 2015, 2016 and 2017	▶ Michelin share price that outperforms the CAC 40 by at least 15 points, comparing the average closing price between the second half of 2015 and the second half of 2018 ▶ Corporate social responsibility objective: – Average MEF[2] of less than 60 in 2016, 2017 and 2018 – 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
Number of vested shares at December 31, 2016	195,068	237,243	0	0	0	0	0
Number of cancelled or voided shares	92,876	134,693	3,232	8,562	2,048	752	0
NUMBER OF PERFORMANCE SHARES OUTSTANDING AS OF DECEMBER 31, 2016	**0**	**0**	**78,168**	**279,864**	**106,244**	**84,140**	**120,520**

(1) On a like-for-like consolidated basis, excluding changes in exchange rates for the financial criteria.
(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.

5.5.5 b) Performance shares granted during the year

Rights to 120,520 performance shares were granted during the year.

	Number of shares granted	Grant date
Performance shares granted by CGEM to the ten grantees other than Managing Partners who received the greatest number of shares	64,380	November 25, 2016

5.5.5 c) Special Report of the Chief Executive Officer

/ November 25, 2016 Plan

The Annual Shareholders Meeting of May 13, 2016 authorized the grant of shares without consideration to employees of the Company (except Managing Partners) and of related companies within the meaning of Articles L. 225-197-1 *et seq.* of the French Commercial Code, with the number of shares that may be granted limited to 0.5% of issued capital.

This authorization was used in 2016 to grant 120,520 rights to one new share of common stock to 74 grantees.

Performance shares will vest based on the fulfillment of performance criteria set out under the Michelin Performance and Responsibility Ambitions for 2020.

While the fulfillment of four performance criteria was previously required under performance share plans for executives in the highest positions of responsibility and three for other grantees, this number is now three 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 2015 and the second half of 2018;
- 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 (2016-2018 period) must be less than 60,
  - Since 2013, the annual "Moving Forward Together: Your Voice for Action" survey has measured the employee engagement rate. The average engagement rate over three years (2016-2018 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 2016-2018 period.

For all criteria, fulfillment is calculated as followed:

- If the minimum performance condition is not met, no shares will vest;
- If the minimum performance condition is met or exceeded, shares will vest on a gradual and proportional basis up to a certain ceiling.

Provided that the grantee is still employed by the Group at the end of the vesting period (or qualifies for an exemption from this requirement under French law or in exceptional cases at the discretion of the Chief Executive Officer, and given that this plan concerns executives in the highest positions of responsibility, 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).

/ Fulfillment of performance conditions under performance share plans in effect in 2016

Fulfillment of performance conditions under the November 28, 2012 performance share plan

The first condition was to achieve like-for-like, consolidated growth in Group sales value of at least an average 3% a year over the 2012-2014 period. The growth rates observed for these periods were as follows: a 3.64% increase in 2012, a 5.71% decline in 2013 and a 3.42% decline in 2014. The average for all three years was therefore a 1.83% decline, which fell short of the target.

The second condition was to achieve like-for-like consolidated operating income, before non-recurring income and expenses, of at least an average €2 billion a year over the 2012-2014 period. The amounts observed for these periods were as follows: €2.423 billion in 2012, €2.234 billion in 2013 and €2.545 billion in 2014 at 2012 foreign exchange rates. The annual average therefore came to €2.401 billion, which exceeded the target.

Given that one of the performance conditions was not met, 237,243 of the 371,936 performance shares granted (64%) will vest.

(1) Please refer to pages 299 and 300 of the 2015 Registration Document.

Note that the vesting period ended:

- In November 2015 for grantees employed by French companies, during which 113,864 shares were allocated, with a lock-up period ending in November 2016;
- In November 2016 for grantees employed by non-French companies, during which 122,811 shares were allocated (with no lock-up period).

Fulfillment of performance conditions under the November 29, 2013 performance share plan

The first condition was to achieve like-for-like, consolidated growth in Group sales value of at least an average 3% a year over the 2013-2015 period. The growth rates observed for these periods were as follows: a 5.71% decline in 2013, a 3.42% decline in 2014 and an 8.4% increase in 2015. The average for all three years was therefore a 0.24% decline, which fell short of the target.

The second condition was to achieve like-for-like consolidated operating income, before non-recurring income and expenses, of at least an average €2.4 billion a year over the 2013-2015 period. The amounts observed for these periods were as follows: €2.234 billion in 2013, €2.545 billion in 2014 and €2.515 billion in 2015 at 2012 foreign exchange rates. The annual average therefore came to €2.431 billion, which exceeded the target.

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 2017 (with no lock-up period) for all grantees.

Fulfillment of performance conditions under the November 27, 2014 performance share plan

The first condition was to achieve like-for-like, consolidated growth in Group sales value, excluding the currency effect, of at least an average 2% a year over the 2014-2016 period. At December 31, 2016, the growth rates observed for these periods were as follows: a 1.9% decline in 2014, a 1.0% increase in 2015[(1)] and a 0.4% increase in 2016. The average for all three years was therefore a 0.2% decline, which fell short of the target.

The second condition was to achieve average like-for-like growth in consolidated operating income, before non-recurring income and expenses, of €150 million a year over the 2014-2016 period. The growth observed in operating income for these periods to date was as follows: an €81 million increase for 2014, a €30 million decline for 2015 and a €243 million increase for 2016. The average increase for all three years was therefore €66 million, which fell short of the target.

The third condition was to achieve an average employee engagement rate of at least 72% a year on a like-for-like consolidated basis over the 2014-2016 period. The employee engagement levels observed to date were as follows: 74% in 2014, 77% in 2015 and 80% in 2016. The average for all three years was therefore 77%, which exceeded the target.

For the Excellence Management share plan, an additional condition applied to managers is to achieve an arithmetic average annual return on capital employed (ROCE) of at least 12% on a like-for-like consolidated basis for the 2014-2016 period. The ROCE observed to date were as follows: 11.1% in 2014, 12.2% in 2015 and 12.1% in 2016. The average for all three years was therefore 11.8%, which fell short of the target.

Given that three of the performance conditions were not met, not all of the performance shares will vest.

Note that the vesting period will end for all grantees in November 2017 (with no lock-up period).

Interim fulfillment of performance conditions under the November 25, 2015 performance share plan

The first condition was to achieve like-for-like, consolidated growth in Group sales value, excluding the currency effect, of at least an average 2% a year over the 2015-2017 period. The growth rates observed to date were as follows: a 1.0% increase in 2015[(1)] and a 0.4% increase in 2016.

The second condition was to achieve average like-for-like growth in consolidated operating income, before non-recurring income and expenses, of €150 million a year over the 2015-2017 period. The growth observed in operating income for these periods to date was as follows: a €30 million decline for 2015 and a €243 million increase for 2016.

The third condition was to achieve an arithmetic average annual return on capital employed (ROCE) of at least 12% on a like-for-like consolidated basis for the 2015-2017 period. The ROCE observed to date were as follows: 12.2% for 2015 and 12.1% for 2016.

The fourth condition was to achieve an average employee engagement rate of at least 73% a year on a like-for-like consolidated basis over the 2015-2017 period. The employee engagement rates observed to date were as follows: 77% for 2015 and 80% for 2016.

(1) The figures published in the 2015 Registration Document were adjusted for currency effects.

Interim fulfillment of performance conditions under the November 25, 2016 performance share plan

The first condition is for the Michelin share price to outperform the CAC 40 by at least 15 points for the 2015-2018 period (average closing price for the two years). Based on the average closing price of the second half of 2015 and the second half of 2016, the Michelin share price gained 14 points.

The second condition concerns the corporate social responsibility objective and was based on the results of two indicators:

- 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. The average MEF over three years (2016-2018 period) must be less than 60. At December 31, 2016, the MEF was 57.
- Average employee engagement rate: it must be at least 80% a year on a like-for-like consolidated basis over the 2016-2018 period. The employee engagement rate observed for 2016 was 80%.

The third condition is to achieve average like-for-like growth in consolidated operating income, before non-recurring income and expenses, of €150 million a year over the 2016-2018 period. The growth observed for 2016 was €243 million.

/ Performance shares vested and delivered

Note that during 2016:

- No Managing Partner of the Company received any performance shares;
- The ten employees other than Managing Partners who were granted the greatest number of share rights:
  - Received 64,380 rights to one performance share (one grantee received 9,540, one received 7,160, six received 6,360 and two received 4,760),
  - Received 5,263 vested performance shares (one grantee received 625, three received 624, four received 500, one received 390 and one received 376).

Clermont-Ferrand, February 9, 2017

Jean-Dominique Senard
Chief Executive Officer

5.5.6 EMPLOYEE SHARE OWNERSHIP

At the Annual Shareholders Meeting of May 13, 2016, shareholders approved the Chief Executive Officer'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 107,000 employees was announced in early summer 2016.

At the end of the offer period, which ran from September 15 to October 3, 2016, a total 48.7% of eligible employees in 46 countries worldwide had invested in this fifth plan. A corporate mutual fund was created for this purpose for employees in Hungary and Colombia.

Note that the participation rate was remarkably high (over 78%) 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.

A total of 657,366 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 79,284 employee and retired employee shareholders in 55 countries and five continents. At December 31, 2016, employees owned 2.057% of issued capital.

5.5.7 INFORMATION CONCERNING A SHARE BUYBACK PROGRAM CURRENTLY IN EFFECT

The following information includes the disclosures reported in the Chief Executive Officer's Report in compliance with Article L. 225-211 of the French Commercial Code.

5.5.7 a) Authorizations granted to the Chief Executive Officer

At the Annual Shareholders Meeting of May 22, 2015, shareholders granted the Chief Executive Officer an 18-month authorization to buy or sell shares of Company stock, as part of a new share buyback program. The Company was authorized to buy back up to 10% of the total shares outstanding, at a maximum purchase price of €140 per share, with the requirement that it not hold more than 10% of its own share capital at any time.

The authorization was used in 2015 (please refer to section 5.5.7 a) of the 2015 Registration Document) and in 2016 (please refer to chapter 5.5.7 b) below).

At the May 13, 2016 Annual Shareholders Meeting, shareholders granted the Chief Executive Officer a new authorization, valid for 18 months or until replaced, to buy or sell shares of Company stock, under the same terms and conditions as the previous authorization, at a maximum purchase price of €140. From its entry into force this authorization has replaced the previous authorization.

The Company signed share buyback agreements in 2016 with:

- Société Générale, effective between January 2016 and June 2016;
- Crédit Agricole Corporate and Investment Bank, effective between July 2016 and November 2016.

At the Annual Shareholders Meeting on May 19, 2017, shareholders will be asked to authorize the Chief Executive Officer to buy or sell shares of Company stock as part of a new buyback program, the terms and conditions of which are described below in section 5.5.8 "Description of the share buyback program submitted for shareholder approval at the Annual Shareholders Meeting of May 19, 2017".

5.5.7 b) Transactions in the Company's shares in 2016

The following transactions were carried out under the share buyback programs authorized by shareholders at the May 22, 2015 and May 13, 2016 Annual Shareholders Meetings, for 1,237,360 and 2,109,680 shares respectively.

The Company no longer held any shares in treasury at December 31, 2016, as was the case at January 1, 2016. A total of 3,347,040 shares were bought back by the Company during the year for cancellation.

5.5.7 c) Purpose of shares held in treasury at December 31, 2016

The Company held no shares in treasury at December 31, 2016.

5.5.7 d) Market value of treasury shares at December 31, 2016

No shares were held at December 31, 2016.

	Treasury shares bought back and sold during the year	
	Buybacks	Sales/transfers
Number of shares	3,347,040	0
Average transaction price per share *(in €)*	89.63[1]	-
Average exercise price	N/A	N/A
Total cost of transactions *(in €)*	300,000,000[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, 2016.

5.5.8 DESCRIPTION OF THE SHARE BUYBACK PROGRAM SUBMITTED FOR SHAREHOLDER APPROVAL AT THE ANNUAL SHAREHOLDERS MEETING OF MAY 19, 2017

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 19, 2017.

/ 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 contract 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. 18,006,612 shares at the date of this report. Based on the maximum purchase price of €160 per share, this would correspond to a maximum theoretical amount of €2,881,057,920.

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, 2016.

/ 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 Annual Shareholders Meeting of May 19, 2017, i.e. until the close of trading on November 18, 2018.

Effective as from the Annual Shareholders Meeting of May 19, 2017, this authorization would replace the similar authorization granted by shareholders at the Annual Shareholders Meeting of May 13, 2016.

6 / 2016 EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION

(PUBLISHED IN COMPLIANCE WITH ARTICLES L. 225-102-1 AND R. 225-105-1 OF THE FRENCH COMMERCIAL CODE)

6.1 EMPLOYEE INFORMATION 160

6.1.1 Acting as a Responsible Employer Worldwide 161
6.1.2 Fostering Workplace Well-Being 166
6.1.3 Deploying a Proactive Health and Safety Policy 168
6.1.4 Managing, Developing and Empowering People in Every Job 171
6.1.5 Nurturing Dialogue, Communication and Listening 173
6.1.6 Practicing Diversity with a Deliberate, Structured Approach 174
6.1.7 Summary Table of 2016 Employee Data 177

6.2 SOCIETAL INFORMATION 179

6.2.1 Creating Local Jobs and Businesses 179
6.2.2 Nurturing Relations with Stakeholders and Neighboring Communities 180
6.2.3 Fair, Honest Business Practices 181
6.2.4 Subcontractor and Supplier Relationships 184

6.3 ENVIRONMENTAL INFORMATION 186

6.3.1 A Global Environmental Stewardship Process 186
6.3.2 Reducing Releases, Managing Waste and Abating Environmental Nuisances 192
6.3.3 Supporting the Circular Economy 194
6.3.4 Helping to Mitigate Climate Change 197
6.3.5 Protecting Biodiversity near Michelin Facilities 201

6.4 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT 203

Michelin's social responsibility approach, known as Michelin Performance and Responsibility (PRM), informs everything it does to fulfill its corporate mission of offering everyone a better way forward. PRM ensures that all of the improvement objectives are addressed at every stage in the design and deployment of the Group's strategy.

Since late 2014, the approach has been managed by the Corporate Development Department, attesting to Michelin's commitment to seamlessly integrating its social responsibility commitments into its strategic vision.

In 2013, six ambitious objectives were set for 2020, with targets and performance indicators defined for each one. Measured annually, these objectives are driving the improvements that will make Michelin the world leader in sustainable mobility, while setting the standard in financial, environmental and social responsibility performance.

The employee, societal and environmental information presented respectively in sections 6.1, 6.2 and 6.3 below complies with Article L. 225-102-1 of the French Commercial Code *(Code de commerce),* as 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 and Article 173 of the Energy Transition Act of August 2015. The legislation requires every listed company in France to disclose, in an annual corporate social responsibility report, its commitments to supporting sustainable development and the circular economy, reducing food waste, fighting against discrimination and encouraging diversity, in accordance with Article R. 225-105-1 of the French Commercial Code, which lists all of the information that must be disclosed in this report.

6.1 EMPLOYEE INFORMATION

Michelin's employee relations are governed by the highest standards in accordance with the universal principles of human rights and international labor conventions.

A FIRM COMMITMENT TO EMPLOYEE WELL-BEING AND DEVELOPMENT

Michelin has pledged to uphold the ten fundamental principles of the United Nations Global Compact and complies with the OECD Guidelines for Multinational Enterprises. It recognizes the Universal Declaration of Human Rights and the conventions of the International Labour Organization, particularly in relation to freedom of association and protection of the right to organize (see section 6.1.5), the elimination of discrimination in employment and occupation (see section 6.1.6 b), and the abolition of forced labor and effective abolition of child labor (see section 6.2.4 *et seq.*).

These principles and guidelines have inspired a number of internal reference documents, particularly the Michelin Performance and Responsibility Charter, the Code of Ethics, the Anti-Corruption Code of Conduct, the *Moving Forward Together, the Trademark of Mutual Commitment* document, the Manager's Guide and the Michelin Purchasing Principles. Widely promoted among employees worldwide, all of these documents have been translated into the Group's main working languages and are available for consultation at any time on the country organization intranet sites.

This section describes six major issues addressed by Michelin's personnel policies:

1. **Acting as a responsible employer worldwide;**
2. **Fostering workplace well-being;**
3. **Deploying a proactive health and safety policy;**
4. **Managing, developing and empowering people in every job;**
5. **Nurturing dialogue, communication and listening;**
6. **Practicing diversity with a deliberate, structured approach.**

Note on the methodology used for employee indicators

The employee information reporting process has been redefined 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 reporting actions were optimized, the categories simplified and the scope of reporting extended.

/ Data collection applications and scope of reporting

PeopleSoft/Oracle human resources management software is used in 13 languages to manage personnel data in the consolidated companies. Most of the employee data for 2016 were extracted from the application's Chorus database, with the exception of companies acquired in 2015 and 2016, Tigar and the main dealership networks in Europe (Euromaster) and North America (TCI).

The information provided in compliance with Article R. 225-105-1 of the Commercial Code—employee numbers, working hours, payroll and occupational accident data—relates to all of the consolidated units, excluding those acquired in the last two years. For the sake of completeness, Euromaster and TCI employees have been included in some of the data and analyses presented below. In addition to the consolidated data, separate information has been reported for Manufacture Française des Pneumatiques Michelin (MFPM), which coordinates most of the manufacturing, sales and research operations based in France.

Corporate social responsibility reporting is based on outside standards such as the G4 guidelines published by the Global Reporting Initiative, which aims to provide a reporting framework that is standardized, reliable and credible. A cross reference to these guidelines may be found on page 321 of this document.

/ Indicator consolidation method

Data were reported by the country organizations and companies in accordance with corporate guidelines describing the process for compiling the employee and societal indicators required by Article R. 225-105-1 of the French Commercial Code for all of the Michelin host countries and companies as defined by law. These guidelines 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 reference documents in which they are defined. Each country organization is responsible for the fairness and accuracy of the reported data. As part of a continuous improvement process, Group Personnel audits the data on a monthly basis to ensure their accuracy and consistency.

/ Fair, verifiable data

For the eleventh consecutive year, Michelin's corporate social responsibility data were reviewed by PricewaterhouseCoopers, the Statutory Auditors designated as an independent third party. In 2016, for the fourth year in a row, their review was conducted in accordance with the decree of May 13, 2013 issued in application of the Grenelle II Act, which defines the conditions under which the independent third party performs its engagement. Following the review, a report was issued attesting to the presence and fairness of the required information.

6.1.1 ACTING AS A RESPONSIBLE EMPLOYER WORLDWIDE

In 2016, the number of employees leveled off in every host region around the world, while the percentage of women in the workplace continued to rise steadily over the year, to more than 17% Group-wide.

6.1.1 a) Employee data by geography and gender

In 2016, the workforce totaled **111,708** people[1], of whom 17.1% were women[2].

/ Employees on payroll at December 31, 2016

(Employees on payroll, consolidated companies, under any form of work contract)

	Europe	North America	South America	Asia (excluding India)	Africa/India/ Middle East	Group Total
Number of employees	65,859	22,841	6,475	14,835	1,698	**111,708**

MFPM	***19,349***

Around the world, the number of employees remained virtually unchanged in 2016, ending the year at an aggregate 111,708 people, compared with 111,681 at December 31, 2015.

/ Full-time equivalent employees on payroll at December 31, 2016

(Full-time equivalent employees, consolidated companies, under any form of work contract)

	Europe	North America	South America	Asia (excluding India)	Africa/India/ Middle East	Group Total
Number of employees	61,219	21,960	5,969	14,809	1,695	**105,654**

MFPM	***18,038***

The breakdown by region remained stable over the year. France again accounted for 21% of all full-time equivalent employees, with nearly 23,700 people nationwide (including Euromaster, Michelin Travel Partner and other units).

(1) Including the dealership networks, Tigar and recently acquired companies.
(2) Excluding the dealership networks, Tigar and recently acquired companies.

/ Women as a percentage of employees at December 31, 2016

(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
Europe	10.4%	34.0%	25.4%	**17.1%**
MFPM	*5.6%*	*27.8%*	*26.1%*	***16.9%***
North America	14.1%	64.0%	23.0%	**18.0%**
South America	7.1%	25.5%	26.3%	**13.6%**
Asia, excluding India	10.0%	40.9%	27.6%	**17.1%**
Africa/India/Middle East	7.6%	26.5%	14.5%	**12.8%**
GROUP TOTAL	**11.0%**	**36.4%**	**24.8%**	**17.1%**

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

The priority focus on feminization can be seen in the steady year-after-year increase in the percentage of women in the workforce (see section 6.1.6).

/ Contract employees and temp agency workers

In 2016, contract employees represented 4.4% of full-time equivalent employees Group-wide.

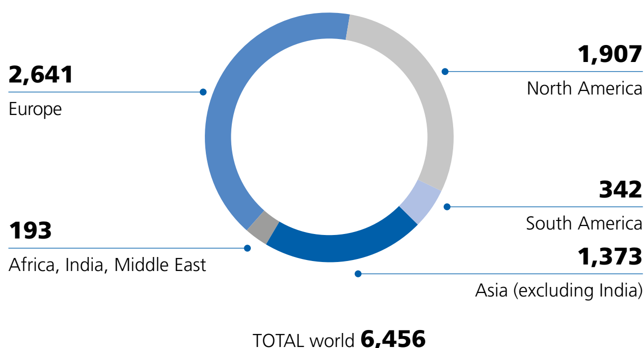
The number of temp agency workers is tracked by the Group Purchasing Department based on detailed worldwide invoicing data from all of the agencies that have signed global or regional master contracts. In all, the use of temp agency personnel corresponded to **3,600** full-time equivalent jobs on an annualized basis in 2016.

The total number of contract employees and temp agency workers remains very low, at less than 8.5% of the total.

6.1.1 b) Employee movements

Around the world, Michelin is enhancing its appeal among young people.

NEW HIRES UNDER PERMANENT WORK CONTRACTS IN 2016



Excluding the dealership networks, Tigar and recently acquired companies.

A total of **6,456** people were hired in 2016, more than in 2015. By region, the pace of hiring slowed in South America, leveled off in Asia and rose in North America, the Africa/India/Middle East region and Europe.

MFPM hired 871 people during the year, up from 750 in 2015, reflecting the need to replace retirees and to staff the increase in capacity utilization at several French plants (75% of the new hires were production operators).

/ Separations by reason (employees under permanent work contracts)

Separations in 2016	Resignation	Dismissal/termination by mutual agreement	Retirement	Death	Total
Group	2,185	2,364	1,871	99	**6,519**
MFPM	*129*	*244*	*794*	*26*	***1,193***

Excluding the dealership networks, Tigar and recently acquired companies.

Separations tend to occur for three main reasons: (i) retirement, which almost exclusively concerns the mature regions; (ii) resignation, particularly in the Africa/India/Middle East region and to a lesser extent in Asia; and (iii) dismissals and terminations by mutual agreement, which stand at around 2.5% of employees.

/ Attrition rate excluding retirements

	2016	2015	2014	2013
Group	5.2%	5.9%	5.5%	5.6%
MFPM	*2.2%*	*2.0%*	*2.1%*	*1.6%*

Excluding the dealership networks, Tigar and recently acquired companies.

/ Redundancy plans, job retention initiatives and retraining, placement and support programs during the year

People concerned by the measures announced in late 2015 continued to be supported in 2016.

In France, restructuring programs were deployed in five segments during the year.

1. **Termination of Truck tire production at the Joué-lès-Tours plant, as announced in June 2013**

   Of the 706 jobs eliminated, 380 people have taken or will soon take phased retirement or another form of late-career arrangement, 159 have accepted a transfer and 167 have been outplaced.

   The career transition workshops set up to assist the 167 outplaced employees in building new career paths were closed in late June 2016. Since July, the 20 or so people still enrolled in retraining programs have been supported by individual counseling. By year-end, nine people were still being counseled, while 68% of the other people opting for outplacement had found a job (of which 65% with permanent contracts), 18% had set up their own company and 17% had found employment under a six-month or longer temporary contract.

2. **Reorganization of the supply chain in France**

   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 whom 46 have been furloughed until retirement, 37 have been transferred to another Michelin facility, and 12 have opted for outplacement. Of the latter, three have found employment under a permanent contract and nine are still on retraining leave.

3. **Reorganization of the Pneu Laurent business in France**

   Reorganization of the Pneu Laurent plant in Avallon 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. Four people are still on retraining leave.

4. **Termination of the Truck tire retreading operations at the Combaude plant in Clermont-Ferrand**

   Of the people concerned by the 330 eliminated jobs, 93 accepted early retirement and four agreed to be outplaced (of whom three found jobs under permanent contracts and one created his own business).

   The other 233 are expected to continue their careers with the Group in France, in large part at another facility in Clermont-Ferrand.

5. **Reorganization of the Process Engineering operations in Clermont-Ferrand**

   For this reorganization, the employment protection measures are being undertaken as part of a voluntary separation plan that avoids any forced layoffs. In this way, regardless of how many people request separation compared with the workforce reduction target, no one will be dismissed for ETO reasons.

   As of May 31, 2016, a total of 123 people were declared redundant in the organization covered by the employment protection plan.

   Under the plan, these people had either six weeks to opt for early retirement or three months to volunteer for a different solution, such as outplacement, transfer to a Group position in a different geographic location or transfer to another position at the Clermont-Ferrand facility.

   At the end of the six months, 138 people had agreed to voluntary separation, of whom 80 took early retirement; 26 accepted outplacement (15 with a job under a permanent contract and 11 creating their own company after their project was validated by the outplacement agency); four transferred to another Group position in France; and 28 accepted a position in another business based at the Clermont-Ferrand facility.

In Italy, operations in connection with the closure of the Fossano plant, scheduled for June 2017, and the transfer of its bead wire production to the Cuneo plant (impacting around 150 people) are proceeding in accordance with the plan negotiated with the unions in November 2015. Of the 406 people declared redundant when the reorganization was announced, six have retired; 49 have transferred to another position in the Group (of whom 24 in another country and 25 in Italy); 26 opted for outplacement, of whom seven have already found a new job and the rest are still being supported by the career transition workshops.

The CIGS short-time working arrangements were implemented in accordance with the agreement signed with the unions in December 2015. The Alessandria, Cuneo and Fossano plants then translated this general agreement into facility-specific agreements, which were signed in June 2016 for application beginning in July.

Follow-up meetings are being periodically held with all of the employee representatives to encourage total transparency and the search for consensus solutions, which is helping to foster constructive labor relations.

In Germany, four logistics hubs have been closed as part of the general redeployment of the European supply chain. Support for the people concerned is being jointly led by the Personnel Department management teams and the Works Council in a harmonious, constructive process. People opting for termination by mutual agreement are being individually supported until they have been effectively placed in a new position.

1. **The Dormagen logistics hub**

   As of December 31, 2016, the 41 people concerned had received job offers in other facilities or with Euromaster. The ones who opted for outplacement are being individually supported, with 10 to 12 interviews per person and group training programs. Two people have already been placed, and others have already found a job but have not yet taken up their positions.

2. **The Regau logistics hub**

   As of June 30, 2016, 15 people were concerned. The ones who opted for outplacement were also being individually supported, with 10 to 12 interviews per person and group training programs. One person has been transferred to another Michelin position and 14 have found a new job outside the Group.

3. **The Adventire project**

   As of April 30, 2016, 15 people were impacted by the transfer of operations to Bucharest. One has retired, ten have been transferred to other positions in the Group and four have opted for outplacement.

4. **The Alliance project announced in May for gradual implementation**

   Ten people are concerned at Michelin Restaurants/BookaTable, of whom five have been transferred to another position in the Group and the other five are awaiting placement or preparing for a termination by mutual agreement.

In the United Kingdom, the closure of the Ballymena plant, announced in November 2015 and scheduled for mid-2018, is proceeding under an agreement signed with employee representatives, in a serious yet constructive atmosphere, reflecting the maturity of the local social dialogue process. At the same time, the simultaneous announcement of significant capital expenditure commitments in the Stoke and Dundee plants, as well as in the supply chain, was very positively perceived by both Michelin employees and local authorities, particularly since the initial projects are already up and running.

The closure is being implemented very gradually, which is enabling the deployment of a realistic employee placement plan. By the end of 2016, all of its terms had been fulfilled, with 185 solutions accepted for outplacement or transfers to other US or European plants, notably in the United Kingdom. This exceeded the initially projected 182 separations, which reflected the staffing needed to keep production running until final closure. The people choosing outplacement could enroll in the Journey to Job (formerly My Future) career transition workshops, which enabled several employees to find a stable job and others to create their own business.

Michelin Development helped to create 93 jobs in the United Kingdom, including the support provided to six Michelin employees in starting their own companies.

In North America, the reorganization of the services, engineering and sales teams impacted about 100 people. Of the total, 95% have transferred to a new position in the region and the others have received severance benefits and support. All of them have found stable new jobs.

6.1.1 c) Offering fair compensation and benefits

Michelin offers every employee a fair pay package that reflects his or her contribution to the Group's performance, aligned with the local practices and conditions in each host country. All employees receive supplementary compensation in forms that vary by country. They are also protected from the financial consequences of an accident or illness and offered opportunities to save for their retirement.

	Total employee benefits expense in 2016 *(in € millions)*	Production operators[1]	Administrative employees and technicians[2]	Managers[3]	Provisions and provision reversals for pension obligations	Taxes, provisions and advances
Group	5,543	2,320	2,086	1,016	11	109
MFPM	*1,396*	*384*	*441*	*434*	*5*	*132*

(1) Production operators: hourly employees.
(2) Administrative employees and technicians: salaried employees.
(3) Managers: salaried employees with bonuses.

"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 €5,543 million or 26.5% of net sales in 2016, of which €1,115 million in employer payroll taxes.

The total may be analyzed as follows:

(in € millions)

Wages and salaries—Group	4,520
MFPM	*930*
Employer payroll taxes	1,115
MFPM	*362*
Benefit contributions, pensions, severance and retraining costs	(98)[1]
MFPM	*104*
Share-based payments	5
MFPM	*0*
TOTAL	**5,542**
MFPM	***1,396***

(1) Benefit contributions, pensions, severance and retraining costs: in the United States, an amendment to the health coverage plan significantly lowered the defined benefit obligation, generating a €271 million reduction in past service cost that was recognized in operating income from non-recurring activities for the year.

/ 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 career development, so as to enable people to advance according to their abilities and the needs of the Group. They are also carefully aligned with evolving market conditions and local practices.

In every host country, compensation is set and adjusted as competitively as possible, with a constant eye on achieving **the right balance between employee satisfaction and financial performance.**

An array of profit-sharing and bonus systems are in place, which vary by country and employee category. Already offered to employees above a certain level of responsibility, individual performance bonuses are now being gradually extended to all managers, administrative employees, technicians and supervisors with the goal of incentivizing them to deliver their results and help to meet Group targets. At MFPM, for example, all categories of employees have been eligible for individual bonuses since 2016.

Discretionary and non-discretionary profit-sharing systems are also deployed, in accordance with each country's practices and regulations. To ensure cross-border consistency, these systems are all governed by similar rules and procedures. However, they are aligned with local job markets and conditions, and the pay-out levels are set to remain competitive in the local market.

In 2016, of the 17 objectives in the Group priorities scorecard, seven related to social responsibility issues. Of these, three concerned employees and four were environmental objectives that Michelin has pledged to meet by 2020.

Because pay scales are pegged to criteria specific to each country, in order to reflect local conditions, the average Group-wide pay raise for the year would not be a meaningful indicator.

In France, the year-on-year pay increases at MFPM were as follows in 2016:

Production operators	2.2%
Administrative employees, technicians and supervisors	2.2%
Managers	3%

Data for France.

Employee benefit policies, in such areas as post-retirement benefits, insurance and health care coverage, reflect Michelin's social responsibility commitment. National benefit systems are supplemented to ensure that employees enjoy a similar level of benefits in most of the Group's host countries.

Insurance and benefit policies are continually updated in response to changes in the economic and legal environment and to take into account the findings of the Moving Forward Together survey (see section 6.1.5 c).

Protecting employees from the consequences of an accident or illness

Michelin has introduced systems to safeguard employees, as well as their spouses and children, against the potentially significant financial consequences of an illness or an accident. Health care plans cover medical expenses and insurance coverage guarantees an income in the case of short or long-term disability or death.

At MFPM, the death and disability insurance agreement signed in 2013 and implemented in 2014 significantly improved coverage for operators, administrative employees, technicians and supervisors, who receive supplemental compensation in the event of long-term illness or severe disability. In the event of death while still an employee, a death benefit is paid.

A wide range of proactive workplace health and safety initiatives are being assertively deployed (see section 6.1.3) and public health campaigns on such topics as nutrition and vaccinations are regularly conducted on-site.

Supplementing national pension systems

With life expectancy on the rise, a growing number of countries have national pension systems that may not be sufficient to meet employees' expectations. In response, Michelin has implemented systems that provide employees with additional post-retirement income, in accordance with their length of service.

These systems are generally funded pension plans that allow employees to contribute a percentage of their pay, in addition to the funds paid in by the employer. In certain countries, Michelin also recognizes provisions for post-retirement benefit obligations relating to previous pension plans. At December 31, 2016, these obligations amounted to €2,741 million, of which €574 million for MFPM.

Total payments under defined benefit plans amounted to €230.4 million in 2016, of which €155.9 million in benefits paid directly to employees and €74.5 million in contributions to the funds.

When legislation allows, Michelin offers retirement savings plans with matching employer contributions. The invested funds are managed by a fund manager or insurance company that has been carefully selected for its solidity and performance. As part of the project to upgrade the supplementary pension system, the PERCO retirement savings plan agreement, which covers all of the French companies, was revised and the matching employer contribution increased to 100% of the employee investment, up to an amount equal to 2.5% of the employee's prior-year gross salary. Another agreement has introduced a new supplementary pension plan in France, co-financed by the Group (in an amount equal to 1% of gross salary) and the employee (0.2%). This plan has been deployed at Manufacture Française des Pneumatiques Michelin and Compagnie Générale des Établissements Michelin, with the possibility of other French companies joining in the future.

/ Offering a variety of supplementary compensation

In addition to salary, performance-based bonuses for meeting individual and/or corporate targets, overtime pay and compensation directly related to the nature of work performed, employees are also offered supplementary compensation in forms that vary widely depending on local legislation. These include discretionary profit sharing, non-discretionary profit sharing, contributions to supplementary health insurance, retirement savings plans and employee savings plans.

At Manufacture Française des Pneumatiques Michelin, the 2014-2016 discretionary profit-sharing agreement signed with the trade unions uses various indicators to calculate profit shares—the number and success rate of Progress Ideas, the reduction in the environmental footprint and the fulfillment of production targets. The amount of the discretionary profit-share, which is paid in the first quarter of the following year, can represent up to 5% of salary.

In 2016, for example, nearly €45 million was paid out of 2015 net income to MFPM employees in the form of discretionary profit-shares, non-discretionary profit-shares and profit-sharing bonuses.

6.1.2 FOSTERING WORKPLACE WELL-BEING

Michelin wishes to create working conditions that foster a sense of balance and personal well-being. Initiatives are being deployed to improve the workplace environment and organization. In addition, the country organizations and plants have been empowered to make headway on local priorities, in accordance with the needs expressed by their employees.

6.1.2 a) Improving work-life balance

The Moving Forward Together survey (see section 6.1.5 c) continues to demonstrate that employees would generally 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, with a growing number of employees taking advantage of them. Teleworkers feel that one of the main benefits is the significant reduction in their weekly commute, particularly in Brazil, Romania, the United States and other countries where traffic congestion is on the rise. Operations in Germany, Canada, Spain, France and the Nordic countries have introduced work-at-home options in response to employee aspirations for a better work-life balance.

As part of its commitment to diversity, special attention is paid to requests from disabled employees, pre- and post-maternity leave employees, seniors and people working part-time after sick leave (see section 6.1.6).

/ Initiatives for production operator work schedules

While more challenging to implement for operators working in a variety of shifts to keep production plants running around the clock (3x8 hours, 4x8 hours, 5x8 hours, 2x12 hours), a number of shop floor work-life balance initiatives have been deployed, in particular as part of the empowerment process. Any adjustments to production schedules are announced as far in advance as possible.

6.1.2 b) Offering more flexible part-time options

Michelin continues to encourage part-time working, which plays an important role in improving quality of life by facilitating a better work-life balance and opening up job opportunities for people from diverse backgrounds.

Procedures for implementing these arrangements vary by country, depending on local legislation, expectations and practices. To the extent possible, they also reflect input from employee representatives.

PART-TIME EMPLOYEES BY GENDER AND JOB CATEGORY AS A PERCENTAGE OF TOTAL EMPLOYEES AT DECEMBER 31, 2016

Group *MFPM*	Women	Men	Total
Production operators	6.2%	2.9%	**3.3%**
MFPM	*7.6%*	*2.8%*	***3.0%***
Administrative employees, technicians and supervisors	9.9%	2.2%	**4.4%**
MFPM	*19.4%*	*5.6%*	***9.6%***
Managers	8.3%	1.1%	**2.6%**
MFPM	*15.2%*	*1.0%*	***4.0%***
GROUP TOTAL	**8.3%**	**2.6%**	**3.6%**
MFPM TOTAL	***16.8%***	***3.5%***	***5.8%***

Consolidated Group excluding dealership networks, Tigar and recently acquired companies.

In 2016, the percentage of employees choosing to work part-time continued to increase, both Group-wide and in France, to 3.6% from 3.1% the year before. The option was particularly popular among women, where the percentage rose to 8.3% from 7.8%.

6.1.2 c) Initiatives undertaken to address employee needs

In a large majority of plants and offices worldwide, initiatives to improve the quality of worklife (QWL) are underway with the active participation of employees and, whenever possible, their representatives.

In 2016, these improvement plans were expanded to address certain issues identified thanks to employee input, such as:

- Foodservices, which have already been significantly upgraded or are being improved with new projects, notably in Thailand, where restaurant premises are being renovated; in Brazil, where the four staff restaurants have been air-conditioned; and in Brazil, India, China and other countries where teams can now get a hot meal on any shift, at a price that has been deliberately kept low to encourage take-up.
- In France, a program is underway to provide foodservices in every plant and office, so that as many employees as possible can get a hot meal on-site.
- In the United States, break rooms at the Tuscaloosa, Alabama plant have been renovated.

In 2016, a nationwide program leader was appointed in France to manage the process in every plant and office. In addition, QWL committees comprising employee representatives have been set up in five plants and are being introduced in three others.

All of these initiatives are being shared with employees. In 2016, for example, 15 initiatives were described in the three Buzz & News magazine issues published during the year.

6.1.2 d) Positive quality-of-worklife scores in the engagement survey

In 2016, 78% of the 82,000 people who participated in the Moving Forward Together survey were satisfied with their quality of worklife, with a fairly even distribution between employees paid monthly (79%) and hourly (77%). While these overall scores cannot be compared with those of the previous round due to changes to some of the questions, they do reflect employees' feelings about their work-life balance, their workplace environment, workstation safety issues and the way Michelin is exercising its social responsibility. Work-life balance remains a priority for employees.

The highest levels of satisfaction were reported by the country organizations of Eastern Europe, Mexico and Thailand.

6.1.2 e) Aligning psychosocial risk prevention with local cultures

In a commitment to safeguarding employees from the effects of stress and harassment, a variety of programs aligned with local needs and legislation have been deployed to provide:

- **Primary prevention,** through reviews, sensitivity training and initiatives to improve the quality of management. Deployed in most of the Group's host countries (North America, Spain, France, Hungary, Poland, Romania, the United Kingdom and Serbia), these measures are helping employees to protect themselves, while improving the ability of managers to detect and respond to at-risk situations.
- **Secondary prevention,** through training and organizational improvement initiatives, particularly in at-risk segments/jobs. Programs to **prevent stress** with new workplace organization practices have been introduced in Germany, North America, South America, China, Spain, France, Hungary, Poland, Romania and the United Kingdom.
- **Tertiary prevention,** through coaching, relaxation therapy, support groups and individual counseling by a psychologist or occupational physician.

Almost all of the plants and offices are leading quality-of-worklife programs that help to **attenuate stress** or facilitate access to medical or psychological assistance for people seeking support.

6.1.2 f) Tracking production operator absenteeism

Unforeseeable leave Production operators *(% of scheduled hours worked)*	Sick leave and other short-term absences	Lost time of fewer than 61 days due to occupational injury or illness	Long-term leave	Total 2016
United States and Canada	1.7	0.1	1.8	**3.7**
Europe (excluding Russia)	3.6	0.2	1.5	**5.3**
MFPM	*4.3*	*0.6*	*2.7*	***7.5***

In Canada, the introduction of a new temporary disability policy in 2016 caused a brief spike in the short-term absenteeism rate, a phenomenon that has since been addressed by management at the impacted plants.

The total operator absenteeism rate declined by a slight 0.1% over the year in Europe.

Short and long-term absenteeism rates were higher than European average in the countries with the most employees (France, Spain and Germany). On the other hand, **the short-term leave** rate in these three countries remained in line with the average, at 4% to 5%.

6.1.3 DEPLOYING A PROACTIVE HEALTH AND SAFETY POLICY

Michelin pays especially close attention to the health and safety of both its employees and suppliers, in full alignment with its fundamental value of respect for people, by pursuing the proactive health and safety policies described in:

- the **2011 Health and Safety Declaration;**
- the **2014 Health Policy.**

These commitments are based on the recommendations issued by key international organizations, such as the UN, the ILO and the OECD, and prevailing standards and legislation, including ISO 26000 and the French Commercial Code. In 2015, they were further clarified in the **Environment and Prevention General Policy Statement,** which defines the fundamentals and vision, specifies the objectives in alignment with the Michelin Performance and Responsibility Ambitions for 2020 and sets the guidelines that every unit must follow.

The policies are being implemented through the Environment and Prevention Management System, which is based on the international ISO 14001 and OHSAS 18001 standards. It is being applied in every facility to **capitalize on best practices and embed them across the organization to drive consistent, continuous improvement.** The system is auditable and audited.

Every Michelin facility is staffed with risk prevention professionals, such as OSH experts, ergonomists and hygienists, and health care providers, like doctors and nurses.

These professionals **network at the Group, regional and country level** to share best practices and leverage acquired experience, 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, the production plants conduct a self-assessment of how well these fundamentals were being applied by auditing:

- management's engagement over time;
- the management of skills and organizations;
- the application of job basics and compliance with standards;
- the management of performance and the continuous improvement process.

The findings revealed that, thanks to the dedication of all of the process stakeholders, the eight health and safety fundamentals were very well applied in the plants, with a score of 8.4 out of 10.

6.1.3 a) Safeguarding employee health

Deployment of the Group Health Policy is improving the performance of individual and general prevention programs, in particular by instilling a common vision and aligning medical practices.

/ Systematically monitoring employee health

A majority of employees are under the care of an occupational physician, in accordance with local legislation. **Medical check-ups** are offered to employees in the few countries, in Africa and the Middle East, that do not require companies to monitor employee health and lack the appropriate medical resources.

In the geographic zones and the leading European countries, health coordination committees are helping to align care systems and the deployment of Group health policy recommendations.

/ Preventing and monitoring occupational illnesses

Initiatives to prevent and detect occupational illnesses primarily concern the risks related to lifting, repetitive stress, physical exertion, noise exposure and chemicals.

Occupational illnesses are reported every year to help guide remedial action plans (see section 6.1.3 b).

A full 90% of the recognized occupational illnesses occurring Group-wide are associated with job-related physical activity. The program to improve workstation ergonomics is helping to reduce the occurrence of musculoskeletal disorders. To supplement the general protection measures, employees systematically wear personal protective equipment at workstations deemed at risk.

/ Safeguarding health and ability to work

To further protect employees from impairments in health or the inability to work, the programs to attenuate occupational risks are also supplemented with **local health education initiatives and public health campaigns.**

These programs are designed to instill healthy behavior in employees, both on and off the job.

Examples include:

- medical check-ups offered to employees in countries where access to healthcare is difficult or expensive (*e.g.* **China, India, Thailand, Russia and Poland**), to provide care and enable early diagnosis of disease;
- encouraging employees to engage in physical activities and sports by installing fitness and athletic equipment and paying a portion of the registration fees for sports activities;
- awareness-building and prevention training concerning addictive behavior, nutrition, cardiovascular disease and other issues that may be defined in connection with local priorities. In some countries, these programs are organized as part of quality-of-life initiatives, such as "Balance" in Germany, *"De Bem Com a Vida"* in Brazil, *"Oxygène"* in France and "Choose Well Live Well" in the United States.

/ Obtaining independent guidance from the Medical Advisory Committee

Since 2010, **the Medical Advisory Committee,** comprising 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 2016, the Committee reviewed and validated the effectiveness of the chemical risks assessment procedure recommended by the Group.

/ Protecting employees during a crisis

Michelin is ready with a full array of responses to protect employees in emergencies:

- Security surveillance has been heightened in response to terrorist threats.
- In Turkey, local security systems and procedures have been reviewed and special measures have been taken to protect travelers and expatriates.
- Specific recommendations have been issued to employees in France and Belgium.
- Alert levels have been raised on sites that Michelin considers sensitive.
- Employee travel to countries at risk are now subject to prior authorization and travelers are issued security guidelines and data sheets.
- Special measures were taken in 2016 to protect employees and their families from the Zika virus epidemic. Risk awareness initiatives and mosquito control campaigns were stepped up in Brazil and Mexico, while travel advisories were issued, counseling women who are pregnant or thinking about becoming pregnant to avoid traveling in the endemic areas.
- Measures continued to be taken to protect employees from the effects of **air pollution** in large Asian cities.

6.1.3 b) Assessing and preventing risks

The **Health and Safety Declaration** states that "above all else, Michelin's wish is to ensure safe and healthy conditions for everyone working in the Group." To embed a culture of safety and prevention in every aspect of the Group's business, three essential principles are being instilled across the organization:

- correct behavior begins with compliance with safety guidelines;
- through their active commitment, employees are responsible for everyone's health and safety, both their own and that of others;
- personal engagement drives continuous improvement.

This process emphasizes **risk prevention, compliance, employee empowerment and management involvement,** so that the Declaration is effectively demonstrated in daily work practices.

In recent years, a comprehensive, prioritized risk map has been created, based on data from standardized risk assessments conducted for every workstation. These data are also being used to set priorities in the annual or multi-year action plans. In the case of France, they are consolidated into the comprehensive risk assessment review *(Document Unique),* which addresses all of the possible risk factors.

/ Managing workplace safety

A culture of safety at work embraced by employees across the organization, as seen in:

- corporate communication issued by the Group;
- initiatives designed to get management, employees and other stakeholders involved in instilling a robust safety culture in every unit;
- the sharing of best practices.

Two indirect yardsticks attest to the importance of safety for Michelin employees:

- 32,755 Progress Ideas have been submitted by employees to address safety issues (45%) and working conditions (55%);
- 91% of the 82,354 employees who responded to the 2016 Moving Forward Together survey felt that "safety is a top priority on their site."

/ Improving production workstation ergonomics

Most occupational illnesses are the result of musculoskeletal (MSK) disorders, which are also the cause of some of the accidents recorded in certain types of production activities. Since 2002, improving ergonomics has been a major focus of Michelin's health and safety policies.

The prevention of MSK disorders is designed into every industrial project, so as to attenuate any potentially negative impact on working conditions over the medium term.

All of the production facilities and certain logistics hubs regularly update their workstation maps to identify action priorities and deploy standard solutions.

Every year, ergonomic issues across the business base **are addressed by a dedicated capital budget,** totaling €17 million in 2016.

Projects to improve ergonomics are implemented by ergonomist-led multidisciplinary teams comprising managers, operators, prevention specialists and physicians. Each plant is deploying a five-year improvement plan.

In addition to protecting employee health, reducing ergonomic hardship is also making the workstations more accessible and appealing to a wider range of people. In turn, this is supporting diversity, making workstations a more attractive job option, and enhancing people's well-being and motivation.

/ Managing industrial hygiene risks to protect employee health

Chemical risks are an important focus of policies to protect employee health and safety, both on the shop floor and in research and development facilities. These risks stem not only from chemicals, but also from harmful process fumes and the asbestos previously used as insulation or friction material.

Before any new chemical substance may be used, its possible risks are managed through a dedicated assessment procedure performed prior to issuing an authorization for use. The procedure gauges the substance's potential impact on human health and, if deemed hazardous, defines the conditions for its safe use. In some cases, its use may be prohibited.

Every workstation features a product data sheet written in the local language and approved by industrial hygiene experts. Based on safety data sheets, these documents are managed by a global information system, which enables real-time document sharing among experts and ensures compliance with REACH standards in Europe and the Global Harmonized System (GHS) standards in the Group's other geographic zones. The sheets describe the potential hazards and conditions for safe use of products used at the workstation.

Group tires are entirely asbestos-free and procurement contracts explicitly prohibit the presence of asbestos in any sourced object or machine. In addition, in recent years, procured machines and spare parts have been inspected to ensure that asbestos has not been reintroduced. Special checks are performed on products sourced from countries where asbestos use is permitted.

Around €7 million was invested in the production facilities in 2016 to abate excessively high hygiene risks, in particular by continuing to remove legacy bonded asbestos materials. In another example, additional safety systems were introduced to protect employees against certain products or chemicals.

6.1.3 c) Measuring and tracking occupational accidents and illnesses

Since 2013, Michelin's worldwide health and safety performance has been measured using the **Total Case Incident Rate (TCIR),** which is based on the US Occupational Safety & Health Administration (OSHA) indicator. On the basis of every 200,000 hours worked, TCIR records the number of lost-time accidents, accidents without lost time but requiring treatment, incidents requiring workstation adjustments (*e.g.* due to ergonomic issues and involving musculoskeletal disorders), or occurrences of an illness recognized as work-related. In this way, it takes into consideration not just accidents but every type of health and safety-related incident.

The Group also continues to track the lost-time incident frequency rate (LTIFR), which corresponds to the number of incidents resulting in at least one day's lost time per million hours worked, and the lost-time incident severity rate (LTISR), which corresponds to the number of working days lost to accidents per thousand hours worked.

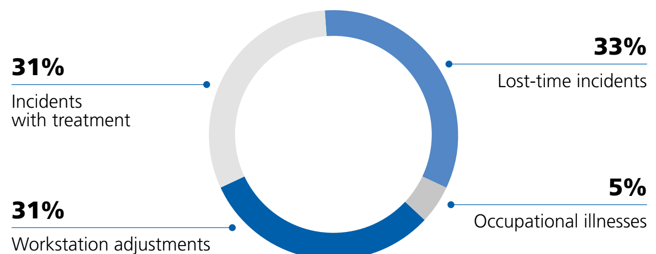
The HSER information system rolled out in 2014 is capable of reporting every incident as it occurs, including commuting accidents, minor accidents and even near-accidents, where the sharing of feedback is useful.

The HSER system also records incidents involving temporary workers and contractor employees. Such incidents are then reviewed with the companies concerned to help them prepare improvement action plans.

In 2016, a review of the consolidated, Group-wide data for the year enabled management, the ergonomist and the occupational medicine team to prepare effective health and safety improvement plans. To improve the reliability and global consistency of TCIR data, information, awareness-building and training programs continued to be conducted for the designated health and safety experts in every geographic zone.

The Michelin community was saddened during the year by the fatal accidents involving an employee at the Chennai plant in India, an employee at the Campo-Grande plant in Brazil, an employee at the Cataroux plant in France and an employee at the Almeria facility in Spain. Two employees of a logistics contractor died at the Vitoria facility in Spain and a transportation contractor was the victim of a fatal accident at the Cuneo plant in Italy. The authorities and Michelin actively investigated the causes and circumstances of each accident, and protective measures have been taken to improve everyone's safety. In a video message broadcast in every plant, Jean-Dominique Senard reiterated that **"more than ever, continuously improving Michelin's health and safety performance is one of the Group's top priorities."**

ANALYSIS OF TCIR



Consolidated TCIR declined to 2.54 in 2016 from 2.67 the year before, with a clear improvement in North America and a stagnation or decline in certain countries.

Presented to **operations without a single lost-time incident for at least two years,** the Michelin Safety Award honors safety performance over time (one to three million hours worked, depending on the size).

In 2016, it was presented to three plants in Thailand (Laem Chabang, Nongkae and Hat Yai) and to the Fallingbostel logistics center in Germany.

In all, **22 manufacturing facilities had no lost-time workplace accidents during the year,** compared with just eight in 2005.

/ Recording occupational illnesses

Occupational illnesses		2016	2015	2014
Group (excluding dealership networks)	OIFR*	**1.28**	1.08	3.95

* *Occupational Illness Frequency Rate*

The occupational illness frequency rate (OIFR) is the number of recognized occupational illnesses recorded per million hours worked. It is calculated on the basis of illnesses recognized as work-related in each host country's legislation. Given their widely varying nomenclature, they have been consolidated based on their International Labour Organization classification.

A change in the calculation method in the United States reduced the number of cases recognized by North American authorities in 2015.

In 2016, the OIFR was slightly more evenly distributed among the country organizations.

6.1.4 MANAGING, DEVELOPING AND EMPOWERING PEOPLE IN EVERY JOB

In line with its deep dedication to sustainable employee growth and development, Michelin is assertively enabling everyone to actively build his or her personal career path. Employees are hired with the prospect that they will grow with the Group, and then guided in developing their careers by their line and career managers. Their professional and personal growth is further supported by a variety of induction, integration and training programs aligned with each employee's individual needs and aspirations.

6.1.4 a) Supporting each employee in his or her career development

The Group hired more than 6,500 people under permanent contracts in 2016, 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.

Since 2014, the program's effectiveness has been assessed annually through the Induction Survey, which measures new hire satisfaction after six and then 18 months on the job. The findings, which have been very positive at more than 90%, are systematically analyzed as part of a continuous improvement process.

People are managed in accordance with their expressed aspirations, accumulated experience and performance in the positions held over the years. Each position is attached to a job whose responsibilities, results, key activities and requisite skill sets are defined by the Competency Departments in charge of managing the Job Reference Standards. More than 700 jobs have been described and are regularly updated, based on a set of 320 technical and behavior skills. In the case of administrative employees, technicians, supervisors and managers, the use of the same matrix based on the Hay method helps to position each job vis-à-vis the different levels of responsibility.

Each employee is in contact with a career manager, who leverages his or her experience in the job family to enable the employee to project his or her career beyond the current position.

Led by the career managers, the current employee career management system has so far been structured around:

- an annual process comprising a performance review, the definition of objectives and an annual development plan;
- a periodic development review, held every three years on average;
- a periodic potential review for every employee, which serves as a basis for dynamically managing the people most likely to progress quickly and/or far up the organization.

Michelin has always emphasized promoting from within. As of 2016, 76% of managers had come up through the ranks after being promoted one or more times after their induction period.

In terms of separations, Michelin manages a turnover rate of 5.2% plus a number of retirements every year. Led by the geographic zones, the centralized human resources planning process ensures that the right skills are available at the right time and the right place to meet the Group's future needs. As part of this on-going initiative, in 2016, the planning team began to align the centralized process with the strategies of the Product Lines.

6.1.4 b) Offering the training people need

To support these individual and centralized management policies, Michelin offers every employee access to a particularly broad training catalog, spanning 9,400 courses, regularly enhanced by 20 groups of employee experts in each profession. In 2016, Michelin continued to invest heavily in employee growth and development, offering 5.3 million hours of training. This is reflected in the percentage of training hours per total hours worked, which stood at an estimated 3.3% in 2016, compared with 3.5% in 2015.

To deliver this average investment of 56 hours of training per person on payroll, the Learning & Development function comprises 1,050 full-time professionals, of whom nearly half are dedicated to training production operators.

TRAINING HOURS BY EMPLOYEE CATEGORY

Group (excluding Euromaster and TCI)	Production operators	Administrative employees, technicians and supervisors	Managers	Total
Number of training hours	3,908,475	1,171,766	219,759	**5,300,000**
Percentage	74%	22%	4%	**100%**

Given that nearly 500,000 hours are devoted to the development of general and management skills, Michelin is now seeking to achieve a better balance between technical and soft-skills training.

Similarly, basic training in a new job still accounts for the largest share of the investment. Refocusing these outlays on critical jobs—for example, when taking up a new position—is also an opportunity to rethink the training process to enable each employee to grow at a more gradual, timely pace as needs are expressed.

The fact that only 57% of the training catalog is used also indicates that the training process should be more closely aligned with people's needs.

To this end, the Group has undertaken two initial actions:

- deploying an online Learning Management System (LMS) to offer direct, personal access to training opportunities;
- diversifying development solutions by stepping up digitization of the training catalog.

Following deployment of the "MyLearning@Michelin" LMS in 2016, employees can now directly access locally activated training courses *via* a connected digital resource database in their language of choice. Managers are automatically alerted when one of their employees signs up for a course. Everyone is therefore free to choose the courses he or she needs, in compliance with local rules.

By the end of 2016, nearly 30,000 LMS connections had been logged, with managers accounting for 21%, technicians 63% and production operators 16%.

In addition, the LMS acts as an invaluable medium for delivering the e-learning curriculum, which the Group has decided to expand.

The following examples illustrate how the training catalog is being transformed:

- the deployment of a Corporate Open Online Course (COOC) focused on improving the digital culture of employees;
- creating a proprietary serious game to teach plant management teams crisis management skills;
- the use of a highly automated tire building machine simulator to support team training in China and Brazil.
- the use of a questionnaire generator, mainly in France to test the knowledge acquired by operators;
- the creation on a management portal presenting outside training and education opportunities.

Lastly, the ongoing operator training project *("Boost formation opérateurs")* launched in 2012 has led to the deployment of more than 500 training courses, designed with the in-plant trainers and based on a standard teaching method. This has led the plants to develop dedicated "standard training centers," which emphasize the use of highly interactive teaching practices.

6.1.4 c) Preparing the new Personnel function

To support PRM and the four 2016 progress initiatives, Michelin has undertaken to transform the Personnel function, in a commitment to enhancing transparency and revitalizing management practices, in line with employee opinions expressed in the Moving Forward Together survey.

As part of this process, the Personnel function has been tasked with the new mission of fostering an environment conducive to:

- the development and fulfillment of every employee;
- the performance of responsible, capable teams across the organization;
- the fulfillment of the Group's social responsibility vision.

This new mission will entail a shift in roles and responsibilities that will gradually empower employees, managers and teams to become more involved in deploying initiatives related to employee management, development and compensation.

In this new configuration, the Personnel Department's role will be to advise and support, by deepening its close relationship with the teams and overseeing the process of managing and developing people and teams.

With this transformation of the Personnel function, Michelin has undertaken changes whose initial impact will be felt in 2017.

6.1.5 NURTURING DIALOGUE, COMMUNICATION AND LISTENING

Michelin is giving new impetus to the social dialogue process, in order to make it a key driver of sustainable performance. Backed by a wide variety of corporate media, the Group is communicating more extensively with all employees about its strategy and the sharing of best practices. This dialogue is being nurtured by a global opinion survey measuring employee engagement and feelings about their jobs.

6.1.5 a) Social dialogue: a year of implementing and consolidating the new employee relations policy

The new employee relations policy continued to be actively deployed in 2016, with major negotiations held in three countries—Brazil, Thailand and the United States—where extensive groundwork to improve social dialogue had been underway. In addition, the further roll-out of the *France Compétitivité Industrie* (FCI) industrial competitiveness program, completed at the Roanne plant in 2015, confirmed that the process could be successful in other facilities as well.

In Brazil, a collective agreement was signed one year after the social dialogue talks that had been interrupted in 2013 and 2014 resumed. The process was an opportunity to gauge the depth and sincerity of the employer/employee representative relationship. The negotiations, which were held in an extremely fractious political, economic and social environment, proved to be difficult, but this in fact attests to the robustness and quality of the new social dialogue process in Brazil. The constructive, responsible negotiations led to an agreement that satisfied not only all of the partners, but also employees, as reflected in the findings of the Moving Forward Together survey.

In Thailand, efforts to bring unions and management closer together continued intensely over the year, resulting in an agreement on the method and right to organize, structured around holding open, patient negotiations and rejecting confrontation out of hand. For the first time since 2009, an agreement was reached without any strikes or collective action. A larger number of talks were held in a spirit of constructive discussion. Their success once again demonstrates the degree of maturity reached in the social dialogue process.

In the United States, collective bargaining agreements came up for renewal during the year in two of the three unionized plants, in Fort Wayne, IN and Tuscaloosa, AL. Groundwork for the talks got underway very early through contacts with both the plant local and the United Steel Workers (USW) leadership, which helped to nurture a climate of trust among the negotiators. After intense discussions that went into overtime, the tension-free signing of a master agreement demonstrated the commitment of both labor and management to building an equitable solution together.

In France, observers have unanimously recognized the innovative features of the *France Compétitivité Industrie* (FCI) industrial competitiveness program. This type of agreement was signed at the La Roche-sur-Yon and Vannes facilities, while responsiveness agreements were signed in Bourges, Cholet and Montceau-les-Mines. Reached after an in-depth exchange of information and a diagnosis jointly performed by management and employee representatives, these agreements engaged all of the stakeholders in a search for future-facing solutions, calling for both responsiveness measures and significant capital investments.

The commitment to sharing business and financial information with employee representatives continued apace during the year. The Central Works Council, for example, held two additional meetings to organize seven detailed strategic presentations by Product Line management using the BDES economic and social database. Elected representatives continued to participate in the working groups addressing such issues as application of the Rebsamen labor reform act and work-life balance.

In India and Russia, as well as in the non-unionized plants **in Thailand,** specialized committees comprising elected employee representatives and senior executives are acting as working groups tasked with jointly building pathways to improvement on issues that particularly impact employee lives, such as health and safety, training and skills development and quality of worklife.

Negotiations to reach an international framework agreement with the IndustriALL Global Union continued during the year in a very positive atmosphere.

The employee relations policy emphasizes the role of the empowerment process in strengthening the sense of co-destiny and improving the workplace environment. At the Group level, five pilot plants are now well advanced in deploying an ambitious empowered workplace model and the decision to launch the model in other facilities should be made in early 2017. At the same time, the model is being trialed in some of the non-production facilities, such as corporate departments and business units. As with the FCI program, specialized observers are taking an increasing interest in these new forms of management innovation and their impact on the Group's workplace environment.

6.1.5 b) Providing ample opportunity for information, dialogue and engagement

In 2016, Michelin intensified employee communication concerning its strategic vision by bringing together more than 2,000 executives from around the world at the "International Bib Forum" events. The messages were then cascaded down to all employees.

By embracing best practices and real-world actions capable of driving its four progress initiatives—digitalization, customer service, simplification and empowerment—the Michelin Group is continuing to transform itself to fulfill its strategic vision.

The inauguration of the 67,000 sq.m Urbalad research and development center in September 2016, as well as the many communication campaigns extolling Michelin's powerful innovation capabilities, focused employee energies on the Group's technological leadership.

6.1.5 c) Listening to employees *via* the annual engagement survey

Employee engagement is an important driver of operational excellence and the ability to meet the Group's performance objectives. Michelin has set the particularly ambitious objective of becoming a world-class leader in this area by reaching and maintaining an 85% employee engagement rate by 2020. The annual "Moving Forward Together: Your Voice for Action" survey measures the engagement rate and employee feelings about their work, in light of the seven aspects of the Group's employee value proposition. It was conducted across the Group for the fourth time in 2016, with the massive 90% response rate among employees underscoring their confidence in the process and demonstrating the credibility of the findings.

In 2016, the overall employee engagement rate was 80%, up three points on 2015. The rate stood at 80% for managers, technicians, administrative employees and supervisors and at 81% for operators, a five-point year-on-year improvement.

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 2016 respondents said that they had been able to share and discuss their team's 2015 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.

6.1.6 PRACTICING DIVERSITY WITH A DELIBERATE, STRUCTURED APPROACH

Michelin has made diversity a driver of performance, and maintaining a high sensitivity to the risk of discrimination is a priority. This assertive commitment to diversity continued to make headway in 2015 with the signing of the International Labour Organization's new Global Business and Disability Network Charter and in 2016 with the distribution of the Diversity and Workplace Equality Policy. The Group is actively facilitating access to all types of jobs at every level, while encouraging the emergence of local management in the growth regions.

6.1.6 a) Managing diversity seamlessly around the world

Structured around **four priority issues**—gender, nationalities and cultures, age and disabilities—the Group's approach to diversity is based on recognizing the unique worth of every individual.

In a business environment and markets that are becoming more complex by the day, a diversity of personalities enables Michelin to respond faster and more effectively to change. It also helps to accelerate innovation in every aspect of the business, from products and services to management, employee relations and organization.

In 2016, the Group's **Diversity and Workplace Equality Policy** was prepared and widely distributed in all of the geographic zones. It reaffirms a number of fundamental principles, sets out **guidelines, particularly in the area of non-discrimination,** and defines two indicators: the percentage of women managers (6.1.6 c) and the percentage on local managers in the growth regions (6.1.6 e).

Diversity is governed by a global, multi-level organization led by the Group Diversity Director. Its objectives and guidelines are approved by the Geographic Zone Directors and the Group's Director of Personnel, who is also a member of the Group Executive Committee. Each Geographic Zone Director sets specific annual targets for his or her region, backed by action plans whose progress is continuously tracked by management using appropriate indicators.

Host country diversity managers are organized into the international diversity network, led by the Group Diversity Director. They support the managers and Personnel Department employees, especially career managers and recruiters, who are responsible for promoting and enhancing diversity. Employees are encouraged to submit Progress Ideas that would stimulate diversity. Diversity managers share their news through the *"Buzz and News"* internal newsletter launched in 2016 whose three issues a year keep everyone up-to-date on the latest Michelin news from around the world.

6.1.6 b) Raising awareness of the risk of discrimination

Sensitivity 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 sensitivity initiatives for managers and employees.

Before taking up their position, all line and career managers participate in a training program concerning discriminatory behavior and diversity issues, which helps them to avoid stereotyping, understand diversity legislation and anticipate high-risk situations. By improving practices and attitudes, they also encourage participants to take action to promote diversity within their units. In 2016, Michelin partnered with the University of Auvergne to build a Europe-wide application to enable managers to **self-assess their representations of gender.** Supported by **personalized, online feedback reports** and a set of teaching points, it can be used in all types of management training.

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. In 2016, a human rights audit was conducted, with a focus on discrimination. It used the Danish Institute for Human Rights' HRCA Quick Check tool, along with Verisk Maplecroft's suite of tools for an in-depth analysis of two regions in particular. In addition, an ongoing **international internal control procedure** regularly verifies non-discrimination compliance around the world.

In 2016, operations in Hungary joined France, Spain, Italy, Germany and Poland in signing the Company Diversity Charter, which engages the signatory European country organizations to promote and respect diversity among their employees.

In France, discrimination fact sheets have been posted on the country intranet, while conferences and traveling exhibitions are helping to change the way employees see disabilities and cultural differences. In 2016, the T'homPouss agency surveyed Michelin France employees to find out how they felt about people with disabilities. To raise employee sensitivity to autism, a conference was organized with Josef Schovanec, a philosopher and writer with Asperger's syndrome who has written a best-seller about *"Autistan."*

For several years now, operations in the United States have encouraged the **emergence of networks,** sponsored by senior executives, to support a variety of communities and help enhance cohesion. Eight were active in 2016.

Since 2015, women's networks have also been gaining strength in Brazil, India and Europe, with the Women Forward network.

As part of the fourth annual worldwide "Moving Forward Together: Your Voice for Action" survey (see section 6.1.5 c), employees were able to express their opinions about two diversity issues: the creation of an environment where people from diverse backgrounds can succeed and the treatment of people with respect, regardless of who they are or which position they hold. Both of these indicators improved during the year, thanks to the shared commitment of all the managers and their teams to understanding employee feelings and deploying practical solutions.

6.1.6 c) Making all positions accessible to women and ensuring gender wage parity

As in the automotive industry as a whole, at Michelin, women have traditionally accounted for a relatively small percentage of production operators (11% in 2016, excluding the dealership networks). The ratio is more balanced among technical staff (36.4%) and, to a lesser extent, among managers and supervisors (24.8%, up steadily from 22.5% in 2013).

In the more male-dominated European and North American dealership networks, women accounted for 9.9% of employees on payroll at Euromaster, versus 10.3% in 2015.

Overall, the percentage of women in the Michelin workforce is increasing with every year. **For the sixth year in a row, women accounted for one-third of all administrative employees, technicians, supervisors and managers hired worldwide in 2016.** In Europe, 41% of people hired in these categories were women. **Michelin is committed to having women account for 30% of all managers by 2020.**

/ Enhancing manufacturing's appeal to women

Michelin is striving to **increase manufacturing's appeal to women** by deploying programs in conjunction with academia to improve gender balance in its jobs.

The production plants are encouraged to increase the percentage of women hires at all levels, starting with production operator positions. This often requires adjusting workstation ergonomics.

In 2016, as part of France's ***Fondation Égalité Mixité*** under the auspices of *Fondation Agir Contre l'Exclusion* (FACE), Michelin and the other three founding members (AXA, Orange and Engie) donated more than €500,000 to finance 11 innovative projects to improve gender balance in the workplace, in the areas of (i) access to jobs and starting a business; (ii) encouraging gender balance; and (iii) university research in management practices.

/ The representation of women in management

Diversity*	2016	2015	2014	2013
Percentage of women managers and supervisors[1] *(%)*	24.8%	24.2%	23.5%	22.5%
MFPM	*26.1%*	*24.9%*	*24.3%*	*23.3%*
Percentage of women among top managers[2] *(%)*	17.3%	16.4%	15.7%	14.9%
MFPM	*17.3%*	*15.7%*	*14.7%*	*13.8%*
Percentage of women among executives[3] *(%)*	11.1%	9.9%	9.1%	8.6%
MFPM	*11.3%*	*10.2%*	*9.2%*	*8.2%*

* *Unless otherwise specified, employee-related figures (except headcount) concern the entire Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired during the year.*
(1) Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.
(2) Employees with a level of individual responsibility of A to I, according to the Hay method used by the Group.
(3) Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.

To fulfill Michelin's commitment to hiring and promoting more women managers, a dedicated action plan has been deployed in every geographic zone. With the Group's proprietary method for **detecting high-potentials,** particular attention is being paid to the defining criteria.

In Europe, women managers identified as having top 500 potential are supported by a dedicated program comprising six months of coaching, both individually and as a group, followed by a year of mentoring. Since 2010, the program has helped women to move more quickly and easily into high-level positions. It was introduced in China in 2013 and has been deployed through an inter-company project in the United States since 2014. By 2017, more than 50 women in Europe will have participated in this widely acclaimed program.

/ Facilitating work-life balance to attract more women employees

In every host country, Michelin is committed to facilitating **work/life balance** with a variety of supportive benefits, including flextime arrangements, telecommuting (see section 6.1.2), services such as daycare facilities and nursing rooms, financial aid for childcare, service centers and "Family Day" events.

In 2016, a Mommy Room was opened at the Shenyang plant to allow employees to nurse their babies.

Operations in France are leading the way in these initiatives with benefits like company-subsidized, tax-advantaged service vouchers, reserved slots in local daycare facilities, and concierge services at corporate headquarters.

In Germany, slots have also been reserved in municipal daycare centers. The Group finances a family services center to help parents with their administrative formalities, offering personalized advice, a 24/7 hotline, childcare services and caregiver services for close dependents.

Telecommuting arrangements have been offered in Poland since March 2016.

/ 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 2016, the exercise covered a third of total employees (excluding the dealership networks, Tigar and companies acquired in 2014 and 2015) in Brazil, Canada, China, France, Germany, Hungary, India, Italy, Japan, Mexico, Poland, Romania, Russia, Spain, Thailand, Turkey, the United Kingdom and the United States. 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, settling at 2.7% in 2016.**

A study of the gender wage gap in France conducted by INED showed that, regardless of category, the gap stood at less than 2% of the base salary or total compensation.

6.1.6 d) Promoting and supporting employment for people with disabilities

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 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, Personnel Department teams are sensitive to 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.

The Human Resources community regularly meets with national stakeholders working on disability issues to improve its understanding of the different forms of disability, particularly of a psychological nature.

Hiring the disabled is governed by legal standards that vary widely by country. Some, like Canada, Russia, Serbia, the United Kingdom and the United States (where it is against the law to disclose information about a disability), do not require companies to hire a certain percentage of disabled people, while others, such as the Netherlands, have only incentive-based policies, and still others have imposed quotas.

These legal and cultural differences mean that almost every situation is unique, making it difficult to consolidate worldwide data on disabled employment. At MFPM, the legally mandated 6% quota was once again exceeded in 2016.

6.1.6 e) Focusing on local management sensitive to host community cultures

Michelin is committed to nurturing the emergence of a highly skilled global corps of local managers, while respecting local cultures. The guiding principle is to hire and employ people on the basis of their capabilities and potential, rather than to practice any form of discrimination.

Since 2013, Michelin has been aiming for a target of 85% local management in the growth regions. **In 2016, the percentage was 72%,** up from 68% in 2015. Particular attention is paid to fostering the emergence of local managers in the growth regions of China, India, the Middle East, Russia, South America and Southeast Asia.

Diversity issues related to ethnic origins are amply addressed by programs underway in North America and in Europe, particularly as part of the hiring and induction process. In the United States, to ensure equal treatment, performance review results are reported for women, African Americans, Asian Americans and Latinos. Any wage or job differentials are systematically analyzed and appropriate corrective measures are taken when necessary.

6.1.7 SUMMARY TABLE OF 2016 EMPLOYEE DATA

	2016	2015	2014	2013	GRI G4
Workforce at December 31 (full-time equivalent employees, consolidated companies, under any form of work contract, excluding temp agency workers)	**105,654**	**105,798**	**106,696**	**105,724**	**G4-9**
Employees on payroll at December 31 (consolidated companies, under any form of work contract, excluding temp agency workers)	**111,708**	**111,681**	**112,306**	**111,190**	**G4-9**
Europe	65,859	65,885	65,569	66,147	G4 LA1
MFPM	*19,349*	*19,658*	*19,712*	*19,979*	
North America	22,841	22,598	22,741	22,274	G4 LA1
South America	6,475	6,544	6,752	5,518	G4 LA1
Asia (excluding India)	14,835	14,977	15,431	15,458	G4 LA1
Africa/India/Middle East	1,698	1,677	1,813	1,793	G4 LA1
Employees by gender*					
Men	82.9%	83.2%	83.7%	84.0%	G4 LA1
MFPM	*83.1%*	*83.5%*	*83.9%*	*84.4%*	
Women	17.1%	16.8%	16.3%	16.0%	G4 LA1
MFPM	*16.9%*	*16.5%*	*16.1%*	*15.6%*	
Employees by category* *(%)*					
Production operators	61.9%	62.1%	62.4%	61.4%	
MFPM	*45.1%*	*46.9%*	*47.4%*	*48.4%*	
Administrative employees, technicians and supervisors	29.9%	30.0%	30.0%	30.9%	
MFPM	*39.6%*	*38.6%*	*38.7%*	*38.1%*	
Managers**	8.2%	7.9%	7.6%	7.7%	
MFPM	*15.3%*	*14.4%*	*13.9%*	*13.5%*	
Employees by age* *(%)*					
24 and under	5.3%	5.3%	5.5%	5.5%	G4 LA1
MFPM	*5.7%*	*5.8%*	*5.3%*	*5.2%*	*G4 LA1*
25-34	26.6%	27.2%	27.3%	27.2%	G4 LA1
MFPM	*22.7%*	*22.8%*	*22.4%*	*21.8%*	*G4 LA1*
35-44	29.1%	28.6%	27.9%	27.4%	G4 LA1
MFPM	*26.2%*	*25.1%*	*24.5%*	*23.3%*	*G4 LA1*
45-54	22.6%	22.3%	22.5%	23.1%	G4 LA1
MFPM	*20.2%*	*20.2%*	*21.7%*	*24.4%*	*G4 LA1*
55-64	15.9%	16.2%	16.5%	16.4%	G4 LA1
MFPM	*25.1%*	*26.2%*	*26.0%*	*25.3%*	*G4 LA1*
Over 65	0.5%	0.4%	0.4%	0.4%	G4 LA1
MFPM	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*G4 LA1*
Employees by length of service* *(%)*					
Less than 2 years	21.5%	18.7%	18.3%	19.7%	
MFPM	*16.7%*	*14.4%*	*13.1%*	*15.4%*	
2-5 years	14.4%	15.4%	14.1%	11.8%	
MFPM	*13.0%*	*13.6%*	*12.3%*	*8.5%*	
5-10 years	15.1%	14.8%	16.6%	16.5%	
MFPM	*12.4%*	*12.1%*	*13.1%*	*13.1%*	
10-15 years	13.6%	13.5%	13.1%	14.8%	
MFPM	*13.5%*	*13.1%*	*13.1%*	*13.3%*	
15-20 years	10.8%	11.6%	10.7%	7.8%	
MFPM	*9.6%*	*9.5%*	*8.1%*	*5.6%*	
More than 20 years	24.5%	25.9%	27.1%	29.3%	
MFPM	*34.7%*	*37.4%*	*40.3%*	*44.0%*	

	2016	2015	2014	2013	GRI G4
Employee movements* (permanent work contracts)					G4 LA1
New hires	6,456	6,057	6,948	5,869	G4 LA1
MFPM	*871*	*750*	*606*	*588*	*G4 LA1*
Resignations	2,185	2,390	2,514	2,452	G4 LA1
MFPM	*129*	*100*	*119*	*112*	*G4 LA1*
Dismissals and terminations by mutual agreement	2,364	2,843	2,400	2,658	G4 LA1
MFPM	*244*	*250*	*255*	*185*	*G4 LA1*
Retirement	1,871	2,115	1,976	2,332	G4 LA1
MFPM	*794*	*710*	*827*	*1,070*	*G4 LA1*
Death	99	116	128	116	G4 LA1
MFPM	*26*	*27*	*30*	*33*	*G4 LA1*
Contract employees (excluding temp agency workers)* *(%)*	4.4%	4.4%	4.0%	3.9%	
MFPM	*5.9%*	*5.9%*	*4.6%*	*3.3%*	
Part-time employees*	3.6%	3.1%	2.8%	3.3%	
Training*					
Percentage of training hours per total hours worked	3.3%	3.5%	4.1%	4.4%	G4 LA9
MFPM	*2.0%*	*2.7%*	*3.0%*	*2.9%*	*G4 LA9*
Percentage of employees who received training	93%	93%	96%	94%	G4 LA9
Number of training hours per employee per year	56	59	70	76	G4 LA9
Training hours (excluding dealership networks)	5,300,000	5,635,657	6,628,184	7,167,926	G4 LA9
MFPM	*795,956*	*923,174*	*951,707*	*987,773*	*G4 LA9*
Type of training (excluding dealership networks)					
Job-specific training	90%	90%	89%	88%	
Management training	5%	5%	5%	6%	LA11
General training	5%	4%	6%	6%	
Production operator absenteeism* (excluding dealership networks and Russia) **Europe**	5.3%	5.4%	5.3%	5.4%	G4 LA6
Occupational accidents (including the dealership networks and Tigar; excluding recently acquired companies)					
Number of lost-time incidents, Group-wide	796	740	671	659	G4 LA6
Lost-time incident frequency rate	4.15	3.91	3.57	3.46	G4 LA6
Lost-time incident severity rate	0.25	0.24	0.21	0.23	G4 LA6
Number of plants with zero recordable incidents	22	27	25	20	G4 LA6
TCIR, Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired over the past two years	1.60	1.67	1.74	N/A	G4 LA6
TCIR, entire Group	2.54	2.67	2.84	N/A	G4 LA6
Number of Progress Ideas*	59,601	58,980	56,372	50,462	
Diversity*					
Percentage of women in extended management[1] *(%)*	24.8%	24.2%	23.5%	22.5%	
MFPM	*26.1%*	*24.9%*	*24.3%*	*23.3%*	
Percentage of women among top managers[2] *(%)*	17.3%	16.4%	15.7%	14.9%	
MFPM	*17.3%*	*15.7%*	*14.7%*	*13.8%*	
Percentage of women among executives[3] *(%)*	11.1%	9.9%	9.1%	8.6%	
MFPM	*11.3%*	*10.2%*	*9.2%*	*8.2%*	
Percentage of local top managers in growth-region countries*	72%	68%	65%	62%	
Percentage of management positions held by employees promoted or transferred from within*	76%	75%	73%	72%	
Employee engagement rate*	80%	77%	74%	72%	

** Unless otherwise specified, employee-related figures (except headcount) concern the entire Group, excluding Euromaster, TCI, Tigar and companies acquired during the past two years.*
*** 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.

6.2 SOCIETAL INFORMATION

SOCIAL ENGAGEMENT FOUNDED ON RESPECTING ETHICAL PRINCIPLES AND IMPROVING COMMUNITY WELL-BEING

Michelin places great importance on its relationship with all its stakeholders, especially the communities near its facilities. The Group is also committed to respecting ethical standards and fighting corruption. Moreover, it plays a key role in promoting road safety through a wide variety of initiatives worldwide. Today, Michelin is broadening the scope of its community engagement by encouraging suppliers to share its social responsibility commitments.

6.2.1 CREATING LOCAL JOBS AND BUSINESSES

Supporting local companies with expertise and funding

Michelin is actively involved in creating jobs in its plants' host communities through its **Michelin Development** subsidiary. The only organization of its kind, Michelin Development takes a highly flexible approach to providing local companies with expertise and technical support in a wide variety of areas, including industrial organization, workplace safety, energy efficiency, quality management, sales and marketing, finance, hiring, international expansion, information technology, 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 2016 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 26 years, Michelin Development has helped to create nearly 33,500 jobs in France, Spain, Italy, the United Kingdom, Canada and the United States.

A sustained, active presence in local labor markets in France

Since it was formed in 1990, Michelin Development has helped to create close to **23,000 jobs in France.** Formerly known as SIDE, it operated as a subsidiary before being merged into MFPM in 2015.

In 2016, **Michelin Development France** signed 63 new agreements that committed Michelin to supporting 929 jobs in local companies, backed by more than €2.35 million in financial aid.

Particularly active during industrial reorganization projects, Michelin Development has amply exceeded compliance with French legislation requiring companies to help revitalize local labor markets. In recent years, agreements have been signed with the French government and local authorities concerning the plants in Bourges, Montceau, Seclin, Toul and Tours (the Montceau and Toul agreements expired in 2014). Recently, following the reorganization of the European supply chain, Michelin Development set up agreements in Beauvais, Lyon and Metz labor markets (see section 6.1.1 b).

Projects involving French SMEs and SOHOs supported in 2016 included a company producing an entirely plant-based geotextile in the Yonne, a start-up near Roanne that has developed a predictive maintenance system for rotating machinery, and the acquisition of a family-owned sawmill, thereby saving its jobs.

Applying a similar approach in many countries

Since 2002, similar business development organizations have been set up in other European countries, such as **Spain, the United Kingdom and Italy,** where Michelin Development has helped to create a total of 442 jobs. In Italy, Michelin Development allocated all of its resources to supporting retraining for the employees impacted by the closure of two plants. In the same way, in the United Kingdom, Michelin Development broadened its job center network to double its placement capacity. In addition, of the 15 grants issued during the year, six were to Michelin employees to help them start their own companies.

Since 2006, **Michelin Development North America** has invested nearly $11 million in a wide variety of small local businesses, under four community outreach programs. In 2016, in South Carolina (United States) and Nova Scotia (Canada), low-interest loans and free technical expertise supported 32 local businesses, including a charter school, home service providers, fitness centers, clothing and furniture retailers, a farmers market and a honey farm.

6.2.2 NURTURING RELATIONS WITH STAKEHOLDERS AND NEIGHBORING COMMUNITIES

6.2.2 a) Structured stakeholder dialogue

In 2016, a major milestone in Michelin's stakeholder dialogue process was reached with the creation of a standing stakeholder committee that formally meets once a year with the Chief Executive Officer and other members of the Executive Committee. The committee's 13 outside members come from Europe, Asia and the Americas and represent the employee, social and environmental aspects of corporate social responsibility. They also represent the Group's direct stakeholders – customers, suppliers, union members, investors – as well as international organizations (Global Compact, OECD), NGOs (WWF, FIDH), academia, start-ups and industry associations.

This new committee enables the top management of the company to be regularly informed of stakeholder opinions and expectations concerning the Group's main strategic objectives, so that they have a clearer understanding of the role that society expects a responsible tire manufacturer to play. At the first meeting held in Clermont-Ferrand on November 29, stakeholders questioned Michelin on its vision of sustainable development, technology, its power to influence and its role as a responsible employer.

Along with this decisive milestone, stakeholder dialogue continued to gain ground across the Group, in particular with the training of country managing directors in Europe.

/ Human rights

Michelin has supported the UN Global Compact since 2010 and upholds both the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. In line with this commitment, a multi-disciplinary working group has been leading a human rights action plan since 2015.

A risk assessment based on the Danish Institute for Human Rights questionnaire, conducted in the Personnel, Purchasing, Safety, Legal and Environment and Prevention departments, showed that most human rights-related risks were already at least in part addressed by existing corporate processes. Those that were not will be addressed by measures now under consideration.

At the same time, a host country risk assessment procedure was validated and the first two campaigns were conducted in 2016, in Brazil and Thailand. The findings will help to shape action plans, while other countries will be audited in 2017.

To raise awareness of these issues, presentations on human rights were made to the Group Executive Committee and the Geographic Zone Directors. The issues were also discussed at the meeting of the stakeholder committee in November 2016.

6.2.2 b) Participating harmoniously in local community life

Michelin has a long tradition of social engagement, with a wide range of philanthropic and community outreach initiatives conducted locally and regionally by the plants, the country organizations, the geographic zones 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 2016, its guidelines were applied by plants and offices in 25 host countries (see the 2014 Registration Document).

One of the Michelin Performance and Responsibility Ambitions for 2020 is to increase to 30,000 the number of employee working days a year devoted to community engagement activities. Attesting to the growing maturity of this recently deployed commitment, **the number of working days devoted to outreach initiatives rose sharply in 2016, to more than 31,600,** led by increases in North America and China. In some countries, like the United States, this number includes hours spent on personal as well as company volunteer work, without distinction.

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 2016, nearly €10 million was allocated on outreach initiatives in the communities around the Group's plants and offices. The decline compared with 2014 reflected the transfer of some of these initiatives to the Michelin Foundation (see section 6.2.2 d).

Because they are aligned with local needs, community engagement initiatives vary widely, as seen in the following examples.

- **In China, India, Japan, Mexico, Russia and Thailand,** employees participated in environmental conservation programs, helping to clean up contaminated or flooded land, maintain wilderness areas and plant new trees.
- **In Brazil, the United States and Europe,** initiatives to support education and attract young people to technical and scientific jobs have been prioritized.

Road safety programs remained a popular form of outreach in 2016 (see section 6.2.3 c).

6.2.2 c) A new chapter in corporate philanthropy

Created in January 2014 with the goal of helping people move forward, the Michelin Foundation is committed to taking action in every host country in five major areas: sustainable mobility, sports and health, community engagement and education, environmental stewardship, and culture and heritage.

It supports outstanding, innovative projects that are aligned with **the Michelin humanist culture and values of respect,** consistent with its business and meaningful to Michelin employees.

The Foundation is governed by a Board of Directors and a Selection Committee. The Board of Directors defines the overall objectives and rules on projects valued at more than €100,000. Chaired by Jean-Dominique Senard, it includes four Executive Committee members, an employee representative and three outside experts. The Selection Committee validates projects valued at between €5,000 and €100,000. It is comprised of ten members who are representatives of the Group's operations or major corporate functions. Projects valued at less than €5,000 may be directly approved by the General Delegate, who manages the Group's philanthropic programs with the support of the Assistant General Delegate and a small team.

The combined value of the 73 projects financed by the Foundation in 2016 came to more than €12.5 million.

Among the year's beneficiaries were:

- The "Safer Roads to School" safe mobility program run by the **Children of the Mekong** NGO. By purchasing bicycles, motorcycles, helmets and vans (to carry the youngest children), the Michelin Foundation is helping hundreds of disadvantaged children to attend school, safely and efficiently, in seven Southeast Asian countries.
- With the **WWF,** the Michelin Foundation is protecting a tropical forest on the Indonesian island of Sumatra, by educating local communities about the importance of safeguarding the forest and its fauna, and by working with them to find economic activities compatible with the preservation of the exceptional biodiversity found in the Bukit Tigapuluh landscape.
- An Innovation Lab for children. At the **Discovery Centre** in Halifax, Nova Scotia, a new event space dedicated to innovation will introduce young visitors to tools, materials and techniques to bring all their ideas to life.
- In the face of the acute humanitarian crisis unfolding on Europe's borders, with the influx of thousands of refugees fleeing war zones, the Michelin Foundation has reaffirmed its commitment to upholding human dignity by supporting the **French Red Cross** and its commitment to re-establishing family ties among refugees.
- The reopening of the *Galerie des Carrosses* at **Château de Versailles** in May 2016. The Michelin Foundation contributed to the new layout, the installation of a disabled access bridge and the development of new multimedia tools.

6.2.2 d) Deepening Michelin's relationship with environmental protection associations

Whenever appropriate, the Group's production plants, the Technology Center and its office facilities forge ties with associations or organizations working to safeguard the environment. Partnerships are also created with local, national and international associations, in particular to support biodiversity (see section 6.3.5).

The cooperation agreement signed in 2015 with the World Wildlife Fund (WWF) to promote sustainable natural rubber around the world was broadened and deepened in 2016. At the World Rubber Summit in May, for example, Michelin released its sustainable natural rubber commitment, drafted with input from six NGOs. It also worked throughout the year to improve the traceability of its natural rubber supply and to reduce its environmental impact. Tests were performed in Indonesia and Thailand and will continue in 2017.

In December, a meeting was organized in Paris with stakeholder NGOs to discuss natural rubber and environmental issues. It was attended by eight NGOs, including Greenpeace, the WWF, The Forest Trust, Global Witness, the Rainforest Alliance, BSR and the International Federation for Human Rights (FIDH). Local partnerships were formed, particularly in Indonesia for a reforestation project on the islands of Sumatra and Borneo.

Lastly, the Michelin Foundation is funding the WWF educational programs being deployed in Indonesia to raise local stakeholder awareness of environmental issues and support their development, while acknowledging the need to protect the forest (see section 6.2.2 c).

6.2.3 FAIR, HONEST BUSINESS PRACTICES

6.2.3 a) Establishing a global ethical framework

Michelin's business practices are governed by a Code of Ethics, applicable across the entire Group, and by practical guidelines aligned with local situations, in particular as concerns bribery and purchasing. 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 geographic zone, then by country and lastly by facility, with managers involved at every level. Information and training sessions are regularly conducted on-site and/or online, depending on local needs, so that every employee is capable of understanding and complying with the Code and its guidelines.

The deployment and diligent application of the Code and its guidelines are managed and controlled by a **governance** system comprising Ethics and Compliance Committees at the Group, geographic zone and sometimes country levels.

Their members include representatives from the Audit, Finance, Legal Affairs, Personnel, Security and Sustainable Development Departments, as well as the Geographic Zone Directors.

Compliance is ensured through a system of **regular controls,** based on an ethical risk map, integrated reporting systems, an internal control manual and internal audits.

Anonymous, protected **whistle-blowing procedures** enable employees to report possible infractions of the Code of Ethics as well as suspected failures to apply the Michelin Performance and Responsibility Charter. In every geographic zone, ethical violations may be reported *via* an ethics hotline or to occupational physicians, employee representatives, local legal affairs teams, career managers or direct managers.

When **ethics violations** are observed, they are analyzed according to a Group-wide process defined by the Security Department, which decides, based on the reports, the best way to lead the in-house investigations. The findings may then give rise to action plans, corrective measures and/or disciplinary sanctions depending on the circumstances and the seriousness of the violation.

Of the violations reported in 2016, around 31% concerned the protection of Group assets, 20% fraud, 1% confidentiality and 9% compliance with laws and regulations. The remaining 39% concerned issues involving people or other categories in the Code of Ethics. Following the investigations conducted in 2016 and prior years, disciplinary measures (warnings, unpaid leave and dismissals) were applied and legal action was taken to enforce the law, bring charges for fraud and, in certain cases, bring civil proceedings to recover corporate assets.

6.2.3 b) Taking an active approach to corruption prevention

The process for combating corruption is based on prevention programs, training, internal control and disciplinary measures.

In 2010, the Michelin Code of Ethics specified the fundamental rules and guidelines that must govern every employee's decisions with regard to preventing corruption.

To strengthen this system, an easy-to-understand, practical **Anti-Corruption Code of Practice** was published in 2015 for all employees, demonstrating the Group's commitment to building its sustained growth on fair and ethical business practices.

The new Code is designed to raise manager and employee awareness of the actions that may indicate an attempt at corruption, by providing examples and offering advice on how to counter such attempts. More specifically, it deals with such typical cases as bribes, kickbacks and payoffs, the use of agents and intermediaries, payments for favors, inducements, charitable or political contributions, gifts and invitations.

Since September 2015, the Code has been gradually deployed in every operating region, in compliance with local legislation and employee representative consultation procedures.

/ Special measures governing procurement

As part of the internal control process (see section 6.2.4 b), the Purchasing Department has implemented a number of dedicated measures:

- The rules of professional conduct in supplier relations and anti-corruption guidelines are communicated to all of the Department's employees and contacts across the Group. They form an integral part of the Michelin Purchasing Principles document, which governs supplier relations and is included in every contract. It may also be downloaded from the **Purchasing Department's website.**
- All new hires in the Purchasing Department must participate in a **dedicated ethics and anti-corruption training module** before taking up his or her position.
- In 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.
- A **dedicated supplier relationship management application** enables Michelin to collect and administer the full range of supplier data.

6.2.3 c) Stepping up initiatives to protect consumer health and safety

/ The Michelin Quality Process

Since its founding, Michelin has always nurtured a powerful culture of responsibility. Enhancing the mobility of people and goods requires an uncompromising attitude towards the safety and quality of every product and service, and one of the Group's characteristic features is the organization and independence of its quality assurance.

In this way, the Michelin Quality Process is instilled into every aspect of the business through a customer-centric organization and a quality management system designed to drive continuous improvement in the Group's products, customer service and the way it does things. This process defines the practices that play a fundamental role in satisfying Michelin's customers, nurturing their trust and addressing their issues, while driving the Group's performance, reputation and progress. These practices are integrated into employee training so that they are understood and applied by everyone in their respective area of responsibility.

Products and services are defined in specifications that cover customer demands and expectations, the intended conditions of use in a given country and all of the applicable standards and regulations.

Every manager is expected to implement the Michelin Quality Process in his or her unit, so as to guarantee that its products and services are safe, aligned with customer expectations, suitable for the intended use and compliant with applicable regulations.

/ An active role in safeguarding consumers and the environment

Tire wear particles

Since 2006, Michelin has been actively involved in the Tire Industry Project (TIP)[1], and notably on the potential health and environmental impacts of tire wear particles. 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. The findings of this research were also applied to other biological and environmental studies. Still other studies collected particles by sampling the air, water and soil near high-traffic roadway. The research thus far has lead to the following results:

- 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.
- A study of inhalation of airborne TRWPs in rats showed no adverse effects due to exposure.
- Following extensive air sampling in and around roads in the United States, Japan and Europe, tests on the samples determined that TRWPs are unlikely to pose a risk to humans or the environment.
- The air sampling conducted thus far has provided the most definitive information to date 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.

The TIP's ongoing commitment to understanding TRWPs will continue to enhance current knowledge of the physical/chemical phase transfer and flow processes in different environments, with the support of Michelin and the other TIP members.

Minimum performance standards

European legislators have introduced minimum tire-performance standards in line with the United Nations' ECE Regulation R117. Michelin was highly favorable to this type of regulation and offered data and other input to help define the minimum performance levels. These standards, which concern rolling resistance, noise and wet grip, are designed to limit a tire's environmental impact and improve its safety. In effect since 2012 for all new products, they are now gradually being 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. All of the tires currently sold by the Michelin Group comply with the new regulations. Since November 2016, stricter rolling resistance thresholds derived from Regulation R117 have been applied in Europe for new products. A third level of performance for each of the three environmental and safety factors has been proposed and is 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 117 to countries that have signed the UN's 1958 agreement concerning uniform technical prescriptions for wheeled vehicles. Brazil introduced similar legislation in 2015 and Japan is planning to do the same between 2018 and 2024. The UN regulation will come into effect in Russia in 2017.

The United States has implemented the same type of measures 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.

The impact of tires on vehicular carbon emissions

The rolling resistance of Passenger car/Light car or truck tires can account 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 technologies, including tire rolling resistance (see the discussion on climate change in section 6.3.4). This approach would encourage greater transparency by suppliers and more competition on technical issues.

Truck tires. In the United States, the Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) recently issued the second phase of two standards governing the greenhouse gas emissions and fuel efficiency of medium and heavy-duty vehicles, which will come into force in 2021. Even stricter standards are being planned for 2024 and 2027. These standards require that, prior to certification, new vehicles 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, future heavy-duty vehicle CO_2 emissions standards will be based on the Vehicle Energy Consumption Calculation Tool (VECTO) built for the European Commission, one of whose variables is also tire rolling resistance.

By participating in a technical capacity in these different working groups, Michelin is facilitating the introduction of calculation models that accurately reflect vehicle fuel efficiency in actual use by taking into account the impact of tires and a range of other variables.

(1) Launched in 2005, the Tire Industry Project is a voluntary initiative dedicated to addressing the tire industry's sustainability challenges and issues. It currently comprises 11 of the world's leading tiremakers: Bridgestone Corporation, Continental AG, Cooper Tire & Rubber Company, The Goodyear Tire & Rubber Company, Hankook Tire Company, Kumho Tire Company, Inc., Groupe Michelin, Pirelli Tyre SpA., Sumitomo Rubber Industries, Ltd., Toyo Tire & Rubber Company Ltd., and Yokohama Rubber Co., Ltd.

Passenger car tires. The level of CO_2 and harmful emissions from light vehicles will be measured by the forthcoming Worldwide harmonized Light vehicles Test Procedures (WLTP) currently being defined by the United Nations, with active input from India, Japan, Russia, the European Union and many other countries. **Michelin is encouraging the working group to factor in the influence of tire rolling resistance** in ways as close as possible to actual driving conditions.

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.

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 improves with wear, so it makes sense to define their minimum standards on the basis of a new tire, as is currently the case. Wet or snow grip, on the other hand, decreases with wear. Michelin is studying the technical feasibility of introducing a minimum performance standard for wet grip and rolling resistance on worn tires still within the legal wear limit.

/ A strong advocate for road safety

The United Nations Decade for Action against road deaths entered its second half in 2016. Institutional, academic and private stakeholders all agree that the number of traffic accidents and road deaths is not declining, and that traffic fatalities remain the leading cause of death worldwide among 15-29 year olds (source: World Health Organization).

In response to this alarming situation, Michelin built on its long-standing commitment and focused on pursuing its public education programs during the year. To improve the management and effectiveness of these road safety programs, a method has been devised, which begins with an initial assessment to the issues to be addressed. Then Group teams make sure to bring onboard local partners, experts (public authorities, associations, etc.) and other stakeholders. Lastly, project organization must proactively include a way to measure its impact on prevention and public awareness.

This method was developed in collaboration with the Group's institutional partners. As a member of the United Nations Road Safety Collaboration (UNRSC), an active partner of the Global Road Safety Partnership and YOURS, and a participant in the follow-up work on the ISO 39001 standard concerning road traffic safety management systems, Michelin is well acquainted with road safety institutions, whose lessons and best practices are being assertively leveraged for deployment across the Group.

A number of outstanding programs illustrate this results-oriented dynamic. In Thailand, Michelin partnered with the FIA to help encourage motorcycle taxi drivers to wear helmets. Following the campaign, 50% of the donated helmets were still being used. In the United States, the "Beyond the Driving Test" program continued apace during the year, garnering numerous awards. It has already spurred the passage of legislation to include tire safety basics in driver's education classes in 33 of the 50 states.

6.2.4 SUBCONTRACTOR AND SUPPLIER RELATIONSHIPS

6.2.4 a) Managing purchasing sustainably

With purchasing representing 57% of consolidated net sales, Michelin has been working with suppliers for the past several years to proactively deploy a responsible buying process.

The Purchasing Department is applying the Group's social responsibility principles to its operations. **First published in 2012 and updated in 2015, 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 establishing the crucial relationships of trust that must exist between Michelin, its purchasing teams and its suppliers around the world.

The document stipulates 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. The training program for the purchasing teams comprises a separate Sustainable Purchasing module intended for buyers, technical specifiers and key internal customers. A total of 441 employees have completed the module since 2011. The responsible purchasing process is led in each purchasing area and each geographic zone with the support of a global network.

6.2.4 b) Addressing social and environmental issues in purchasing policy

/ Helping suppliers to meet Michelin standards

As part of the Michelin Performance and Responsibility Ambitions for 2020, the Purchasing Department is committed to assessing the CSR performance of the Group's 400 leading suppliers, with the goal of enabling 70% of them to be confirmed as compliant with Group standards. Based on the risk analyzes, **563 suppliers have submitted desktop reviews of their social and environmental performance conducted by EcoVadis** since 2012. Suppliers who fall short of standards implement an action plan whose progress is tracked by the purchasing teams, and which is systematically followed by a new review to ensure that it was effectively implemented. Very poor results or failure to meet a commitment with regard to sustainable development issues may lead the Purchasing Department to remove a supplier. This decision is always made by consensus, after discussing all of the potential impacts on jobs, the supply chain and other factors. As of year-end 2016, 419 suppliers had submitted a CSR review and 74% of them had already complied with Michelin standards[1]. As part of the risk management process, 60% of raw-material supplier facilities have been certified to ISO 14001 standards.

/ Paying special attention to natural rubber suppliers

As the world's leading buyer of natural rubber and therefore a key market player, Michelin feels that it has a special responsibility in helping to develop sustainable rubber tree farming.

In 2015, the WWF and Michelin decided to work together to transform the natural rubber market by instilling more sustainable practices. To support the **Natural Rubber Procurement Policy** published in 2015, the Group has formalized its public commitments in a **Sustainable Natural Rubber Policy,** which was drafted with input from stakeholders, particularly environmental and human rights NGOs, and is now a contractual reference document for suppliers. Downloadable from the Michelin purchasing website, the policy precisely defines the conditions for farming natural rubber, both in terms of the environment (zero deforestation, protection and preservation of peatlands, High Conservation Value areas and High Carbon Stock areas), and in terms of social responsibility and human rights (working conditions, free, prior and informed consent of the local communities, etc.). Michelin encourages every stakeholder across the supply chain to embrace socially and environmentally responsible practices, so as to maintain rubber tree farming in a virtuous cycle of progress.

The Group's natural rubber suppliers have been participating in EcoVadis audits of their social responsibility and environmental performance since 2013, and by 2016, audited suppliers accounted for more than 80% of our 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. A mobile app developed in 2016 will enable stakeholders across the natural rubber supply chain (small farmers, large plantations, brokers and direct suppliers) to input their CSR data, which can then be analyzed on a web platform. Tests will support deployment to future users in 2017.

Michelin supports the Sustainable Natural Rubber Initiative (SNR-i) led by the International Rubber Study Group (IRSG), as a member of the Working Group that has governed the initiative since it was launched in 2012. Michelin was naturally one of the very first global natural rubber industry players to be officially registered with SNR-i in late 2015.

At the same time, Michelin is continuing to consult with the leading civil society organizations involved in this issue. In December 2016, for example, several NGOs (the WWF, BSR, Greenpeace, Global Witness, FIDH, etc.) were invited to discuss the progress being made in programs undertaken to support sustainable rubber production.

/ Awards for Michelin

A signatory of France's Responsible Supplier Relationships Charter, Michelin was awarded the French government's label by the same name in June 2014.

Following the annual audit of certain potentially disqualifying criteria, the label award committee confirmed on April 8, 2016 that Michelin's **Responsible Supplier Relationships label had been renewed.** The decision attested to the Group's commitment to responsible purchasing and to driving continuous improvement in its supplier relationship practices. The label recognizes French companies that have demonstrated the ability to foster **balanced, sustainable relations with their suppliers** by successfully applying the Charter's 10 responsible purchasing commitments.

Its renewal reflects the Michelin Performance and Responsibility ambition of being a leader in responsible manufacturing.

6.2.4 c) Sharing outcomes and listening to suppliers

In accordance with the Michelin Purchasing Principles, the results of the supplier CSR reviews are posted on the Purchasing website each year.

Since 2012, suppliers can also use the website to contact the customer-supplier relations mediator in regard to any alleged or observed violation of the Michelin Purchasing Principles.

The mediator intervenes only when suppliers have failed to resolve an issue with their usual contacts. In 2016, the sole request for mediation was resolved quickly.

(1) These companies have all earned a score of at least 45 on an EcoVadis audit, corresponding to confirmed compliance with Michelin CSR practices.

6.3 ENVIRONMENTAL INFORMATION

To reduce the environmental impact of its tires, Michelin is steadily improving their rolling resistance by constantly pushing the technological envelope. To shrink the environmental footprint of manufacturing operations, the production plants are implementing ambitious policies backed by an ISO 14001-certified environmental management system.

6.3.1 A GLOBAL ENVIRONMENTAL STEWARDSHIP PROCESS

Respect for the environment is one of Michelin's five core values, as expressed in 2002 in the Michelin Performance and Responsibility Charter and reiterated in 2012 in "Michelin Performance and Responsibility Charter: A Better Way Forward".

Michelin's environmental strategy is shaped by the findings of life cycle assessments conducted by independent organizations. These evaluations show that most of a tire's environmental impact occurs during use, due to the fuel that has to be burned to overcome rolling resistance. On the other hand, a tire's materials, production, logistics and end-of-life recovery have much less of an impact, or even a positive impact in the end-of-life phase.

To drive progress in all these aspects, global objectives have been defined in two areas: products and manufacturing operations. Reducing tire rolling resistance is one of the key goals of the research and development program. At the same time, the manufacturing facilities are deploying an environmental strategy based on an environmental management system (EMS) and a global indicator. To further heighten the visibility of these commitments, since 2013 two of the six sustainable development ambitions have concerned the Group's environmental footprint (see section 2.1.8), one for products and the other for the manufacturing and logistics operations. In 2015, the latter ambition was further clarified for manufacturing in the Environment and Prevention General Policy Statement.

This section presents the outcomes of the environmental strategy deployed across the Group. The scope of reporting also includes the Manufacture Française des Pneumatiques Michelin (MFPM). The dealership networks, which do not have any manufacturing operations and which have an estimated impact of less than 2% with regard to the leading environmental indicators (water consumption, energy consumption, CO_2 and volatile organic compound (VOC) emissions and waste), are not covered in the section below.

Product-related initiatives

Life cycle assessments conducted in Europe have shown that more than 90% of a Passenger car tire's environmental impact occurs during use. This proportion rises to more than 95% for a Truck tire in Europe. In normal conditions of use, tires account for a significant proportion of a vehicle's fuel consumption, which is currently estimated at one-fifth for passenger cars and one-third for trucks.

Michelin's primary objective is to increase the energy efficiency of tires while simultaneously improving their other performance factors, especially safety, rolling noise and durability. Reducing a tire's rolling resistance also helps to improve a vehicle's fuel efficiency, which in turn reduces both ambient air pollutants, such as NOx and SO_2, and carbon emissions during use. In addition, extending tread-life enables more efficient use of raw materials and amortizes the energy used during the manufacturing process over a larger number of kilometers traveled.

The highly energy-efficient MICHELIN Energy™ Saver+ Passenger car tires – the fifth generation of the MICHELIN Energy™ tires invented in 1992 – can reduce the amount of fuel consumed by an average, equivalent-size European car by 0.2 l/100 km compared with the first generation, corresponding to an average 4 g/km reduction in CO_2 emissions. This performance has been widely recognized by the market, as attested by the hundreds of certifications of MICHELIN Energy™ tires as new car original equipment. Michelin is also committed to enabling consumers to use their tires as safely and as long as possible. By rejecting planned obsolescence and making tires, like the MICHELIN CrossClimate+, that guarantee safe driving in all weather conditions, in every season, throughout their entire lives, Michelin is leveraging its technology to support a more sustainable economy and attenuating the excessive use of raw materials and energy.

In Truck tires, the technological innovations collectively known as MICHELIN Durable Technologies deliver a significant improvement in fuel efficiency and with it a reduction in CO_2 emissions. Illustrating these gains, the MICHELIN X® LINE™ ENERGY™ tires for large-volume trucks, brought to market in January 2016, are the first big rig tires to be rated A in energy efficiency under EU tire-labeling rules. These technological advances are also increasing load capacity, making trucking more efficient, especially as tire life continues to improve. In fact, the useful lives of Michelin's long-haul truck tires have doubled since 1980. At the same time, as with Passenger car tires, grip performance has also improved, in all types of weather conditions, throughout the life of the tire.

Lastly, Michelin is very actively involved in deploying and operating effective end-of-life tire recovery and reuse solutions. These are primarily based on recovering resources for reuse in such areas as draining sub-layers, molded objects and backfill, and on using scrap tires as fuel in cement plants or steel mills.

Production plant initiatives

Deployment of environmental policies in the manufacturing operations is underpinned primarily by the Group's EMS and the environmental performance improvement milestones.

/ Providing a solid foundation with the EMS and a network of experts

Based on ISO 14001, Michelin's EMS is designed to enable each plant to manage its impact on the environment, on both a day-to-day and long-term basis. It comprises a process to track compliance with legislation and Michelin standards, as well as an obligation to define and meet, every year, improvement targets aligned with local issues and Group commitments. It also specifies procedures to reduce the risks of accidental pollution.

Group guidelines dictate that every new production facility must earn ISO 14001 certification within five years of start-up. This was the case for the Chennai plant in India, which was certified in 2016, just two years after production began. By end-2016, fully 95% of the industrial facilities had been certified to ISO 14001 standards, including Technology Center sites and the natural rubber processing plants. In all, 99.6% of Michelin tires were manufactured in ISO 14001-certified facilities during the year.

To ensure the effectiveness of both the system's operating procedures and the implemented solutions, a network of around 100 specialists is based in the host countries, the Product Lines and every plant. Its manager reports to the members of the Group Executive Committee.

In early 2016, a cross-functional, international project team, supported by an outside service provider, began to upgrade the EMS to ensure compliance with the revised ISO 14001:2015 standard. The new version, which was also aligned with the ISO 9001 upgrade, was tested and validated in November at a large production facility, in Vitoria, Spain. These developments will be integrated into the system at every plant in 2017, so that their certifications can be renewed in 2018.

/ A reaffirmed environmental policy

In 2015, the Environment and Prevention General Policy Note re-specified the standard methods and tools to be used to assess risks at existing facilities and new projects, along with the related guidelines. In particular, the environmental guidelines cover the procedures for assessing environmental risks, preventing soil contamination, managing waste treatment and performing renewable energy opportunity studies. They also deal with the quality of environmental data and indicators.

In 2016, the General Policy Note was supplemented by an Environmental Guidebook specifying all of the environmental policies applicable to every facility. It also describes the Group's medium and long-term ambitions and identifies the main action levers to fulfill them. Applicable by every unit on every industrial, research, logistics and office site around the world, these policies manifest the Group's dedication to safeguarding the environment at every stage in the tire life cycle and, more broadly, its Michelin Performance and Responsibility sustainable development commitment.

/ Reducing the environmental footprint of the production plants

Life cycle analyses have shown that production, from raw materials to finished product, accounts for only 6% to 10% of a tire's environmental impact, compared to around 90% 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 tracking, since 2005, its six key impacts: energy consumption, water withdrawals, CO_2 emissions, VOC emissions, amount of waste produced 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).

COMPONENTS AND WEIGHTING OF THE MICHELIN ENVIRONMENTAL FOOTPRINT (MEF)

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

* *Volatile organic compounds.*

/ Formula for calculating the MEF

$$MEF = \frac{\text{Reporting year energy use (GJ/t)} \times 15}{\text{Group energy use 2005 (GJ/t)}} + \frac{\text{Reporting year water use (m}^3\text{/t)} \times 15}{\text{Group water use 2005 (m}^3\text{/t)}} + \frac{\text{Reporting year VOC emissions (kg/t)} \times 25}{\text{Group VOC emissions 2005 (kg/t)}} + \frac{\text{Reporting year CO}_2\text{ emissions (t/t)} \times 15}{\text{Group CO}_2\text{ emissions 2005 (t/t)}} + \frac{\text{Reporting year waste generated (kg/t)} \times 15}{\text{Group waste generated 2005 (kg/t)}} + \frac{\text{Reporting year waste landfilled (kg/t)} \times 15}{\text{Group waste landfilled 2005 (kg/t)}}$$

By definition, the Group MEF was base 100 in 2005.

/ Methodological note

Each of the six basic components is expressed in units per tonne of finished product.

Data are reported in the same format by every site around the world *via* a networked application. The reported indicators are defined and standardized in a reference guide that is used during internal audits and independent reviews.

In 2016, the scope of MEF reporting covered 78 production plants, Technology Center sites and natural rubber processing plants. 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.

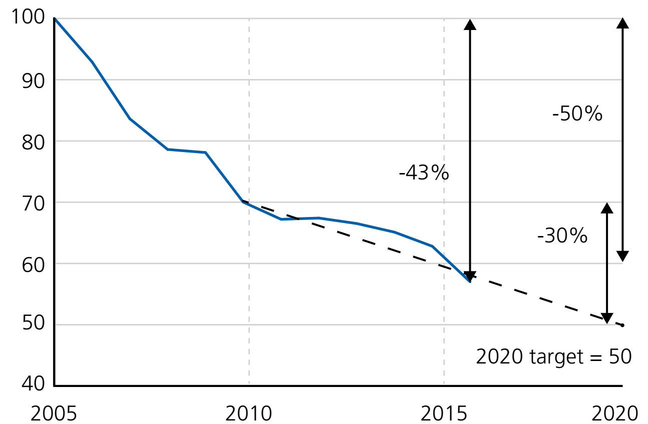
/ Objectives and progress

To fulfill the ambition of being a responsible manufacturer, the target for 2020 is to reduce the MEF by 30% compared with 2010 and by 50% compared with 2005, while using 25% less energy over the first period and 38% over the second.

Although the MEF expresses the Group's impact per tonne of tire produced, this target is consistent with the Michelin Performance and Responsibility approach, which is designed to deliver industrial performance while maintaining or reducing the overall environmental footprint.

In fact, even ambitiously assuming that tire output increases by 25% over the 2010-2020 decade, lowering the MEF by 30% would correspond to a more than 10% reduction in the Group's environmental footprint in absolute terms.

IMPROVEMENT IN THE MEF SINCE 2005 AND 2020 TARGET



Between 2005 and 2016, environmental performance, as measured by the MEF, improved by 43%, on track to meet the 2020 target.

The 2016 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	2015	2016	2020 target	% change vs. 2005	% change vs. 2015
MEF	-50%	100	70	62.8	57	50	-43.0%	-9.2%
Energy consumption in GJ/t of finished product (FP)	-38%	17.4	14.4	13.1	12.46	10.8	-28.4%	-4.9%

Performance by MEF component – Group	Unit	2010	2015	2016	2016 target	2017 target
Energy consumption	GJ/t FP	14.4	13.1	12.46	12.80	12.34
Water consumption	m^3/t FP	11.8	10.5	9.25	10.3	9.10
VOC emissions	kg/t FP	2.89	2.49	2.31	2.5	2.17
CO_2 emissions	t/t FP	1.28	1.09	0.99	1.10	0.92
Waste generated	kg/t FP	109.5	115.2	106.0	112.9	104.0
Waste landfilled	kg/t FP	10.2	7.36	4.95	4.14	4.50
MEF		**70**	**62.8**	**57**	**61**	55

MEF ratios and absolute values – Group	2016 ratio	% change vs. 2010	Unit	2016 absolute value	Change vs. 2010	Unit	GRI indicator*
Energy consumption	12.46	-13.5%	GJ/t FP	41,707	-3,876	x10^3 GJ	G4-EN3 G4-EN5 G4-EN6
Water consumption	9.25	-21.6%	m^3/t FP	30,893	-6,429	x10^3 m^3	G4-EN8
VOC emissions	2.31	-20.1%	kg/t FP	7,718	-1,436	t	G4-EN21
CO_2 emissions	0.99	-22.7%	t/t FP	3,320	-748	x10^3 t	G4-EN15 G4-EN16 G4-EN18 G4-EN19
Waste generated	106.00	-3.2%	kg/t FP	354,173	5,712	t	G4-EN23
Waste landfilled	4.95	-51.5%	kg/t FP	16,533	-16,028	t	
MEF	**57**	**-18.6%**					

* *G4 Sustainability Reporting Guidelines, Global Reporting Initiative, based on the second French edition, November 2015.*

PERFORMANCE OF THE MEF INDICATOR FOR THE MANUFACTURE FRANÇAISE DES PNEUMATIQUES MICHELIN

MFPM	2010	2015	2016	% change vs. 2010	% change vs. 2015
MEF	65.1	59.6	63.1	-3.1%	+5.8%

Performance by MEF component – MFPM	Unit	2016	% change vs. 2010
Energy consumption	GJ/t FP	19.06	-4.41%
Water consumption	m^3/t FP	10.38	-0.43%
VOC emissions	kg/t FP	2.10	-15.88%
CO_2 emissions	t/t FP	0.65	-28.85%
Waste generated	kg/t FP	162.13	+15.13%
Waste landfilled	kg/t FP	0.40	-76.93%

SUMMARY TABLE OF ENVIRONMENTAL DATA FOR THE GROUP

Consolidated environmental data	2016	2015	% change vs. 2015	2010	GRI indicator
Water consumption *(m³/t FP)*	9.25	10.5	-11.9%	11.8	
Energy consumption *(GJ/t FP)*	12.46	13.1	-4.9%	14.4	G4-EN5
Michelin point sources	6.50	7.02	-7.4%	8.0	
steam purchased, net	1.02	0.96	+5.7%	1.2	
electricity purchased, net	4.97	5.10	-2.6%	5.2	
CO_2 emissions *(t/t FP)*	0.99	1.09	-9.3%	1.28	
of which:					
direct emissions from Michelin point sources (Scope 1*)	0.46	0.50	-8.4%	0.58	G4-EN18
indirect emissions, steam generation (Scope 2*)	0.05	0.04	+19.8%	0.12	
indirect emissions, electricity generation (Scope 2)	0.49	0.55	-11.4%	0.58	
Total Michelin direct and indirect emissions avoided *(tonnes of CO_2)*	41,650	42,050	-1.0%	24,000	G4-EN19
Sulfur dioxide emissions *(kg/t FP)*	0.28	0.54	-48.4%	0.96	
Nitrogen dioxide emissions *(kg/t FP)*	0.48	0.62	-22.6%	0.83	
VOC emissions *(kg/t FP)*	2.31	2.49	-7.2%	2.89	
Waste generated *(kg/t FP)*	106.0	115.2	-8.0%	109.5	
Waste landfilled *(kg/t FP)*	4.95	7.36	-32.7%	10	
Hazardous waste generated *(kg/t FP)*	7.74	7.35	+5.4%		G4-EN23
Number and total surface area of facilities located less than one kilometer from a protected area	27 sites totaling 6,400 ha	27 sites totaling 6,400 ha	–		G4-EN11

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

The MEF was 57 in 2016, representing a 9.2% reduction over 2015 that exceeded the target for the year.

As was the case in 2015, all six components improved year-on-year, with the strongest gains in waste landfilled, water consumption and CO_2 emissions.

- **Waste landfilled** showed the greatest improvement over the year, although it fell short of the objective, with a 33% decrease per tonne of finished product. Today, 95.5% of all waste is recovered or reused, with 54 facilities recovering more than 95% and 32 reporting zero waste landfilled during the year. The total volume of **waste generated** per tonne of finished product declined by 8% year-on-year.
- Thanks to stepped-up initiatives to reduce withdrawals, **water** consumption declined per tonne of finished product by nearly 12% over the year.
- **CO_2** emissions showed a decline of 9%, more than half of which was attributable to efforts to shift to a less carbon-intensive energy mix, in particular by purchasing electricity generated from renewable sources (see section 6.3.4 on the increasing use of renewable energies). The rest of the decline stemmed from an improvement in energy efficiency, reflected in the 5% reduction in **energy** consumed per tonne of finished product.

Compared with 2010, the MEF has been reduced by 18.6%, with improvements in every component, including waste generated, while production has moderately increased each year. Energy consumption was down by 13.5%, CO_2 emissions by 22.7%, water consumption by 21.6%, VOC emissions by 20.1%, waste production by 3.2% and landfilled waste by 51.5%.

On a full-year basis, these significant improvements from 2010 levels have avoided:

- The use of 3,876,000 GJ of **energy,** or the amount of energy consumed by nearly 40,000 people in France (based on the 98 GJ used per person in 2014, according to 2015 INSEE SOeS statistics published in *Chiffres clés de l'environnement,* 2015 edition).
- The use of 6,430,000 cubic meters of water, or the amount of drinking water used by more than 120,000 people in France (based on 53 cubic meters used per person per year, according to the 2012 SOeS-SSP water survey published in *Chiffres clés de l'environnement,* 2015 edition).
- The emission of 1,436 tonnes of **VOCs,** or the equivalent of 1,650,000 cars in France (based on the Euro VI standard for gasoline vehicles, which is a maximum of 68 mg of non-methane hydrocarbons per kilometer, and on 12,753 kilometers driven per vehicle per year, according to INSEE's 2014 statistics).
- The emission of 748,000 tonnes of **CO_2,** or the equivalent of nearly 420,000 cars in France (based on a maximum of 140 g of CO_2/km from a car rated class C under the European Union energy labeling system and driven 12,753 kilometers per year, according to INSEE's 2014 statistics).
- The **landfilling** of 16,000 tonnes of **waste,** or the amount of household waste produced by 35,000 people in France (based on 458 kg of household waste per person per year in 2012, according to Eurostat-RSD statistics published in *ADEME Déchets* – 2015 edition – Key figures).
- Total **waste generated** rose by 5,700 tonnes, or the amount of household waste produced by 12,500 people in France (based on 373 kg of household and similar waste produced per person per year in 2009, as published in *ADEME Déchets* – 2012 edition – Key figures).

SUMMARY TABLE OF ENVIRONMENTAL DATA FOR THE MFPM

MFPM	2016	2015	% change vs. 2015	2010
Water consumption *(m^3/t FP)*	10.38	10.04	+3.4%	9.1
Energy consumption *(GJ/t FP)*	19.06	17.69	+7.7%	19.6
Michelin point sources	8.87	8.56	+3.6%	11.3
Steam purchased, net	1.18	0.93	+2.7%	0.1
Electricity purchased, net	8.88	8.2	+8.3%	8.2
CO_2 emissions *(t/t FP)*	0.65	0.63	+3.2%	0.83
of which:				
direct emissions from Michelin point sources (Scope 1)	0.50	0.48	+4.2%	0.63
indirect emissions, steam generation (Scope 2)	-0.033	-0.003	+1,000%	0.02
indirect emissions, electricity generation (Scope 2)	0.16	0.15	-6.6%	0.18
Sulfur dioxide emissions *(kg/t FP)*	0.02	0.02	0%	0.04
Nitrogen dioxide emissions *(kg/t FP)*	0.65	0.61	+6.6%	0.57
VOC emissions *(kg/t FP)*	2.10	2.21	-5.0%	2.48
Waste generated *(kg/t FP)*	162.13	140.83	+15.1%	144
Waste landfilled *(kg/t FP)*	0.40	0.17	+135%	2
Hazardous waste generated *(kg/t FP)*	11.96	10.98	+8.9%	
Number and total surface area of facilities located less than one kilometer from a protected area	7 sites totaling 624 ha	7 sites totaling 624 ha		

/ Training and informing employees about environmental stewardship

Dedicated training courses to support EMS deployment have raised environmental awareness among all of the more than 83,000 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 2016, €51.9 million, or 18% less than in 2015, was committed to projects to enhance the environmental performance of the production facilities. These outlays primarily funded projects to improve air pollution prevention systems, increase energy efficiency, improve water quality and reduce water use. The nearly €4.5 million increase in waste expenditure mainly reflected the programs deployed in the North American plants to increase the percentage of waste that is recovered and reused.

At the Manufacture Française des Pneumatiques Michelin, environmental spending came to €14.4 million for the year, a 57% increase led by three major boiler house projects, remediation and the use of a more sustainable water source.

These budget amounts are based on the definition recommended by the French Accounting Board (CNC recommendation 2003-R02 of October 21, 2003), which covers only outlays that are "supplementary" (*i.e.,* excluding routine maintenance, operating, waste management and similar expenses) and "exclusively environmental" (*i.e.,* excluding the environmental aspects of capital expenditure projects).

Budget allocation is analyzed in the two tables below.

Group	**Total expenditure***		
(in € thousands)	**2016**	**2015**	**2014**
Air pollution prevention	9,522	24,897	6,400
Surface water pollution prevention	3,045	3,323	2,914
Soil and groundwater pollution prevention	9,346	3,060	3,540
Waste reduction and recycling	6,609	2,498	2,445
Sustainable use of water resources	2,265	3,032	1,298
Sustainable use of energy resources	15,018	19,097	14,942
Reduction of greenhouse gas emissions	2,341	644	7,716
Other	3,709	3,265	2,411
TOTAL	**51,856**	**59,817**	**41,666**

* *The following data complies with the GRI G4-EN31 indicator.*

MFPM	**Total expenditure**		
(in € thousands)	**2016**	**2015**	**2014**
Air pollution prevention	5,487	3,473	2,553
Surface water pollution prevention	411	362	980
Soil and groundwater pollution prevention	3,393	128	414
Waste reduction and recycling	148	69	28
Sustainable use of water resources	309	260	53
Sustainable use of energy resources	3,857	3,053	2,956
Reduction of greenhouse gas emissions	114	0	541
Other	670	1,832	1,117
TOTAL	**14,389**	**9,177**	**8,641**

/ Provisions and guarantees for environmental risks

As of December 31, 2016, total consolidated provisions for environmental risk amounted to more than €12.5 million, of which 90% covered site assessment and remediation issues. In the case of the MFPM, no provisions for environmental risks were recorded as of December 31, 2016.

6.3.2 REDUCING RELEASES, MANAGING WASTE AND ABATING ENVIRONMENTAL NUISANCES

Michelin is committed to carefully managing its releases into the air, water and soil, while steadily reducing the amount of landfilled waste. It also seeks to limit odors and noise generated by its facilities.

Deploying measures to prevent, abate or remediate air, water and soil pollution

/ Greenhouse gas emissions

For the Group, a decline in emissions

Total CO_2 emissions amounted to 0.99 tonnes per tonne of finished product in 2016, a reduction of 22.7% compared with 2010 and of 9.3% compared with 2015. More than half of the year-on-year decrease stemmed directly from the improvement in energy efficiency (see section 6.3.3 on reducing energy consumption), while the rest primarily reflected the efforts to shift to a less carbon-intensive energy mix, in particular by purchasing electricity generated from renewable sources (see section 6.3.4 on increasing the use of renewable energies).

Carbon quota systems

In European Union countries, direct carbon emissions from the 23 Group facilities that operate boilers with over 20 MW capacity are subject to allowances issued under the EU's Emissions Trading Scheme (ETS). These allowances continued to decline in 2016 under the impact of the cross-sectorial correction factor, but the emissions were still covered by the credits accumulated between 2008 and 2012.

In China, carbon emissions trading schemes were introduced in 2013 in seven cities and provinces. The one in Shanghai, covering an initial three-year period until 2015, involved both direct and indirect emissions. It has been renewed for the 2016-2018 period. Over the 2013-2016 period, emissions from the two plants concerned were covered by the allowances. China has announced that it will start a national cap-and-trade program in 2017.

In 2005, the multidisciplinary Carbon Quota Management Committee was created to track legislation governing carbon markets and taxes in all of the Michelin plants' host countries. Comprising specialists in greenhouse gases (GHG), energy buying, energy efficiency, finance and accounting, its role is to define carbon quota management principles and guidelines, ensure their proper application and conduct the necessary forecasting studies.

For MFPM, production plant emissions predominate

The second review of GHG emissions conducted in late 2015, in compliance with French legislation, demonstrated that the production plants accounted for the bulk of the MFPM's carbon emissions.

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS BY MFPM

Tire production plants	Storage facilities, Technology Center and headquarters	MFPM vehicles and other mobile sources
88.2%	8.6%	3.2%

The review also showed that direct emissions from fuel use represented 75% of total MFPM GHG emissions, with indirect emissions from the purchase of electricity accounting for the remaining 25%. In compliance with French legislation, the next GHG review will be conducted in 2019.

/ Other air emissions

A decline in VOC emissions

Volatile organic compound (VOC) emissions declined by a 7.2% in 2016 to 2.31 kg per tonne of finished product. The action plans undertaken in every plant to reduce solvent use and VOC emissions continued to be deployed, along with research into innovative technical solutions. In all, VOC emissions per tonne of finished product fell by 20.1% between 2010 and 2016 and by 42% between 2005 and 2016.

A decline in nitrogen oxide (NOx) and sulfur oxide (SOx) emissions

SOx emissions from Group boilers stood at 0.28 kg per tonne of finished product in 2016, compared with 0.54 kg in 2015 and 0.96 kg in 2010.

NOx emissions amounted to 0.48 kg per tonne of finished product, *versus* 0.62 kg in 2015 and 0.83 kg in 2010.

In general, these data can vary widely from year to year, because (i) they are calculated based on the periodic (often quarterly) measurement of their concentration in emissions and (ii) they depend on the mix between generated steam and purchased steam, with the latter not included in the calculation.

In 2015 and 2016, four factors helped to reduce NOx and SOx emissions:

- 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, with the result that in 2016 aggregate SOx emissions from the three plants were reduced by a factor of nine and NOx emissions by a factor of three compared with 2014.
- In China, the former Shenyang plant was closed after its operations were phased out and transferred to a nearby new facility in 2015. The former plant used steam generated from an on-site coal-fired boiler, whose SOx and NOx emissions were reported in 2015 until production was terminated. The new plant purchases its steam from an energy supplier, so its SOx and NOx emissions are not counted in the consolidated total.

- Also in China, in fourth-quarter 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. Because it belongs to a steam supplier, the power station's SOx and NOx emissions, which are significantly lower than the prior-year emissions from the use of coal, are not reported in Group emissions data.

  Note that both of the Chinese plants' carbon emissions continued to be reported in the MEF, which by definition includes Scope 1 and Scope 2 CO_2 emissions.
- In France, the coal-fired boiler at the Bassens plant (which also has a gas-fired boiler) was equipped in late 2015 with a DeSOx/DeNOx scrubber that reduced the boiler's SOx emissions by 66% and NOx emissions by 50% in 2016.

/ Discharges to surface water

Most plants are equipped with appropriate facilities to treat the effluent produced by their particular operations. After proper treatment, process water is discharged either to the environment or to local wastewater treatment plants. Examples of progress in managing wastewater effluent include:

- Since 2016, assessments of environmental issues at 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 new process is being devised with water treatment service providers, first, to define best practices aligned with each plant's local challenges, with more than 20 recommended so far, and second, to optimize the sharing of identified pathways to progress. After being piloted in France in 2015, the process was extended to Spain, Germany, Italy and the United States in 2016, primarily with the support of the Group engineering, maintenance and purchasing teams.

/ Releases to soil and groundwater

To prevent the risk of chronic or accidental spills, the EMS includes a dedicated process based on structural, cultural and results-oriented measures. Updated in 2016, these standard operating procedures, which 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.

The procedures are 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 new company, or the purchase, lease or sale of all or part of a site or a property asset.

Designed to ensure effective understanding of all the issues, thereby guaranteeing their responsible management, this preventive process is supported by regular reviews with the business units and three other factors finalized in 2016:

- Framework agreements. To facilitate the management of issues and optimize responsiveness when need be, three framework agreements comprising performance and efficiency indicators have been signed with service provider networks.
- Clear financial rules. Financial rules have been issued to clarify responsibility for the payment of studies or the cost of managing the related risks. They are generally based on two principles – the polluter pays principle and comparative entry and exit condition reports – so as to ensure efficient, responsible management among the business units.
- A support network of coordinators. The network of "Site Assessment and Cleanup" coordinators underwent staff development in every region to guarantee and challenge practices in the business units. This network is now equipped with more effective digital applications.

In 2016, these structural measures enabled the closure of 23 cases.

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 new 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.

6.3.3 SUPPORTING THE CIRCULAR ECONOMY

Michelin's approach to innovation, development and bringing products and services to market fits seamlessly into a circular economy. In 2016, the Group's retreading and fleet services solutions described below earned it the French government's **Circular Economy Award** and the top honor in the "Combating Climate Change" category at the 2016 Environment and Business Awards. Since 2014, Michelin has been a member 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.

The Michelin 4R strategy for a circular economy

The tire industry uses 32 million tonnes of materials every year, three-quarters of which are fossil-based. At the same time, road mobility will at least double and maybe quadruple between 2010 and 2050. This poses a variety of challenges in securing supply, reducing the impact of mobility on health, ecosystems and natural resources, and limiting its effects on climate change.

The impact on energy, raw materials, water and other natural resources has to be improved throughout a tire's life cycle by taking a circular economy approach. More than 90% of a tire's environmental impact occurs during use.

Michelin is simultaneously activating four levers to ensure that resources are used more wisely, in what is known as the 4R strategy: Reduce, Reuse, Recycle and Renew.

/ Reduce

This commitment, known as MICHELIN Total Performance, involves using less raw materials and less energy to make tires that are lighter, more energy efficient and longer-lasting, yet capable of delivering the same safe driving experience and ever-improved performance.

By extensively testing worn tires, Michelin hopes to demonstrate that tires can and should deliver very high performance until the end of their useful lives. This reflects the Group's long-standing opposition to planned obsolescence. Based on European data, recommending the scrapping of tires worn down to the minimum legal tread depth of 1.6 mm would avoid the unnecessary use of 400 million tires a year worldwide, while reducing carbon emissions by 35 million tonnes a year.

The principle of shrinking the Group's environmental footprint is being applied both in production operations (see section 6.3.1) and logistics (see section 6.3.4), as well as in products (see section 6.3.4 on Michelin's involvement in the 22nd Conference of the Parties) and vehicle fleet services (see section 6.3.4). Michelin attaches particular importance to reducing the waste generated in tire manufacturing (see paragraph below).

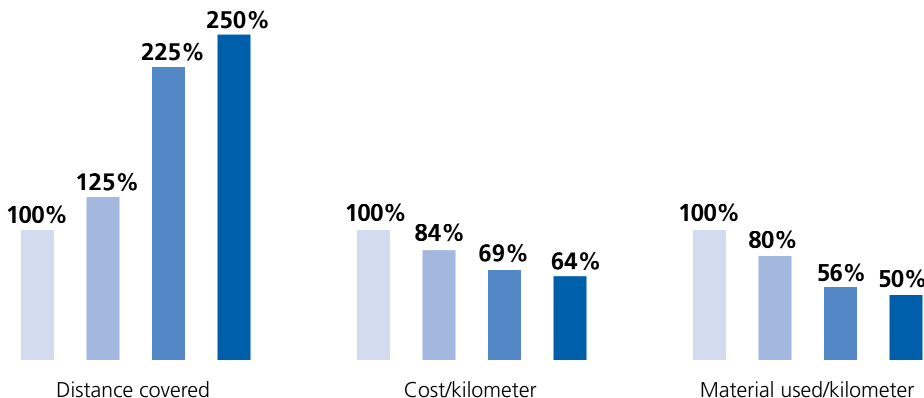
/ Reuse

Raw materials can also be saved during the in-use phase by repairing, regrooving and retreading tires. Michelin offers retreading solutions for Truck, Aircraft and Earthmover tires.

Michelin Truck tires can be regrooved when the tread is worn, mold-cure retreaded using the Remix process, and regrooved a second time before the components are reused in end-of-life tire recovery solutions. Assuming the tire has a theoretical lifespan of 100 units, regrooving can add 25 units without any additional material; retreading then adds a further 100 units with 25 units in new material (or four times less than the amount of material needed to make a new tire); and lastly, the final regrooving increases total tread life by another 25 units.

In all, with one retreading and two regroovings, a Michelin Truck tire can last 2.5 times longer than a new Michelin tire with just an additional 25% of material.

These benefits are illustrated in the following chart:



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 entry-level:

- 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 stimulate the local economy.

/ Recycle

Short loop

In 2014, Michelin launched the Tire RECycling (TREC) project to pursue two innovative means of recovering resources from end-of-life tires:

- TREC Alcohol, to produce a chemical intermediate needed to synthesize raw materials used in tire manufacturing.
- TREC Regeneration, to produce high-quality regenerated rubber that can be reinjected into the new-tire production process, while continuing to improve tire performance.

Based on the completed feasibility studies, technical considerations and the maturity of the technologies, the Group has decided to focus on TREC Regeneration, whose pilot phase delivered promising technical outcomes. The findings of the business model assessment now underway will determine whether an installation will be built as a precursor to a future production line.

Manufacturing waste

For more than ten years now, Michelin has been committed to recycling all of its tire manufacturing waste (see paragraph below).

End-of-life tires

The deployment of technically and economically viable systems to recycle and dispose of end-of-life tires is a major challenge – one that Michelin is determined to address, in every country, in cooperation with all of the stakeholders concerned. Indeed, for many years, the Group has been encouraging the introduction of effective solutions and continues to play a leading role.

In 2016, a total of 80% of tires sold by Michelin were collected at end-of-life and processed in each country in authorized recycling facilities in compliance with local legislation. During the year, the Group continued to participate in end-of-life tire recycling programs through its active membership in a variety of industry associations, including in particular:

- The Tire Industry Project (TIP), a working group of the World Business Council for Sustainable Development that 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 Rubber Manufacturers Association (RMA) 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 in their lives, 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 25% 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. The ethanol will be supplied by another partner, sugar cooperative Tereos. Development got underway in late 2015, with the goal of starting up a pilot plant by 2020.
- Bio-Isoprene, in partnership with Amyris and Braskem, aims to manufacture isoprene from biomass feedstock. Now that the laboratory phase has identified a probable pathway, the 2016-2019 objective is to demonstrate its viability as a production process

At the same time, Michelin is sustainably and responsibly developing its natural rubber supply (see section 6.2.2 d) and section 6.2.4 b) on the Sustainable Natural Rubber Policy).

Avoiding 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.

During the year, the gross amount of waste generated per tonne of finished product declined by 8% to 106 kg, while the volume of waste landfilled decreased by 32.7% to 4.95 kg per tonne of finished product from 7.36 kg in 2015. Since 2005, the volume of waste generated per tonne of finished product has been reduced by around 24%, to 106 kg from 140 kg, and the volume of waste landfilled has fallen by more than 85% to 4.95 kg from 33 kg.

In 2016, fully 95.3% of waste was recovered and reused as materials or fuel, with around 70% of reusable materials being recovered. Out of 74 production facilities, 54 recovered more than 95% of their waste and 32 reported zero waste landfilled during the year. Around 7% of total waste generated in 2016 was classified as hazardous under local legislation.

The decline in **waste generated** during the year was primarily led by the growing application of best practices and the reduction in coal-fired boiler waste, reflecting the optimization of the energy mix in Bassens, France, the use of higher grade solid fuel in Olsztyn, Poland, and a decrease in energy demand in Louisville, KY. The leading factor driving the Group-wide reduction in waste landfilled was the sustained implementation of the "zero waste landfilled" program in North America. The main initiatives pursued in 2016 to increase the proportion of recovered and reused materials involved developing and deploying innovative processes to recycle steel plies or similar metal products, in particular by separating them mechanically from the rubber.

With waste management policies based on reuse and the development of innovative outsourced recycling solutions, Michelin is continuing to deploy initiatives to reduce the amount of waste generated and landfilled as an integral part of a circular economy approach.

Using resources sustainably

In addition to using materials efficiently, guided by the 4R strategy, Michelin is working hard to ensure the sustainable use of its water, energy and soil resources.

/ Reducing water withdrawals

Michelin plants use water mainly to cool installations and to produce steam and hot water, although certain production operations also use it in the surface treatment of steel cables. In 2016, a total of 9.25 cubic meters was withdrawn per tonne of finished product, a year-on-year decline of nearly 12%, which is twice as large as the prior period. All of the geographic zones showed an improvement.

In mid-2016, a new method of assessing water issues at the production facilities was released after two years of development and testing in every region. Based on sustainability principles, particularly the ISO 14046 and ISO 14001:2015 standards, it enables on-site specialists to measure business continuity, community reputation and other risks, identify the impacts related to the quantity and quality of withdrawn and discharged water, and calculate operating costs, all with the goal of implementing risk abatement initiatives.

Following its deployment at four new plants during the year, around 30% of the production facilities are using or are ready to use the method with the support of the Group's team of water experts. Made up of environmental, maintenance and engineering specialists, the team also supports the design of new industrial projects by helping to prepare action plans, identify opportunities and share best practices (30 new practices). It is backed by a more than 50-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.

The following examples illustrate some of the outcomes in 2016.

- The Pirot plant in Serbia: performing maintenance, changing the valves on the water circulation system and cutting back on domestic water consumption saved 100,000 cubic meters over the year, representing a nearly 16% decrease in annual water withdrawal (in cubic meters) and a 29% improvement in performance (in cubic meters per tonne of finished product).
- Brazilian plants: technical initiatives lowered water consumption by 11% at the Resende plant (solenoid valves installed on the steel cable production line) and by 19% at Campo Grande (reverse osmosis system), resulting in a total reduction of 15,000 cubic meters a year. Performance at the Soretama facility was improved by 50% with solutions to reuse rubber rinse water.
- Olsztyn plant in Poland: following a review of its water-related issues in 2014, the facility installed a closed circuit to reuse water in the machinery cooling systems, reducing water withdrawals by 1,000,000 cubic meters a year. In 2016, it drove further gains by more effectively managing water use, saving just over an additional 800,000 cubic meters a year. On a per tonne of finished product basis, performance improved by 35% between 2014 and 2016, from 10.3 to 7.2 cubic meters.

/ Reducing energy consumption

From 2014 to 2016, every plant undertook action plans to align energy use with changes in output, in particular by reducing consumption during periods of downtime. In 2016, a new two-part energy efficiency program was devised to drive improvements both in technical performance and in methods and working procedures. In all, 16 initiatives were launched during the year.

To address energy issues during the vulcanization phase of the curing process, which accounts for 23% of the Group's energy use, the amount of energy consumed by the curing presses was measured at each phase of use. By year-end, the "heat signature" of 11 kinds of presses had been determined, enabling the deployment of priority progress initiatives, such as improving external insulation. In Brazil, the Campo Grande plant insulated all of its Truck tire curing presses in less than two months, resulting in a major reduction in steam use. Improvement support tools, such as the energy audit and the basic best practices guide, have been revised to make them more effective in finding pathways to improvement and to align them more closely with the diversity of the Group's production processes.

The energy efficiency improvement program was supported by €17.8 million in capital expenditure, lower than in 2015 but with better outcomes. It is still being deployed in 2017.

The Group's energy consumption declined to 12.46 GJ per tonne of finished product in 2016, down 4.9% year-on-year and 13.5% since 2010. The 2020 target of a 25% reduction is within reach.

Renewable energies are discussed in section 6.3.4.

/ Optimizing land use

Production facilities

Michelin's production operations occupy much the same surface area as facilities in any other manufacturing industry. Because the plants are located in pre-existing industrial parks, environmental impact studies must be performed in compliance with local legislation prior to applying for an operating license and construction permit. This process also includes public hearings.

In India, the construction in 2011 of a new plant in an industrial park created by the Tamil Nadu government in 2007 caused a controversy over the issue of land use. In accordance with the recommendations of the OECD Guidelines for Multinational Enterprises, the Group conducted a human rights impact assessment and initiated a supplemental environmental impact study. Following completion of the human rights study in 2015, Michelin prepared a ten-year 2016-2025 sustainable social development plan built on the four pillars of its presence in Tamil Nadu: jobs, healthcare, education and the management of natural resources. Completed in 2016 after a 12-month cycle of additional studies, the environmental impact report recognized that the management systems already implemented by the Michelin plant have greatly attenuated its impact. Residual impacts will be addressed in 2017 by an action plan incorporating the measures recommended in the report.

Testing facilities

The only operations that use large areas of land are test tracks such as in Ladoux, France and Almeria, Spain. They do not conflict with any other land uses and help to preserve the environment with programs to support biodiversity (see section 6.3.5).

Michelin agricultural tires

For more than ten years, Michelin has been improving farming practices with its MICHELIN UltraFlex technology, a breakthrough innovation that protects cropland by enabling farm equipment to run on low-pressure tires that limit compaction and maximize yields. A 2013 study conducted by Harper Adams University in the United Kingdom demonstrated that the technology can increase wheat crop yields by 4%. This means that if all the farm equipment in the world's leading wheat producing regions (European Union, 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. 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.

6.3.4 HELPING TO MITIGATE CLIMATE CHANGE

Michelin is helping to fight against climate change with policies to limit its CO_2 emissions, based on improving energy efficiency and reducing the carbon content of its energy mix. These policies are being deployed not only in the production facilities, but also in logistics operations and in the business fleet services. They are being supported by an experimental internal carbon pricing program for large capital projects, extensive involvement in the Conference of the Parties (COP) on climate change, 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.

Carbon emissions from all of the manufacturing operations, per tonne of tires produced, were **22.7% lower in 2016** than in 2010 and 35% lower than in 2005. The improvement was led by the activation of two levers: improving energy efficiency and using less carbon-intensive energies.

In recognition for its strategy, its performance in reducing carbon emissions and its targets to drive sustained improvement, **in 2016 Michelin was awarded a position on the Climate A List by CDP,** a London-based international non-profit organization that is helping to accelerate the transition to sustainable economies. In particular, CDP asks several thousand companies around the world to disclose data on their environmental performance *via* an annual questionnaire, whose answers are analyzed and shared with the organization's more than 800 institutional investor members.

Optimizing the energy efficiency of production facilities

Energy efficiency initiatives are being pursued across the organization, led by the new improvement program described in section 6.3.3.

Increasing the use of renewable energies at production facilities

In a commitment to sustainably reducing 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.

Rated output of the 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, an additional 3.8 MWp was installed, increasing total rated output to 25.3 MWp. In Valladolid, Spain, 31,000 square meters of solar panels with peak capacity of 3.3 MWp were commissioned in 2010 and 2011. In France, the rooftop solar power panels on the Le Puy-en-Velay plant began generating their first electricity in September 2011. Covering three hectares, or three-quarters of the roof's surface, the panels generated close to 3,350 MWh of power in 2016. This solar-generated electricity is sold back by the operators to the national grids, helping to reduce their country's electricity emission factor.

Other installations are directly reducing the Group's CO_2 emissions.

Wind turbines have been generating roughly 20% of the electricity used by the Dundee plant in Scotland since 2007. The two wind turbines installed near the Ballymena plant in Northern Ireland in late 2012 provided 19% of the plant's electricity in 2016.

Commissioned in 2010, two biomass-fired boilers installed to replace natural gas-fired systems at the Bourges and Cholet plants in France avoided the emission of nearly 15,000 tonnes of CO_2 in 2016.

(1) OECD-FAO Agricultural Outlook 2013-2022, June 5, 2015.
(2) U.S. Department of Agriculture.

Since 2013, the plant in Vannes, France has used steam generated from a boiler fired by biogas derived from the methanation of household waste. However, the anaerobic digester has not functioned properly since November 2015, with the result that little or no steam was delivered in 2016.

In Canada, a solar wall has replaced heavy fuel as a source of building heat for the Waterville plant since late 2010.

Compared with the emissions from previously used energy sources, these on-site renewable energy installations avoided the emission of nearly 42,000 tonnes-equivalent of CO_2 in 2016, of which 31,000 tonnes directly reduced the Group's total carbon emissions.

Facility	Technology	Tonnes of CO_2 emissions avoided in 2016[1]
Bassens, France	Purchase of heat generated by a waste incinerator	7,750 t (direct CO_2)
Cholet, France	Biomass-fired boiler	7,750 t (direct CO_2)
Bourges, France	Biomass-fired boiler	7,000 t (direct CO_2)
Vannes, France	Purchase of household waste methanation heat	0 t (direct CO_2)
La Combaude, France	Purchase of heat from biomass-fired facilities	2,200 t (direct CO_2)
Waterville, Canada	Solar wall	100 t (direct CO_2)
Dundee, United Kingdom	Wind turbines	2,500 t (direct CO_2)
Ballymena, United Kingdom	Wind turbines	3,500 t (direct CO_2)
Germany, seven facilities	Photovoltaic panels	9,500 t (power sold back to the grid)
Valladolid, Spain	Photovoltaic panels	1,100 t (power sold back to the grid)
Le Puy, France	Photovoltaic panels	200 t (power sold back to the grid)

(1) Based on emissions factors for the substituted energies published by the International Energy Agency in CO_2 Emissions from Fuel Combustion, 2015 edition.

Today, 17 facilities use renewable energy solutions. Other projects currently still in the feasibility phase in France include the purchase of biomass-sourced steam in Golbey and the use of geothermal heat in Clermont-Ferrand.

In 2016, two new projects to purchase power and heat generated from the incineration of household waste were launched in Dundee, United Kingdom and Troyes, France, while the trial use of steam from sunflower husk-fired boilers at the Bassens, France plant was discontinued due to the excessive risk of high costs and unreliable supply.

In addition, in first-half 2016, Michelin finalized a study that identified opportunities for purchasing renewable power in every host region around the world. It showed that a mature supply of green electricity exists in Europe, either in the form of direct purchase contracts or of guarantees of origin, as defined by Directive 2009/28/EC.

In the second half of the year, therefore, the Group used 330,000 MWh of electricity from renewable sources in six of the eight European Union countries where it has production facilities, thereby avoiding the emission of 135,000 tonnes of CO_2, or the equivalent of 4% of total consolidated emissions in 2016.

This process will be extended to all eight countries in 2017.

Replacing fuel oil with natural gas

One way to reduce carbon emissions is to replace heavy fuel oil with natural gas, which when burned emits more than 25% less carbon dioxide (202 kg/CO_2 per MWh LHV *versus* 278 kg).

In Canada, the boilers at the Pictou, Bridgewater and Waterville facilities were upgraded in late 2014 to enable them to run on natural gas as well as the traditional fuel oil. At a time of low natural gas prices, these dual-fuel boilers only need to be fuel oil-fired part of the year. In 2016, natural gas replaced more than 230,000 MWh of fuel oil-fired power generation at the three plants, helping to avoid the release of 17,500 tonnes of CO_2.

In the final quarter of 2015, the Shanghai plant replaced its steam generated on-site in a coal-fired boiler with steam purchased from a gas-fired CHP power station. This avoided the emission of more than 14,000 tonnes of CO_2 in 2016.

The carbon footprint of products and services

Life cycle assessments show that more than 90% of a tire's environmental impact occurs during use, due to the fuel that has to be burned to overcome rolling resistance. In the same way, depending on the tire, 85% to 98% of its life cycle GHG emissions are released during use. Tire carbon footprints are being reduced through research and development focused on improving energy efficiency while delivering the same or better performance in such key areas as grip, longevity and quiet ride (see sections 2.1.8 and 6.3.1).

For the past three years, Michelin has calculated its annual Scope 3 indirect GHG emissions from activities in both the upstream and downstream value chain. As is the case for Scope 1 and 2 emissions, they are measured using the guidance published in *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (see section 6.3.1 for the summary table of environmental data for the Group) and its supplement, *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (World Resources Institute and World Business Council for Sustainable Development, September 2011).

In 2015, Scope 3 emissions amounted to around 120 million tonnes of CO_2, of which 103 million were attributable to Michelin tires in use. The second largest source of Scope 3 emissions was purchased raw materials, which accounted for some 9 million tonnes. Lastly, Michelin services generated less than 1% of Scope 3 emissions.[1]

These figures are all estimates. Calculation assumptions, source data and emission factors are reviewed and revised every year to reduce uncertainties and make the calculation methods for the different value chain activities more robust. All of the 2015 Scope 3 calculations were audited in accordance with ISAE 3000 by an independent third party, which expressed limited assurance that the calculations were made in compliance with the protocols mentioned above.

Enhancing the sustainability of logistics operations

Reducing GHG emissions from logistics operations is a major priority for Michelin. This process involves developing new synergies among shippers and carriers, in a commitment to improving the efficiency of volumes carried and mutually reducing emissions.

Action levers are gradually being activated both inside and outside the organization:

- **Optimizing transportation distances.** Michelin encourages direct deliveries from the plant to the customer, an initiative whose benefits extend beyond logistics to the entire customer relationship process. In the case of tire deliveries in the Caribbean, the centralization of operations in Miami, FL instead of Breda, the Netherlands in 2015 avoided the need to ship sixty 40-foot high-cube containers in 2016.
- **Increasing load factors.** Optimizing load capacities, in accordance with local legislation, helps to reduce empty miles and backhaul costs. By loading in a fishbone pattern rather than in stacks, load factors were increased in 2016 by around 20% for shipments from Thailand to Japan and by around 15% for dealer deliveries in Indonesia. In Europe, load factors for semi-finished products, raw materials and spare parts rose over the year, enabling an additional 1,500 trips compared with 2015.
- **Favoring multimodal solutions (rail, sea, waterway) over air transportation.** Michelin is working with carriers to explore the technical and financial feasibility of multimodal overland/rail, overland/waterway or overland/sea solutions for regularly scheduled deliveries. This would help to reduce not only GHG emissions but also noise and air pollution, while also preserving public infrastructure, reducing the number of accidents and easing traffic congestion. In 2016, multimodal arrangements accounted for 13% of miles traveled in North America. In Europe, multimodal overland/rail lines operate daily between France and Italy and between Italy and Germany, while in China, volumes delivered by barge rather than by truck increased by 22.3% year-on-year in 2016.
- **Developing partnerships with trucking companies concerned about their energy efficiency.** Michelin offers a wide range of tools and systems to optimize truck performance by ensuring that the vehicle is recent and regularly maintained; the engine is suited to the distance and the average load carried; the vehicle has a speed-limiting device, accessories that reduce aerodynamic resistance and tires with low rolling resistance; and the tires are retreaded and regrooved to extend tire life and increase fuel efficiency.
- **Encouraging eco-driving.** When correctly implemented and followed-up, driver training and management can improve fuel efficiency by up to 10%. For trucking companies, this represents a potential increase in operating margin of 2% to 5%, depending on the country. Eco-driving also reduces the number of road accidents by instilling defensive driving habits.

In 2016, energy efficiency was reaffirmed as the decisive environmental criterion for logistics purchases around the world. During the year, for example, carriers using trucks running on liquefied natural gas (LNG) began handling shipments between France and Spain.

Improving the energy performance of business fleets

Another pathway to reducing the Group's carbon emissions concerns the product-service economy, *i.e.,* the combined supply of a product and a service to manage tires in ways that optimize their energy efficiency and other performance features. Michelin has been a pioneer in offering innovative services for fleets, introducing per-kilometer tire invoicing back in the late 1990s. Since 2012, the MICHELIN solutions business unit has been designing, developing, marketing and operating new mobility solutions for managers of truck, van and earthmover vehicle fleets, enabling them to optimize fleet management, improve margins and reduce their carbon footprint. The unit offers a variety of solutions to manage both tires, such as EFFITIRES™ and Michelin Tire Care, and other trucking business concerns, such as EFFITRAILER™ (optimized management of semi-trailers) and EFFIFUEL™ (optimization of fuel efficiency).

Carbon pricing

As part of its commitment to significantly, yet cost-effectively reducing its CO_2 emissions, Michelin supports the introduction of an international carbon pricing system. Today, there is no global carbon market or price, but only fragmented and uncoordinated systems in the European Union, certain Chinese provinces, California, Quebec, etc. Michelin, however, is strongly encouraging public stakeholders to support the development of a more structured market. This is why it has been a member of the World Bank's Carbon Pricing Leadership Coalition since 2015. Since 2016, the Group has also been preparing for the emergence of a global carbon market by experimenting with an internal carbon price for its capital projects, set at €50 per tonne of CO_2.

(1) G4-EN17: Other indirect greenhouse gas emissions (Scope 3).

Since April 2016, this price has been incorporated into the method of calculating return on investment for projects requiring major capital expenditure, such as production capacity increases, boiler upgrades and supply chain improvements.

For projects designed to increase the energy efficiency of existing installations (curing press insulation, lighting upgrades, etc.), which require more modest outlays, the internal carbon price is now integrated into a new project consolidation application developed in 2016 as part of the new energy efficiency improvement program (see section 6.3.3.).

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.

Involvement in the 22nd Conference of Parties (COP22)

As was the case for COP21 in Paris, Michelin was involved in the COP22 conference held in Marrakesh in November 2016. The Group was in charge of organizing the Transport Day event focused on sustainable mobility, in association with the Partnership on Sustainable Low Carbon Transport (SLoCaT), an international NGO comprising more than 90 public and private low-carbon mobility stakeholders. Michelin also helped to prepare the short-term "Quick-Wins" program and the longer-term "Global Macro-Roadmap" for de-carbonizing the transportation industry by 2050. These two measures form the basis for stepping up deployment of sustainable transportation initiatives in the run-up to COP23. Lastly, Michelin presented its strategy for combating climate change in the "Innovations and Solutions" exhibition space, in partnership with the French Chamber of Commerce and Industry in Morocco.

At COP22, the Group reaffirmed its goals to reduce CO_2 emissions: a reduction of 20% for tire-related emissions between 2010 and 2030 and of 50% for manufacturing-related emissions between 2010 and 2050.

Investing in socially responsible carbon credits

Since 2014, Michelin has been one of ten investors in the Livelihoods carbon fund, which supports reforestation, agroforestry and low-carbon cookstove projects on three continents. Conducted in collaboration with local NGOs, its projects help to reduce GHG emissions, while offering investors a return in the form of carbon credits with high environmental and social value.

So far, Michelin has committed €3.5 million of the pledged €5 million investment. In 2016, four projects generated 34,170 carbon credits for the Group, corresponding to 34,170 tonnes of avoided CO_2. Two of them, in India and Guatemala, are helping to restore agroforestry ecosystems, where the production of coffee, rubber, cardamom, mangoes and other crops are capturing CO_2 while providing farmers with subsistence income. The other two projects, in Kenya and Senegal, have installed several tens of thousands of energy-efficient cookstoves in village homes, which eliminate harmful smoke and cut GHG emissions in half.

Adapting to the impact of climate change

Michelin's production plants are located in 17 countries. In line with the recommendations issued by the Group's risk managers, risks associated with climate change have been reviewed and business continuity plans in the event of extreme weather events have been assessed. These events concern only a few facilities, which have all devised the appropriate business continuity plans. In 2015, for example, a severe drought in Brazil drained the reservoirs for the hydroelectric power stations that provide much of the country's electricity, causing a fear of blackouts. In response, Michelin took action to ensure that its two Brazilian plants could continue operating in the event of power rationing.

In addition to assessing the risks of rarely occurring extreme climate events, the Group's vulnerability to energy supply has also been reviewed. It was found that climate change would only have a moderate impact, because operations are well distributed, both geographically and by business.

These reviews are also conducted when selecting new business locations.

The natural rubber needed to make tires is produced only in the planet's intertropical convergence zone, which is exposed to the impact of climate change and the growing scarcity of arable land. To address this challenge, Michelins' agronomists and scientific partners are selecting productive, disease-resistant varieties and encouraging innovative farming practices that improve yield. The Group is also diversifying sources of supply in every production basin and pursuing research programs to optimize the quantity of natural rubber used per thousands of kilometers traveled.

Certain raw materials suppliers deemed to be exposed to climate risks have been asked to take steps to protect their operations from the impact of extreme weather events.

6.3.5 PROTECTING BIODIVERSITY NEAR MICHELIN FACILITIES

Michelin is particularly committed to attenuating the impact of its business on biodiversity by leading initiatives to protect fragile environments, such as in Almeria, Spain, Bahia, Brazil, Ladoux, France, and Louisville, KY, and otherwise with programs that support the everyday biodiversity present in and around facilities. At the same time, two methods of identifying ecosystem impacts and dependencies have been tested, all of the protected areas near Michelin plants have been inventoried and, more recently, a method for inventorying their on-site biodiversity has been devised.

Protecting neighboring ecosystems

To conduct its business sustainably, Michelin, like other companies, relies on the benefits provided by natural ecosystems and biodiversity, such as plant-based raw materials, water provisioning and climate regulation.

Between 2008 and 2010, two methods of identifying a production plant's impact and dependence on ecosystems were tested. The first was the Corporate Ecosystem Services Review (ESR) developed by the World Business Council for Sustainable Development (WBCSD) and the World Research Institute (WRI). The second, designed by an independent organization, also measured a plant's ecological vulnerability, determined by its proximity to areas of environmental concern.

Based on the test findings, the Group decided that instead of identifying impacts and dependencies, it should continue to assess the proximity of its production facilities to protected areas.

Inventorying nearby protected areas

In 2012, Michelin began preparing **an inventory of the areas classified as protected** under supranational, national or local regulations and located within a 15 kilometer radius of its plants or research centers. In places with surface or subsurface waterways, the inventory was extended where necessary to include protected areas downstream.

By end-2015, the review had been carried out by 68 of the 71 sites concerned, in 18 countries, revealing the presence of a total of 389 protected areas. In terms of the GRI's G4-EN11 indicator[1], 27 facilities in seven countries, representing a total surface area of around 6,400 hectares, are located less than a kilometer from one or more protected areas.

In the years ahead, the inventory used to compile the G4-EN11-compliant indicator for all of the plants and research facilities will be updated every five years.

Enabling the plants to address biodiversity issues

In 2014, two initiatives were undertaken in response to the protected area inventory. First, the ISO 14001-based application used to analyze a facility's environmental aspects and impacts was upgraded so that the presence of neighboring ecosystems and biodiversity can be identified more consistently in the prioritization of environmental issues. Second, protected areas are being more systematically taken into account during impact studies on projects to build new facilities or extensions.

Achieving a balance between operations and environmental stewardship in Almeria, Spain

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.

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.

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.

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.

Protecting a special habitat at the Ladoux Technology Center in France

In July 2011, an agreement was signed with the Auvergne Regional Nature Conservancy to ensure protection of a 3.5 hectare area containing continental salt meadows on the grounds of the Ladoux Technology Center. Extremely rare in Europe, this type of habitat is home to protected maritime species in the Auvergne region (such as the sea plantain and *Juncus Gerardii* black grass) and has been designated as a priority for conservation.

Supporting the Michelin Ecological Reserve in Bahia, Brazil

In 2016, the Michelin Ecological Reserve (REM) in Bahia, Brazil celebrated its tenth anniversary, having become one of the best-protected areas of the Atlantic Forest, one of the most species-rich, yet most endangered biomes in the world. The Reserve's program builds on the work of both in-house researchers and outside scientists, whose input helps to shape decisions on how to manage the area.

(1) G4-EN11: operational sites owned, leased or managed in, or adjacent to, protected areas or areas of high biodiversity value outside protected areas.

To date, Michelin has sponsored 90 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.

As part of the reforestation program, 100,000 trees spanning 215 species have been planted, enlarging the forested area by 270 hectares. Since the Reserve opened, hunting has fallen off sharply, spurring a 117% increase in the mammal and large bird population, including certain species threatened with extinction like the golden-bellied 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 50,000 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.

Earning Wildlife at Work certification at the Louisville plant in the United States

The Louisville, KY facility joined forces with two other local companies to transform two nearby landfills into a 30 hectare wildlife refuge with forests, prairies, wetlands and wildflowers. Volunteers participated in a replanting campaign and the site now attracts birds, foxes, deer and other wild animals. The three-year project was completed in late 2011 and has earned Wildlife at Work certification from the Wildlife Habitat Council.

Working with Wildlife and Industry Together in the United States

Since 1998, the Laurens Proving Grounds in South Carolina has partnered with the South Carolina Wildlife Federation to manage a protected nature area certified by Wildlife and Industry Together (WAIT). The facility has implemented various programs to protect the region’s natural habitats, in particular by getting local schools involved to encourage environmental awareness among children. Michelin employees have also volunteered on several occasions to participate in such projects as maintaining walking trails around the site.

A number of other Michelin facilities in South Carolina have also obtained WAIT certification, including Sandy Springs, Starr, Lexington and the Research Center in Greenville.

6.4 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT

For the year ended 31 December 2016

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 auditing 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 certified by COFRAC under number 3-1060[1], we hereby report to you on the consolidated employee, societal and environmental information for the year ended 31 December 2016, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code *(Code de commerce)*.

/ Company's responsibility

The Managing Chairman is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request from the company's head office.

/ Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L.822-11 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

/ Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved six persons and was conducted between October 2016 and February 2017 during a 25 week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with French professional standards and with the decree dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with ISAE 3000[2] concerning our conclusion on the fairness of CSR Information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

(1) The scope of this accreditation is available online at http://www.cofrac.fr.
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted around twenty interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important[(3)]:

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of entities sites selected by us[(4)] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied and to identify potential undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents on average 20 % of headcount and between 15 % and 24 % of quantitative environmental data disclosed.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgment, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, February 13, 2017

PricewaterhouseCoopers Audit

Éric Bulle	Sylvain Lambert
Partner	Partner of the Sustainable Development department

(3) Quantitative information: total workforce and distribution by gender, age and geographical area; Hires and dismissals; workplace accidents, and more specifically frequency and severity rates (including the TCIR - Total Case Incident Rate); the total amount of training hours; preventive, reduction or remedial measures against discharges to air, water and land use affecting severely the environment; measures implemented for waste prevention, recycling and disposal; water consumption, and water supply with respect to local hydric stress; energy consumption; greenhouse gas emissions (scope 1 and scope 2).
Qualitative information: health and safety conditions at work; implemented training policies; measures taken to improve energy efficiency and the use of renewable energies; the main sources of greenhouse gases emissions generated by company activities, as well as by the use of the goods and services produced by the company; the territorial, economic and social impact of the company's activities regarding employment and local development; the integration of social and environmental stakes in the purchasing policy; the importance of subcontracting and the consideration of suppliers' and subcontractors' responsibility; anti-bribery actions; measures taken to support consumers' health and safety.

(4) MFPM (France) and the Romania country organisation (workforce and employee movement data); production plants in Alessandria (Italy), Campo Grande (Brazil), Davydovo (Russia), Épinal (France), Karlsruhe (Germany), Laem Chabang (Thailand), Louisville (USA), Norwood (USA), Nyiregyhaza (Hungary), Pictou (Canada) and Spartanburg (USA) (training, lost-time incident frequency (LTIFR) and severity (LTISR) rates, TCIR, and all of the environmental data); Euromaster Spain (workforce and employee movement data, lost-time incident frequency (LTIFR) and severity (LTISR) rates and TCIR).

7 CONSOLIDATED FINANCIAL STATEMENTS

7.1 CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 — 206

Consolidated Income Statement 207

Consolidated Statement of Comprehensive Income 208

Consolidated Statement of Financial Position 209

Consolidated Statement of Changes in Equity 210

Consolidated Cash Flow Statement 211

Notes to the Consolidated Financial Statements 212

7.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS — 274

7.1 CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

DETAILED SUMMARY OF THE NOTES OF THE FINANCIAL STATEMENTS

Note 1	General Information	212
Note 2	Basis of Preparation	212
Note 3	Accounting Policies	214
Note 4	Financial Risk Management	222
Note 5	Segment Reporting	227
Note 6	Expenses by Nature	228
Note 7	Employee Benefits Costs	229
Note 8	Other Operating Income and Expenses from Recurring Activities	229
Note 9	Operating Income/(loss) from Non-Recurring Activities	229
Note 10	Cost of Net Debt and Other Financial Income and Expenses	230
Note 11	Income Tax	231
Note 12	Earnings per Share	232
Note 13	Goodwill and Intangible Assets	233
Note 14	Property, Plant and Equipment	236
Note 15	Non-Current Financial Assets and Other Assets	237
Note 16	Derivative Financial Instruments	238
Note 17	Equity Method Investments	240
Note 18	Taxes	240
Note 19	Inventories	242
Note 20	Trade Receivables	242
Note 21	Current Financial Assets	243
Note 22	Other Current Assets	243
Note 23	Cash and Cash Equivalents	244
Note 24	Share Capital and Share Premiums	244
Note 25	Reserves	245
Note 26	Financial Liabilities	246
Note 27	Employee Benefit Obligations	249
Note 28	Share-Based Payments	263
Note 29	Provisions and Other Non-Current Liabilities	265
Note 30	Other Current Liabilities	265
Note 31	Details of the Cash Flow Statement	266
Note 32	Commitments and Contingencies	267
Note 33	Acquisitions and Divestments of Businesses	268
Note 34	Related Party Transactions	268
Note 35	Events after the Reporting Date	269
Note 36	List of Main Group Companies	270
Note 37	Statutory Auditors’Fees	273

CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2016	Year ended December 31, 2015
Net sales	5	20,907	21,199
Cost of sales		(13,810)	(14,238)
Gross income		**7,097**	**6,961**
Sales and marketing expenses		(1,907)	(1,929)
Research and development expenses		(718)	(689)
General and administrative expenses		(1,759)	(1,707)
Other operating income and expenses from recurring activities	8	(21)	(59)
Operating income from recurring activities	5	**2,692**	**2,577**
Operating income/(loss) from non-recurring activities	9	99	(370)
Operating income/(loss)		**2,791**	**2,207**
Cost of net debt	10	(203)	(184)
Other financial income and expenses	10	20	(30)
Net interest on employee benefit obligations	27.1	(139)	(141)
Share of profit/(loss) from associates		(5)	17
Income/(loss) before taxes		**2,464**	**1,869**
Income tax	11	(797)	(706)
NET INCOME/(LOSS)		**1,667**	**1,163**
▶ Attributable to the shareholders of the Company		1,676	1,168
▶ Attributable to the non-controlling interests		(9)	(5)
Earnings per share *(in €)*			
▶ Basic	12	9.21	6.28
▶ Diluted		9.03	6.19

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, 2016	Year ended December 31, 2015
Net income/(loss)		**1,667**	**1,163**
Post-employment benefits	27.1	(194)	(317)
Tax effect - Post-employment benefits	18	(8)	82
Other items of comprehensive income that will not be reclassified to income statement		**(202)**	**(235)**
Available-for-sale financial assets - change in fair values	15.1	57	(25)
Tax effect - available-for-sale financial assets - change in fair values	18	(9)	-
Available-for-sale financial assets - (gain)/loss recognized in income statement		-	-
Currency translation differences		317	(70)
Other		-	7
Other items of comprehensive income that may be reclassified to income statement		**365**	**(88)**
Other comprehensive income		**163**	**(323)**
COMPREHENSIVE INCOME		**1,830**	**840**
▶ Attributable to the shareholders of the Company		1,838	843
▶ Attributable to the non-controlling interests		(8)	(3)

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in € million)	Note	December 31, 2016	December 31, 2015
Goodwill	13	963	803
Intangible assets	13	630	621
Property, plant and equipment (PP&E)	14	11,053	10,532
Non-current financial assets and other assets	15	323	410
Investments in associates	17	309	309
Deferred tax assets	18	1,191	1,259
Non-current assets		**14,469**	**13,934**
Inventories	19	4,480	4,289
Trade receivables	20	3,042	2,743
Current financial assets	21	633	363
Other current assets	22	1,202	1,012
Cash and cash equivalents	23	1,496	1,552
Current assets		**10,853**	**9,959**
TOTAL ASSETS		**25,322**	**23,893**
Share capital	24	360	364
Share premiums	24	3,024	3,222
Reserves	25	7,215	5,903
Non-controlling interests		47	53
Equity		**10,646**	**9,542**
Non-current financial liabilities	26	1,773	2,444
Employee benefit obligations	27.1	4,763	4,888
Provisions and other non-current liabilities	29	1,604	1,681
Deferred tax liabilities	18	117	118
Non-current liabilities		**8,257**	**9,131**
Current financial liabilities	26	1,320	548
Trade payables		2,364	2,260
Trade payables under factoring contracts	3.26	339	94
Other current liabilities	30	2,396	2,318
Current liabilities		**6,419**	**5,220**
TOTAL EQUITY AND LIABILITIES		**25,322**	**23,893**

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, 2015	**371**	**3,601**	**5,534**	**12**	**9,518**
Net income/(loss)	-	-	1,168	(5)	1,163
Other comprehensive income	-	-	(325)	2	(323)
Comprehensive income	**-**	**-**	**843**	**(3)**	**840**
Issuance of shares	2	62	-	-	64
Purchase of shares	-	-	(451)	-	(451)
Cancellation of shares	(10)	(441)	451	-	-
Dividends and other allocations	-	-	(483)	-	(483)
Share-based payments - cost of services rendered	-	-	9	-	9
Other	1	-	-	44	45
At December 31, 2015	**364**	**3,222**	**5,903**	**53**	**9,542**
Net income/(loss)	-	-	1,676	(9)	1,667
Other comprehensive income	-	-	162	1	163
Comprehensive income	**-**	**-**	**1,838**	**(8)**	**1,830**
Issuance of shares	3	96	-	-	99
Purchase of shares	-	-	(301)	-	(301)
Cancellation of shares	(7)	(294)	301	-	-
Dividends and other allocations	-	-	(538)	-	(538)
Share-based payments - cost of services rendered	-	-	5	-	5
Other	-	-	7	2	9
AT DECEMBER 31, 2016	**360**	**3,024**	**7,215**	**47**	**10,646**

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, 2016	Year ended December 31, 2015
Net income		1,667	1,163
Adjustments to reconcile net income to EBITDA			
▶ Cost of net debt	10	203	184
▶ Other financial income and expenses	10	(20)	30
▶ Net interest on benefits	27.1	139	141
▶ Income tax	11	797	706
▶ Amortization, depreciation and impairment of intangible assets and PP&E	6	1,392	1,357
▶ Operating income/(loss) from non-recurring activities	9	(99)	370
▶ Share of loss/(profit) from associates		5	(17)
EBITDA from recurring activities	3.7.2	**4,084**	**3,934**
Operating income and expenses from non-recurring activities (cash) and change in provisions	31	(206)	(366)
Cost of net debt and other financial income and expenses paid	31	(146)	(143)
Income tax paid	18.2	(765)	(754)
Change in working capital, net of impairments	31	(202)	24
Cash flows from operating activities		**2,765**	**2,695**
Purchases of intangible assets and PP&E	31	(1,815)	(1,774)
Proceeds from sale of intangible assets and PP&E		89	43
Equity investments in consolidated companies, net of cash acquired		(2)	(181)
Disposals of equity investments in consolidated companies, net of cash sold		-	-
Purchases of available-for-sale financial assets		(25)	(118)
Proceeds from sale of available-for-sale financial assets		11	2
Cash flows from other financial assets	31	(284)	86
Cash flows from investing activities		**(2,026)**	**(1,942)**
Proceeds from issuances of shares	24	99	64
Purchase of shares	24	(301)	(451)
Dividends paid to the shareholders of the Company	24	(515)	(463)
Cash flows from financial liabilities	31	(19)	462
Other cash flows from financing activities		(63)	36
Cash flows from financing activities		**(799)**	**(352)**
Effect of changes in exchange rates		**4**	**(16)**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**(56)**	**385**
Cash and cash equivalents at January 1		**1,552**	**1,167**
Cash and cash equivalents at December 31	23	**1,496**	**1,552**

Some items of the "Cash flows from operating activities" section in the consolidated cash flow statement for the year ended December 31, 2015 have been reclassified to conform to the current period's presentation.

The notes 1 to 37 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Compagnie Générale des Établissements Michelin (CGEM or the "Company") and its subsidiaries (together "the Group") manufacture, distribute and sell tires throughout the world.

The Company is a *société en commandite par actions* (Partnership Limited by Shares) incorporated in Clermont-Ferrand (France).

The Company is listed on Euronext Paris (Eurolist Compartment A).

After a review by the Supervisory Board, these consolidated financial statements were authorized for issue by the Managing Chairman on February 9, 2017.

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

NOTE 2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements:

- are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union at closing date with a mandatory application (available on the internet website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm);
- are also in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB); and
- have been prepared under the historical cost convention, as modified by the measurement of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit and loss or other items of comprehensive income.

2.2 Accounting policies

The accounting policies applied in the preparation of the Group consolidated financial statements are set out in note 3 "Summary of significant 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, 2016 in the European Union

There are no new standards or major amendments, applicable for the accounting periods beginning on January 1, 2016 having an effect on the consolidated financial statements of the Group.

2.4 Newly published standards, amendments and interpretations to existing standards that are not yet effective

IFRS 9, "Financial instruments", published in July 2014, endorsed by the European Union in November 2016, replaces IAS 39. The standard contains requirements for the classification and measurement of financial assets, including the introduction of a new expected loss impairment model for financial assets. For financial liabilities, the standard retains most of the requirements of IAS 39. IFRS 9 also sets new principles for the use of hedge accounting. For the Group, the changes will impact mainly the accounting of Equity instruments and the evaluation of the trade receivable impairments. The Group is analysing the full impact of this standard and will adopt it no later than the accounting period beginning on January 1, 2018.

IFRS 15, "Revenue from Contracts with Customers", published in May 2014 and endorsed by the European Union in October 2016 is applicable from accounting period beginning on January 1, 2018. It is applicable to all the contracts with customers, except leases, insurance contracts and financial instruments, which are covered by other standards. The standard defines new revenue recognition principles and disclosure requirements. It establishes the fundamental principle that the revenue recognition must depict the transfer of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is in the process of assessing IFRS 15's full impact on its consolidated financial statements. The 2015 Net Sales have been divided according to the type of contract and activity. The analysis has allowed to organize the contracts in several categories with common characteristics for the purpose of this standard. For each category, a representative sample of contracts has been defined and a detail analysis is being carried out. The vast majority of the Group's revenues are generated by sales of tires, recognised when the goods are leaving the warehouse, without any other performance obligation. The Group will continue its analysis during 2017 in order to refine the assessment with quantitative data.

IFRS 16 "Leases", published in January 2016 but not yet endorsed by the European Union, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretative guidance. The standard applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting model are introduced; the lessee must recognise an asset, corresponding to the right of use, and a liability corresponding to the lease commitment. The current distinction between operating and finance leases will disappear. Limited exceptions for short-term leases and/or leases of low value assets are allowed. In order to assess the impacts of this norm, a project based on the identification of contracts nature and type has been launched. The Group will adopt it from the accounting period beginning on January 1, 2019, providing its endorsement by the European Union.

The Group early adopted IAS 7's amendments. These amendments require more detailed disclosures of the evolution of financial liabilities included in the financing activities of the cash flow statement.

This information is presented in note 26 "Financial liabilities".

There are no other new standards, amendments and interpretations to existing standards, which have been published but are not yet effective that are expected to have a material impact on the Group.

2.5 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires that management use assumptions and estimates reflected in the value of assets and liabilities at the date of the consolidated statement of financial position and in the amount of income and expenses for the reporting period. The actual results could differ from those estimates.

The main critical accounting estimates requiring key assumptions and judgments are the impairment of non-financial assets, the employee benefit obligations and the income taxes.

/ 2.5.1 Impairment of non-financial assets

The cash generating units' (CGU) future cash flows used in the calculation of value in use (note 3.17 "Impairment of non-financial assets") are derived from the Group's five-year strategic plan. The construction of the strategic orientations is an exercise involving the various actors within the CGUs and the projections are validated by the Managing Chairman. It requires critical estimates and judgments, especially in the determination of market trends, raw material costs and pricing policies. Consequently, the actual cash flows may differ from the estimates used in the calculation of CGU's value in use.

Quantitative information is provided in note 13.2 "Goodwill".

/ 2.5.2 Employee benefit obligations

The Group plans are defined contribution plans which generally require, on top of the part financed by the Group, a contribution from each salaried employee defined in percentage of the compensation.

Some subsidiaries also book in their accounts liabilities for various pension plans, jubilees and other post-employment benefits linked to rights acquired by the employees in these subsidiaries pension plans or to some legal obligations.

The valuation of these benefits is carried out annually with the assistance of independent actuaries. The actuarial method used is the Projected Unit Credit Method.

According to this method, statistical information and various assumptions are used in calculating the expense, the liability and the asset related to the benefit plans. Assumptions include mainly the discount rate, the inflation rate, the long term salary increase rate and the expected rate of growth in future medical costs. Statistical information is mainly related to demographic assumptions such as mortality, employee turnover, disability and retirement age.

Assumptions and statistical information are determined according to internal guidelines in consultation with the actuaries.

The discount rates are determined using tools from the actuaries having the same maturity as the liabilities.

The rate of salary increases is determined by each country based on a long term salary policy and includes all elements related to market practices as well as career development, promotion and seniority.

The inflation rates having standard maturities are determined using several methods:

- by using the tools from the actuaries based on target rates published by Central Banks, forecasts from the Consensus Economics organization and inflation swap curves;
- by taking the spread between inflation-linked bonds and conventional securities. The rates are then adjusted with a spread which represents the liquidity and risk premium embedded in the inflation-linked bonds;
- based on historical averages.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, disability) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The actual data (such as inflation, mortality and real return on assets) may differ from the long term actuarial assumptions used. The resulting difference is recognized as a gain or loss in other comprehensive income.

Quantitative information is provided in note 27 "Employee benefit obligations".

/ 2.5.3 Income taxes

Significant judgment and estimates are required in determining the income tax expense.

The expected reversal of tax losses is based on the forecast of future results validated by the local management and reviewed by the Group Tax and Accounting Departments. The analyses are also performed in order to ensure the coherence of these forecasted future results with the strategic plans of the Group, validated by the Managing Chairman. Analyses to support the deferred tax positions are performed periodically, at a date as close as possible to closing.

The period of reversal of tax losses carried forward is based on a reasonable horizon taking into account the specific circumstances of each Group company, such as:

- the origin of the historical tax losses (generally exceptional and non-recurrent: restructuring, significant increases in production capacity...);
- the forecasted future results;
- the tax planning opportunities;
- the possibility of internal reorganizations; and
- the time limit for the recovery of historical losses.

Quantitative information is provided in note 18 "Taxes".

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 analysed as an exchange, i.e. the disposal of a controlling interest and the acquisition of a non-controlling interest.

Shareholdings in companies which are not subsidiaries, joint arrangements or associates are not consolidated. They are accounted for as non-derivative financial assets (note 3.18 "Non derivative financial assets").

/ 3.1.1 Subsidiaries

Subsidiaries are all entities (including structured entities) that the Group controls. The Group controls an entity when it has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

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

Intercompany transactions and balances as well as unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

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

/ 3.1.2 Joint ventures and associates

Joint ventures are joint arrangements (arrangements of which the Group has control jointly with one or more other parties) in which the Group has rights to the net assets. Joint control is defined as the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Generally, associates are entities in which the Group has a shareholding between 20% and 50% of the voting rights.

Investments in joint ventures and associates are accounted for using the equity method and are initially recognized at cost. The Group investment in joint ventures and associates includes goodwill identified at acquisition date and are presented net of any accumulated impairment losses.

The Group share of its joint ventures' or associates' post-acquisition profits and losses is recognized in the income statement and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income until the date that significant influence ceases. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group share of losses in an associate or a joint venture equals or exceeds its interest in the investee, the Group does not recognize future losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group interest in the investee. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Management.

The Managing Chairman regularly examines segment operating income to assess their performance. He has therefore been identified as the chief operating decision maker of the Group.

3.3 Foreign currency

/ 3.3.1 Presentation and functional currency

The financial statements of the Group entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate and corresponds for most of them to their local currency.

The consolidated financial statements are presented in €, which is the Company's functional currency.

/ 3.3.2 Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange differences on equity investments classified as available-for-sale financial assets are included in other items of comprehensive income until the investment is sold.

/ 3.3.3 Translation

The financial statements of the Group entities whose functional currency is different from the Group's presentation currency are translated into Euros as follows: assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position, income and expenses are translated at the average rate of the period (as it is considered a reasonable approximation to actual rates at transaction date), and all resulting exchange differences are recognized in other items of comprehensive income.

Cash flows are also translated at the average rate of the period. When an entity is disposed of, the translation differences accumulated in other items of comprehensive income are recycled in the income statement as part of the gain or loss on disposal.

On the acquisition of an entity, goodwill and fair value adjustments recognized are treated as assets and liabilities of the acquired entity and translated at the spot rate on the transaction date.

/ 3.3.4 Exchange rates of major currencies

	Closing rates		Average rates	
Against €:	**2016**	**2015**	**2016**	**2015**
US dollar (USD)	1.046	1.093	1.107	1.111
Canadian dollar (CAD)	1.415	1.513	1.466	1.416
Mexican peso (MXN)	21.628	18.866	20.615	17.575
Brazilian real (BRL)	3.436	4.226	3.841	3.631
British pound (GBP)	0.854	0.737	0.816	0.726
Chinese yuan (CNY)	7.275	7.097	7.351	6.980
Indian rupee (INR)	71.225	72.577	74.389	71.218
Thai baht (THB)	37.614	39.420	39.070	37.979

3.4 Derivative financial instruments

Derivative financial instruments are used to manage financial exposures.

All derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see hedging policy below).

All changes in fair value of derivatives not designated as hedging instruments are recorded as financial income or expense in the period in which they arise.

Fair values are based on market values for listed instruments or on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into account market data.

Embedded derivatives are recognized separately if not closely related to the host contract.

3.5 Hedging

Some derivative financial instruments are eligible for hedge accounting and are therefore designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or
- hedges of highly probable forecast transactions (cash flow hedges).

Some other derivatives, while providing effective economic hedges under the Group financial policies, cannot qualify or have not been designated for hedge accounting (see derivatives policy above). Fluctuations of these derivatives' fair values are therefore accounted for in the income statement. For example, foreign currency derivatives that are used to hedge the currency exposure of financial assets and liabilities are not designated as hedging instruments.

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategies. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives are accounted for differently depending on the type of hedge:

/ 3.5.1 Fair value hedges

Changes in fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

/ 3.5.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognized in other items of comprehensive income. The ineffective portion of the gain or loss is recognized immediately in the income

statement. Amounts accumulated in other items of comprehensive income are recycled in the income statement in the period when the hedged item affects the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other items of comprehensive income at the time is immediately recognized in the income statement.

3.6 Fair value of financial instruments

The fair value measurements are disclosed by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices in active markets. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the consolidated statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments (essentially cash and cash equivalents as well as quoted available-for-sale financial assets) are included in level 1.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value these instruments are observable, these instruments (essentially cash management financial assets and derivative instruments) are included in level 2.
- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument (essentially non-quoted available-for-sale financial assets) is included in level 3.

Specific valuation techniques used to value, generally internally, financial instruments include:

- quoted market prices or dealer quotes for similar instruments (level 1);
- the fair value of interest rate swaps calculated internally as the present value of the estimated future cash flows based on observable yield curves (level 2);
- the fair value of forward foreign exchange contracts determined internally using forward exchange rates at the date of the consolidated statement of financial position, with the resulting value discounted back to present value (level 2).

Other techniques, such as discounted cash flow analysis, are used internally to determine fair value for the remaining financial instruments (level 3).

When observable yield curves include negative interest rates, those are used without change to determine the fair value of derivatives.

The Group assesses the counterparty risk included in the fair value of its OTC (over-the-counter) derivatives for which there is no exchange of collaterals. The Group includes the effect of its exposure to the credit risk of the counterparty or the counterparty's exposure to the credit risk of the Group. The valuation for long term derivatives with no exchange of collaterals is based on discounted cash flows using a rate including the counterparty credit risk.

3.7 Definition of certain indicators presented in the consolidated financial statements

/ 3.7.1 Net debt

Net debt is made up of current and non-current financial liabilities as they appear on the consolidated statement of financial position less:

- cash and cash equivalents as they appear on the consolidated statement of financial position;
- derivative instruments included in "Current financial assets and Non-current financial assets" on the consolidated statement of financial position;
- cash management financial assets included in "Current financial assets" on the consolidated statement of financial position (these assets are highly liquid, little affected by the interest rate risk and by the foreign currency risk); and
- borrowing collaterals included in "Current financial assets and Non-current financial assets" on the consolidated statement of financial position.

/ 3.7.2 EBITDA from recurring activities

The Group defines EBITDA from recurring activities as operating income before operating income and expenses from non-recurring activities and depreciation of property, plant and equipment and amortization of intangible assets.

3.8 Revenue recognition

Revenue is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts allowed by the Group entities or any commercial incentives linked to sales. Deferred rebates are accrued based on past experience and expected payments.

Sales are recognized as follows:

- Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and will receive the economic benefits associated with the transaction. Due to the nature of the products, the general sales conditions, the logistics incoterms and the insurance contracts, revenue is usually recognized when the goods leave the Group premises.
- Revenue from sales of services is recognized by reference to the stage of completion of the transaction at the date of the consolidated statement of financial position, to the extent that this stage can be measured reliably and the economic benefits associated with the transaction will flow to the Group.

Financial income is recognized as follows:

- Interest income is recognized on an accrual basis using the effective interest method.
- Dividend income is recognized when the right to receive payment is established.

3.9 Cost of sales

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

It includes the purchase cost of raw materials, production costs directly related to the manufactured products and all production overheads, based on the normal capacity of production facilities.

Production overheads include depreciation of property, plant and equipment, amortization of intangible assets relating to production and write-downs of inventories.

Cost of sales also includes a relevant portion of general overheads to the extent that they are directly attributable to bringing the manufactured products to their present location and condition.

3.10 Research and development

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

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

3.11 Operating income from recurring activities

In order to improve the understanding and the analysis of its operational performance, the Group has decided to change the sub-total of the "Operating income before non-recurring income and expenses" management measure to "Operating income from recurring activities". Likewise, "Other operating income and expenses" is renamed "Other operating income and expenses from recurring activities".

In comparison to measures used in previous years, gain/loss on disposal of tangible and intangible assets, changes in impairment of tangible and intangible assets, the adjustments of provisions for reorganizations and adaptation of activities, acquisition price adjustments as well as the cost of benefits for retired personnel are now included in the balance "Operating income/(loss) from non-recurring activities" of the consolidated income statement instead of "Other operating income and expenses from recurring activities".

These changes do not have any significant impact on the presentation of the consolidated income statement as at December 31, 2015 or on the segment reporting disclosed in note 5. As a consequence, they have not been restated. The "Operating income from recurring activities" would have amounted to €2,609 million.

3.12 Operating income/(loss) from non-recurring activities

"Non-recurring income and expenses" becomes "Operating income/(loss) from non-recurring activities".

Unusual, abnormal or non-frequent significant items of income and expenses that are not considered inherent to the Group's recurring activity are separately disclosed in this section of the income statement. The operating income/loss from non-recurring activities include, in addition to the items listed in the previous paragraph, costs for reorganizations and adaptation of activities, impairment of goodwill and costs or provisions associated with major litigations. They are detailed in note 9 "Operating income/(loss) from non-recurring activities".

3.13 Income tax

Current and deferred taxes, plus any withholding tax on royalties and on distributions of retained earnings within the Group, are included in the income statement except if they relate to items recognized either in other comprehensive income or directly in equity, in which case they are also recognized, respectively, in other comprehensive income or directly in equity.

Current tax is based on the results of Group companies and is calculated according to local rules, including any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements, using enacted or substantially enacted tax rates that are expected to prevail when the temporary differences reverse.

A deferred tax asset or liability is recognized on initial recognition of transactions arising from business combinations and impacting the accounting or taxable result.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax losses carried forward and the temporary differences can be offset.

Deferred tax is calculated on temporary differences arising from investments in subsidiaries, joint ventures, and associates: deferred tax assets are recognised if the reversal is both under the entity's control and it is probable. Deferred tax liabilities are recognised unless their reversal is controlled and not probable.

3.14 Business combination and goodwill

When the Group obtains control of an entity, the business combination is valuated and accounted for by applying the acquisition method. Goodwill is computed at acquisition date as the difference between:

- the fair value of the consideration transferred including, if any, the fair value of contingent consideration;
- the fair value at the acquisition date of the identifiable acquired assets, the liabilities and contingent liabilities assumed.

Goodwill is carried at cost less any accumulated impairment losses.

Costs directly attributable to the business combination are expensed as incurred and booked as other operating income and expenses from recurring activities in the consolidated income statement.

The valuation period for a business combination does not exceed twelve months after acquisition date.

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of CGUs that are expected to benefit from the synergies of the combination and that reflect the level at which the Group manages goodwill. Goodwill is tested for impairment annually.

3.15 Intangible assets

Intangible assets are recognized at cost. The cost of an intangible asset acquired as part of a business combination is its fair value at the acquisition date.

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment. Those with finite useful lives are amortized on a straight-line basis over their estimated useful life which generally does not exceed seven years, with the exception of trademarks acquired in a business combination and land-use rights which are amortized over the period the right is granted for.

3.16 Property, plant and equipment

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

The gross carrying amount includes the cost of acquisition or production cost and other costs directly attributable to the acquisition or the construction of the asset (including borrowing costs). Investment grants are initially accounted for as deferred income and are subsequently recognized as income over the useful life of the related asset.

Repair and maintenance costs are expensed as incurred. Other subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset if the recognition criteria are met.

Property, plant and equipment are depreciated on a straight-line basis, except land which is not depreciated. Depreciation on property, plant and equipment reflects the pattern in which the asset's future economic benefits are expected to be consumed. Depreciation is allocated to cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

The following depreciation periods, based on the expected useful lives of the respective assets, are applied throughout the Group:

- Buildings and general installations of land and buildings: 25 years
- Industrial and commercial equipment: 2-12 years
- Computer and telecommunication equipment: 5 years
- Vehicles: 5 years
- Other: 5-12 years

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

When assets are sold or otherwise disposed of, the difference between the net proceeds and the net carrying amounts of the assets is recognized in operating income/(loss) from non-recurring activities.

Property, plant and equipment which are financed by leases giving the Group substantially all of the risks and rewards of ownership are capitalized at the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease. The leased assets are depreciated over the shorter of the lease term and the useful life of the leased assets if the transfer of ownership of the leased assets is uncertain.

The obligations arising from future finance lease payments are discounted and recognized as a financial liability in the consolidated statement of financial position. The payments related to operating leases are expensed on a straight-line basis over the lives of the contracts.

3.17 Impairment of non-financial assets

When there is any indication that the recoverable amount of an asset (goodwill, intangible assets or property, plant and equipment) may be lower than its carrying amount, the recoverable amount of the asset is measured and if needed, an impairment is recognised.

Whether there is an indication of impairment or not, an annual impairment test for goodwill, intangible assets with indefinite useful life and intangible assets not ready for use is performed by comparing their carrying amount with their recoverable amount.

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

At Group level, non-financial assets are combined for impairment testing purposes at the lowest level for which there are separately identifiable cash flows (Cash Generating Units—CGUs).

The CGUs are defined according to the way the Group operations are managed: it could be the crossings of Product Lines and Geographic Zones (for example: CGU North America Passenger car and light truck), the Distribution Networks (for example: CGU Euromaster) or the Business Subsidiaries (for example: CGU Michelin Travel Partner). This approach allows having CGUs with cash flows that are separately identifiable from cash flows of other CGUs.

CGUs to which goodwill have been allocated are tested annually or more frequently if events or changes in circumstances indicate a potential impairment. Those without goodwill are tested if there is a specific indication of impairment.

The recoverable amount is the higher of the value in use and the fair value less cost of disposal.

For most CGUs or group of CGUs, recoverable amount is based on value in use, which is equal to future discounted cash flows using the Weighted Average Cost of Capital (WACC) as a discount rate. Future cash flows are mainly based on the CGU's five-years 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 is based on target information. The beta is calculated according to the variance and the covariance between the Company stock price and the CAC 40 index using a moving average on 24 months.

The recoverable amount of the distribution CGUs on the other hand is measured at fair value less costs of disposal. Since most of these assets are land and buildings, external appraisals or other real estate valuation techniques are applied to measure their fair value.

Any impairment loss is recognized first against goodwill and any remaining amount is allocated among the other non-current assets, based on their net carrying amounts at the closing date.

When the circumstances which previously caused non-financial assets to be impaired no longer apply, the impairment losses are reversed accordingly. However, goodwill impairment can never be reversed.

Changes in impairment losses are recognized in operating income/(loss) from non-recurring activities.

3.18 Non derivative financial assets

/ 3.18.1 Asset categories

The Group classifies its non-derivative financial assets in one of the following categories: loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss. The classification depends on the purpose for which the assets are acquired as well as its nature. The Group determines the classification of its non-derivative financial assets at initial recognition and reviews this designation at every reporting date.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the date of the consolidated statement of financial position.
- Available-for-sale financial assets are usually non-monetary securities. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the consolidated statement of financial position.
- Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of being sold in the short term or if it is so designated by the Group. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the date of the consolidated statement of financial position.

/ 3.18.2 Transactions

Purchases and sales of non-derivative financial assets are recognized on the trade-date—the date on which the Group commits to purchase or sell the asset. Non-derivative financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Non-derivative financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value gains or losses are included in the income statement.

/ 3.18.3 Measurement

Available-for-sale financial assets are measured at fair value determined essentially by reference to a published price quotation in an active market. Loans and receivables are measured at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other items of comprehensive income unless these assets are part of fair value hedges and therefore included in the income statement for the hedged risk in the period in which they arise.

/ 3.18.4 Impairment

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from other items of comprehensive income and recognized in the income statement. Impairment losses on equity instruments recognized in the income statement cannot be reversed.

3.19 Inventories

Inventories are carried at the lower of cost and net realizable value.

The cost of raw material, supplies and purchased finished goods includes the purchase price and other costs directly attributable to the acquisition. The cost of work in progress and manufactured finished goods comprises direct labor cost, other direct costs and production overheads based upon normal capacity of production facilities. Borrowing costs are expensed as incurred. The measurement of inventories and of cost of sales with the standard cost method put in place by the Group is close to what would be obtained using the actual cost method, after taking under consideration variances.

Net realizable value is the estimated selling price less the estimated costs of completion and sale.

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

3.20 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment.

When payment terms are shorter than one year, the initial fair value and the subsequent amortized cost are considered as being equal to the nominal amount.

An impairment loss is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bankruptcy, legal creditor protection processes, manifest insolvency of the debtor, disappearance of the debtor, more than six months overdue, economic or political risk in the debtor country, adverse change in the debtor's credit situation are considered indicators that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Prior to recognizing an impairment loss, the quality of any guarantees, as well as the ability to realize them, have to be assessed. In the

case of receivables that are more than six months overdue, the Credit Department determines if the risk is limited to the overdue amount, or if it includes all other receivables from the debtor. The impairment loss is also determined by the Credit Department for economic and/or political risk, and for an adverse change in the debtor's credit situation. For all other cases the total amount of the receivable is considered as impaired. The impairment charge is recognized under sales and marketing expenses.

When a trade receivable is uncollectible, it is written off against the corresponding previously recognized impairment. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

3.21 Cash and cash equivalents

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

3.22 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are presented separately in reserves. The amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. When treasury shares are sold, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

3.23 Non-derivative financial liabilities

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated statement of financial position date.

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability at amortized cost. The remainder of the proceeds is allocated to the conversion option. This is recognized in equity, net of income tax effects.

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

3.24 Employee benefits

Wages, salaries, social security contributions, payments to defined contribution plan, annual leave and sick leave payments, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by the employees.

Where employee benefits, such as pension, other post-employment benefits and other long-term benefits, are provided by the Group, a liability or an asset and the related costs are recognized.

/ 3.24.1 Pension and other post-employment benefits

Post-employment benefits are benefits payable after the completion of employment. The Group provides retirement benefits for most of its employees, either directly or by contributing to independently administered funds. The benefits provided by the Group vary according to the legal, tax and economic situation in each country and are usually based on one or more factors such as employees' remuneration, age and years of service. The obligations relate both to current retirees and to entitlements of future retirees.

The Group provides post-employment benefits under defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group pays fixed contributions to fund managers or insurance companies. Once the contributions have been paid, the Group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay the benefits expected by the beneficiaries.

The regular contributions are recognized as an expense for the year in which they are due and, as such, are included in cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

Group management policies regarding post-employment benefits have led to the transformation of defined benefit plans to defined contribution benefit plans since the early 2000's. Nevertheless a significant part of the post-employment benefit plans are still defined benefit plans. They are either externally funded plans (mainly pension plans), for which the plan assets are held separately in independently administered funds, or unfunded plans such as healthcare benefit plans and retirement bonus plans.

The post-employment benefit liabilities, and the related current service cost, are measured using the Projected Unit Credit Method.

A defined benefit plan is a plan that defines an amount of benefits that the Group is committed to pay to current and former employees.

All defined benefit plans are subject to actuarial calculations carried out annually for the largest plans and on a regular basis for other plans. These actuarial valuations are carried out with the help of independent actuaries. Actuarial assumptions, primarily discount rates, projected rates of remuneration growth, inflation rates and expected increase of healthcare costs are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. They take into account any unrecognized assets not available in form of refunds or reduction in future contributions.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds in the currency of the obligation that have maturities approximating the duration of the related benefit liability.

A net asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group in the form of refunds from the plan or reductions in future contributions to the plan.

When a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group determines whether paying these contributions may give rise to a surplus in that defined benefit plan. To the extent that the surplus in the plan exceeds the economic benefits available, the Group recognizes immediately a decrease in the defined benefit asset or an increase in the defined benefit liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

Past service costs may arise when new defined benefit plans are set up, when changes to benefits payable under an existing defined benefit plan are introduced or when curtailments occur. They are recognized immediately in the income statement.

The Group net benefit plan cost recognized in operating income consists of current service cost, curtailment and settlements gains and losses, past service cost as well as actuarial gains and losses arising under other long term benefit plans. Net interest on the net defined benefit liability (asset) is recognized outside the Operating Income.

/ 3.24.2 Share based payments

Employee share option plans

Benefits related to share options which can be granted to some Group employees are measured at grant date using a binomial model.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of options granted to them.

The binomial model is based on the spot price for Company shares, the exercise price, the historical volatility (over a period equal to the expected lifetime of the option), a risk-free interest rate (zero coupon government bonds with a maturity equal to the expected lifetime of the option), and a dividend stream based on market expectations.

Benefits are spread over the period during which the services are rendered. They are recognized in Other operating income and expenses from recurring activities.

Performance share plans

The Group may adopt plans to grant free shares of the Company to certain of its employees.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of performance shares granted to them.

The fair value of the performance shares is based on the spot price of the Company's share at grant date, less the present value of expected dividends that will not be received by grantees during the vesting period.

The number of shares that will finally be issued at the end of the vesting period depends on the realization of Group performance and service conditions.

The total compensation cost is based on the fair value of the performance shares and the estimated number of shares that will finally be issued. This cost is recognized over the vesting period and is booked in Other operating income and expenses from recurring activities.

Employee share purchase plans

The Group may offer to most of its employees the opportunity to subscribe to a share purchase plan that allows them to purchase Company shares.

These shares, which are subject to certain restrictions relating to their sale or transfer, are purchased by the employees at a subscription price based on the market prices of the Company shares set with a discount. The benefit of the employees equals the difference between the fair value of the purchased shares (after allowing for the five-year lock-up cost) and the price paid by the employee, multiplied by the number of shares subscribed.

The benefit granted to the employees is immediately expensed by the Group, as no vesting period applies, and is booked under Employee benefit costs—Share-based payments, within the Operating income from recurring activities.

3.25 Provisions

Provisions are recognized when a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated.

The provisions for reorganizations and adaptation of activities are recognized when the Group has a detailed formal plan that has been announced.

Provisions are recorded at the net present value of the estimated cash outflows.

3.26 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The Group has put in place paying agent contracts with some financial institutions. Under these agreements, the financial institution acts as a paying agent with respect to invoices due to our suppliers who have entered into a bilateral agreement with the financial institution in order to be in position to factor their trade receivables from the Group.

Given the nature of these contracts, the total balance of trade payables to such suppliers is presented on a separate line of the consolidated statement of financial position "Trade payables under factoring contracts".

In the consolidated cash flow statement, these operations are included in operating activities.

NOTE 4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk management policy

/ 4.1.1 Organization of financial risk management

Financial risk control, measurement and supervision are carried out under the responsibility of the Corporate Financing Department, at the subsidiary, geographic zone level as well as at the Group level. It reports directly to the Group Financial Department.

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

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

A Financial Risks Committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The Financial Risks Committee meets on a monthly basis and includes members of the Group Financial Department and of the Corporate Financing Department.

/ 4.1.2 Liquidity risk

4.1.2.1 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.

4.1.2.2 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.

/ 4.1.3 Currency risk

4.1.3.1 Risk factors

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

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

Foreign currency translation risk arises from the Group's net investment in foreign subsidiaries. It corresponds to the risk of a change in the exchange rate used to translate the net investment in the foreign subsidiary into Euros during the consolidation process.

4.1.3.2 Risk management processes

Currency transaction risk

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

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

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

Currency translation risk

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

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

/ 4.1.4 Interest rate risk

4.1.4.1 Risk factors

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

4.1.4.2 Risk management processes

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

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

The interest rate position is centralized by currency by the Corporate Financing Department that is the only department permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies. The Financial Risk Committee determines the limits for hedging by currency, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

/ 4.1.5 Equity risk

4.1.5.1 Risk factors

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

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

4.1.5.2 Risk management processes

The Group Investment Committee, which includes representatives of the Financial, Legal and Corporate Finance Departments, is responsible for the application of the investments' monitoring rules. It therefore makes an annual review of the investments to assess the risk level and the evolution of the results compared to defined targets.

/ 4.1.6 Counterparty risk

4.1.6.1 Risk factors

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

4.1.6.2 Risk management processes

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

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

In order to mitigate the counterparty risk on its derivatives instruments, the Group realizes exchange of collaterals with its main banks.

/ 4.1.7 Credit risk

4.1.7.1 Risk factors

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

4.1.7.2 Risk management processes

The Credit Department, which is part of the Group Financial Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for credit and collection. The main policies and procedures are defined at Group level and are monitored and controlled at both the geographical zone and Group level. A monthly credit reporting system operates within the Group.

4.2 Financial risk data

/ 4.2.1 Liquidity risk

At December 31, 2016, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2017	2018	2019	2020	2021	2022	2023 and beyond
Bonds	931	28	421	18	18	315	847
Loans from financial institutions and other	335	28	2	9	1	2	197
Obligation under finance lease	16	15	15	15	15	15	55
Derivative instruments	42	33	27	(2)	(2)	(1)	-
Repayment schedule of financial debts	**1,324**	**104**	**465**	**40**	**32**	**331**	**1,099**
Long-term undrawn confirmed credit lines	**-**	**-**	**-**	**-**	**1,500**	**-**	**-**

This table shows debt principals plus interests according to their payment date, as projected with available market data at closing date (interests are computed in each currency on the basis of the market rates, and converted in Euros at closing rates). Thus displayed amounts are not discounted.

The refinancing risk of the Group short term debt is covered by the amount of the undrawn confirmed credit lines (€1,500 million), cash available (€1,496 million) as well the cash management financial assets (€492 million).

In 2014, the Group renewed its syndicated credit line with a maturity of five years. In 2015 and 2016 the Group exercised its two extension options, extending the maturity from 2019 to 2021.

/ 4.2.2 Currency risk

Transactional Currency Risk

The following table set forth the Group transactional foreign currency accounting exposures (when a monetary asset or liability is denominated in a currency other than the functional currency), before and after hedging:

	December 31, 2016						December 31, 2015					
(in € million)	RON	JPY	MXN	USD	EUR	Other	RON	JPY	MXN	USD	EUR	Other
Monetary assets	62	244	204	4,724	719	2,406	60	302	148	3,635	789	2,214
Monetary liabilities	(39)	(89)	(130)	(3,708)	(1,687)	(1,756)	(39)	(85)	(124)	(2,691)	(1,878)	(1,207)
Net position before hedging	**23**	**155**	**74**	**1,016**	**(968)**	**650**	**21**	**217**	**24**	**944**	**(1,089)**	**1,007**
Hedges	(16)	(162)	(86)	(1,082)	857	(657)	(14)	(220)	(26)	(897)	1,047	(1,025)
NET POSITION AFTER HEDGING	**7**	**(7)**	**(12)**	**(66)**	**(111)**	**(7)**	**7**	**(3)**	**(2)**	**47**	**(42)**	**(18)**

At December 31, 2016, a subsidiary had net exposure in EUR for €107 million, due to the change of its functional currency as of January 1, 2017. This exposure is being hedged from the beginning of January 2017.

At December 31, 2015, another subsidiary had net exposure in USD for €53 million and in EUR for €66 million, due to the change of its functional currency as of January 1, 2016. This exposure had been hedged from the beginning of January 2016.

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 (2015: €1 million) in the consolidated income statement for every cent change. A favourable change would have a totally symmetrical impact. This relatively low sensitivity to the transaction currency risk is due to the objective described in paragraph 4.1.3 "Currency risk".

Because of the low volume of cash flow hedge derivatives (note 16 "Derivative financial instruments"), the equity sensitivity to currency risk is not significant.

Currency Translation Risk

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

(in € million)	December 31, 2016	December 31, 2015
EUR	5,429	5,383
USD	1,760	1,317
BRL	1,063	744
THB	661	753
CNY	430	403
CAD	417	278
CHF	387	13
INR	252	255
Other	247	396
TOTAL	**10,646**	**9,542**

/ 4.2.3 Interest rate risk

Net debt at December 31, 2016 by type of hedges and currencies can be detailed as follows:

	Net debt before hedging			Currency hedging	Net debt after currency hedging but before interest rate hedging			Interest rate hedging		Net debt after hedging		
(in € million)	Fixed	Variable	Total		Fixed	Variable	Total	Fixed	Variable	Fixed	Variable	Total
EUR	1,920	(1,230)	**690**	(2,030)	1,920	(3,260)	**(1,340)**	(383)	383	1,537	(2,877)	**(1,340)**
CNY	-	(71)	**(71)**	1,015	-	944	**944**	459	(459)	459	485	**944**
USD	1	55	**56**	426	1	481	**482**	239	(239)	240	242	**482**
BRL	65	13	**78**	287	65	300	**365**	217	(217)	282	83	**365**
THB	-	94	**94**	104	-	198	**198**	53	(53)	53	145	**198**
INR	-	1	**1**	119	-	120	**120**	48	(48)	48	72	**120**
Other currencies	19	(20)	**(1)**	79	19	59	**78**	46	(46)	65	13	**78**
Total before derivatives	**2,005**	**(1,158)**	**847**	**-**	**2,005**	**(1,158)**	**847**	**679**	**(679)**	**2,684**	**(1,837)**	**847**
Fair value of derivatives included in net debt			**97**				**97**					**97**
NET DEBT (NOTE 26)			**944**				**944**					**944**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2016:

		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	(18)	(7)	(3)	112	**102**
1-point upward shift	18	7	3	(112)	**(102)**

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.
(2) For derivatives qualifying for hedge accounting (cash flow hedges).
(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

/ 4.2.4 Equity risk

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

(in € million)	December 31, 2016	December 31, 2015
Carrying amount (note 15.1)	208	243
Impact on equity of a 10% unfavorable change in the price of the Group investment portfolio	**(13)**	**(8)**

/ 4.2.5 Counterparty risk

At December 31, 2016, 49% of cash and cash equivalents (including cash management financial assets) is invested in money market or short term bond funds to allow for a maximum diversification of the counterparty risk. The balance is invested directly in international bank institutions which meet the counterparty risk management criteria defined by the Group.

Furthermore, most of the derivatives are contracted with the same banking groups.

/ 4.2.6 Credit risk

At December 31, 2016, net receivable balances from the ten largest customers amounted to €572 million (2015: €453 million). Six of these customers are located in Europe and four in North America.

At the same date, 64 customers (2015: 58) have been granted credit limits in excess of €10 million. Out of these, 24 are located in Europe, 27 in North America, 3 in Asia, 7 in Africa, India or Middle-East and 3 in South America. There was no significant collateral received to limit credit risk. In 2016, credit losses represented 0.07% of sales (2015: 0.13%).

/ 4.2.7 Commodities derivatives

In 2016, the Group did not have any significant hedges of commodities purchases (note 16.3 "Derivative contractual amounts").

4.3 Capital risk management

The Group's objectives when managing its capital is to safeguard its ability to continue as a going concern and to ensure its development, so that it can provide returns for shareholders and benefits for other stakeholders.

The Group monitors its capital on the basis of the gearing ratio, corresponding to the ratio of net debt to total equity.

(in € million)	December 31, 2016	December 31, 2015
Net debt (note 26)	944	1,008
Total equity	10,646	9,542
Gearing ratio	**0.09**	**0.11**

4.4 Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2016 and 2015 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total 2016
Cash and cash equivalents	1,293	203	-	**1,496**
Cash management financial assets	-	-	-	**-**
Deposits borrowing collaterals	77	-	-	**77**
Derivatives (note 16.1)	-	84	-	**84**
Available-for-sales financial assets (note 15.1)	43	-	165	**208**
TOTAL ASSETS	**1,413**	**287**	**165**	**1,865**
Derivatives (note 16.2)	-	181	-	**181**
TOTAL LIABILITIES	**-**	**181**	**-**	**181**

(in € million)	Level 1	Level 2	Level 3	Total 2015
Cash and cash equivalents	1,220	332	-	1,552
Cash management financial assets	-	205	-	205
Deposits borrowing collaterals	80	-	-	80
Derivatives (note 16.1)	-	147	-	147
Available-for-sales financial assets (note 15.1)	24	-	219	243
TOTAL ASSETS	**1,324**	**684**	**219**	**2,227**
Derivatives (note 16.2)	-	141	-	141
TOTAL LIABILITIES	**-**	**141**	**-**	**141**

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, 2016:

(in € million)	
At January 1, 2016	**219**
Additions	23
Disposals	(116)
Transfers from other level to level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in net income	(4)
Gains or losses for the year included in other comprehensive income	39
Others	4
AT DECEMBER 31, 2016	**165**

NOTE 5 SEGMENT REPORTING

The Group is organized into Product Lines, each one dedicated to an area of activity, with its own marketing, development, production and sales resources. The Group has three operating segments as follows:

- Passenger car and Light truck tires and related distribution;
- Truck tires and related distribution; and
- Specialty businesses.

Specialty businesses include the Specialty tire business activities (Earthmover, Agricultural, Two-wheel and Aircraft tires) and the activities Michelin Travel Partner, Michelin Lifestyle, BookaTable and Michelin Restaurants.

The operating segments performance is measured on operating income from recurring activities, and it is based on the same principles applied to the Group's consolidated income statement.

This measurement basis excludes the effects of income and expenses from non-recurring activities from the operating segments. Group financing (including the cost of net debt and other financial income and expenses), result sharing from associates and income tax are managed on a Group basis and are not allocated to operating segments.

Segment assets consist of goodwill, intangible assets, property, plant and equipment, trade receivables and finished products inventories. Corporate intangible assets and property, plant and equipment are allocated to each segment in proportion of directly attributed assets. The amounts provided to the Managing Chairman with respect to segment assets are measured in a manner consistent with that of the consolidated financial statements. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

No operating liabilities are allocated to the segments in the Group internal reporting.

The segment information is as follows:

	2016				2015			
(in € million)	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	Specialty businesses	Total	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	Specialty businesses	Total
Profit and loss information								
Net sales	12,105	5,966	2,836	**20,907**	12,028	6,229	2,942	**21,199**
Operating income from recurring activities	1,585	580	527	**2,692**	1,384	645	548	**2,577**
In percentage of net sales	*13.1%*	*9.7%*	*18.6%*	***12.9%***	*11.5%*	*10.4%*	*18.6%*	***12.2%***
Depreciation and amortization	(778)	(383)	(231)	**(1,392)**	(720)	(375)	(230)	**(1,325)**
Segment assets								
Goodwill, intangible assets and PP&E	6,935	3,648	2,063	**12,646**	6,457	3,410	2,089	**11,956**
Finished products inventories	1,508	839	477	**2,824**	1,425	885	429	**2,739**
Trade receivables	1,666	1,048	328	**3,042**	1,492	972	279	**2,743**
Total of segment assets	**10,109**	**5,535**	**2,868**	**18,512**	**9,374**	**5,267**	**2,797**	**17,438**
Other information								
Capital expenditure	1,080	520	211	**1,811**	1,077	487	239	**1,803**

In 2016, the impairment recognised in the operating income amounts to €158 million (2015: €198 million), of which €27 million (2015: €24 million) pertaining to the Passenger car and Light trucks tires and related distribution operating segment, €66 million (2015: €94 million) to the Truck tires and related distribution operating segment and €65 million (2015: €80 million) to the Speciality businesses. Note 9 provides further details on these impairments.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	December 31, 2016	December 31, 2015
Segment assets	**18,512**	**17,438**
Non-current financial assets and other assets	323	410
Investments in associates and joint ventures	309	309
Deferred tax assets	1,191	1,259
Other net inventories (raw materials and supplies, work in progress)	1,656	1,550
Current financial assets	633	363
Other current assets	1,202	1,012
Cash and cash equivalents	1,496	1,552
TOTAL GROUP ASSETS	**25,322**	**23,893**

The geographic information is broken down by zone hereunder:

	2016				2015			
(in € million)	Europe	North America	Other	Total	Europe	North America	Other	Total
Net sales	8,101	7,792	5,014	**20,907**	8,203	8,084	4,912	**21,199**
Goodwill, intangible assets and PP&E	5,674	3,036	3,936	**12,646**	5,404	2,898	3,654	**11,956**
Capital expenditure	943	413	455	**1,811**	901	434	468	**1,803**

Europe includes western and eastern European countries. North America includes Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in Other.

The Group sales information is based on the location of the customer.

The net sales in France amounted to €1,917 million (2015: €1,974 million). The intangible assets and PP&E located in France amounted to €2,164 million (2015: €2,059 million).

Approximately 80% of the North American net sales are done in the United States of America during these two years.

No single external customer amounted to 10% or more of the Group net sales in 2016 and 2015.

NOTE 6 EXPENSES BY NATURE

The following operating costs from recurring activities are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Raw materials and consumables used and changes in finished products inventories	(7,130)	(7,552)
Employee benefit costs	(5,814)	(5,785)
Transportation of goods	(1,152)	(1,129)
Depreciation and amortization	(1,392)	(1,357)
Other expenses	(2,727)	(2,799)
EXPENSES BY NATURE	**(18,215)**	**(18,622)**

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, 2016	Year ended December 31, 2015
Wages and salaries	(4,529)	(4,484)
Payroll taxes	(950)	(971)
Defined benefit plan costs (note 27.1)	155	(134)
Defined contribution plan costs (note 27.2)	(213)	(187)
Share-based payments - cost of services rendered (note 25)	(5)	(9)
EMPLOYEE BENEFIT COSTS	**(5,542)**	**(5,785)**

The average number of employees in 2016 is 112,088 (2015: 112,484).

NOTE 8 OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES

Other operating income and expenses from recurring activities are recognized within in the income statement:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Provisions for reorganizations and adaptation of activities (1)	-	3
(Charge)/reversal on impairment of intangible assets and property, plant and equipment (1)	-	(21)
Retiree benefit costs (1)	-	(12)
Employee shareholder plan cost	(16)	-
Share-based payments - cost of services rendered (note 25)	(5)	(9)
Other operating income/(expenses)	-	(20)
OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES	**(21)**	**(59)**

(1) These incomes and expenses are now recognised in Operating income/loss from non-recurring activities (note 3.11).

NOTE 9 OPERATING INCOME/(LOSS) FROM NON-RECURRING ACTIVITIES

The income and expenses from non-recurring activities are detailed in the table below:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Reorganizations and adaptation of activities (note 9.1)	(80)	(292)
Impairment of fixed assets (note 9.2)	(129)	(78)
Retiree benefit costs (note 9.3)	272	-
Other operating income/(expenses) (note 9.4)	36	-
OPERATING INCOME/(LOSS) FROM NON-RECURRING ACTIVITIES	**99**	**(370)**

9.1 Reorganizations and adaptation of activities

During the first semester 2016 the Group announced a reorganization of its manufacturing engineering function and the closure, by the end of 2017, of a truck tire retreading facility in Clermont-Ferrand. A provision covering the social costs of both plans as well as the impairment of non-reusable equipment has been recorded for a total amount of €45 million.

Anticipating a large number of employees retirements in the coming years within some of the Group's French subsidiaries, an agreement with the local Unions was concluded in September 2016. In exchange for providing better visibility on their provisional retirement date, the companies concerned will grant specific benefits to the willing employees. A €30 million provision has been set aside to cover the expected cost of this agreement.

In 2015 the Group had launched a project to reorganize its production activities for new and retread truck tires and had announced the closure of industrial sites and departments located in various European countries, mainly Italy, the United Kingdom, and Germany. A provision amounting to €275 million had been recognized to cover the costs of the social elements of these projects, the impairment of non-reusable equipment and the necessary costs to deploy the revitalization plan to help the impacted areas.

9.2 Impairment of fixed assets

In 2016, the Tweel product line has decided to redirect its activities towards markets and products for which the current technology and equipment are unsuitable. As a consequence, an impairment amounting to €45 million and covering all of the CGU's equipment was recognized.

In India, the semi-finished production capacity of the Chennai site had originally been sized to supply three tires production units. As at today, only the truck tires plant is operational. In 2016, Passenger car and Light truck product line's industrial strategy review has limited the equipment's possible future usage and therefore an impairment of €54 million has been recognized.

The Group has abandoned the construction of a passenger car tires production plant in Shenyang. A cost of €25 million has been recognized, covering the impairment of the land-right-of-use and associated site preparation investments that had already begun.

In 2015 the Group had decided not to implement the Earthmover tire project in India at the Chennai plant and, as a result, a €78 million impairment was recognized, for the buildings of the Chennai site, the equipment already manufactured dedicated to this facility and the capitalized process engineering costs for the planned equipment related to the OE and Infrastructure segments.

9.3 Retiree benefit costs

In 2016, a change in the American medical cover for the Group's retired employees has reduced significantly the present value of the obligation, allowing a provision reversal for €271 million.

9.4 Other operating income and expenses

At the end of 2012, in China, the Shenyang's local authorities had requested the Group to relocate the factory to a nearby location as the area where the plant was, became unsuitable for industrial activities. The difference between the recoverable amount and the net book value of the assets concerned was recognized as impairment, within the non-recurring costs, for €51 million. In 2016, an agreement was reached with the local authorities to return the land in exchange for a payment of €34 million.

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

Cost of net debt and other financial income and expenses are broken down in the table below:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Interest expenses	(209)	(212)
Interest income	6	9
Interest rate derivatives	(7)	15
Fees on credit lines	(5)	(7)
Capitalized borrowing costs	12	11
COST OF NET DEBT	**(203)**	**(184)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	21	8
Currency remeasurement (including currency derivatives)	(18)	(22)
Other	17	(16)
OTHER FINANCIAL INCOME AND EXPENSES	**20**	**(30)**

10.1 Derivatives not accounted for using hedge accounting

As described in the financial risk management policy, the Group financing activities are mostly centralized (note 4.1.2 "Liquidity risk") and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (note 4.1.4 "Interest rate risk"). As a consequence:

- borrowings are essentially raised in Euros (note 26 "Financial liabilities");
- part of these borrowings is subsequently swapped into foreign currencies to finance the foreign subsidiaries; and
- derivatives are contracted to manage the foreign currency interest rates (note 16 "Derivative financial instruments").

This process is described in the summary table in note 4.2.3 "Interest rate risk".

Although these transactions provide effective economic hedges, they do not qualify for hedge accounting under IFRS (and therefore they cannot be recognized as cash flow hedges as described in note 3.5 "Hedging"). Fluctuations in the derivatives' fair values are therefore accounted for in the income statement. The decrease in fair value during the year amounted to €8 million (2015: increase of €15 million) and is included in "Interest rate derivatives (Cost of net debt)".

10.2 Ineffective hedges

No ineffective portion of fair value hedges was recognized in the income statement (2015: nil) in "Interest rate derivatives (Cost of net debt)". No cash flow hedge ineffectiveness was recognized in the income statement (2015: nil).

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Current tax expense (note 18.2)	(749)	(664)
Deferred tax income/(expense) (note 18.1)	(48)	(42)
INCOME TAX	**(797)**	**(706)**

Current tax includes €84 million of withholding tax on royalties and distribution of retained earnings between Group companies (2015: €48 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Income before tax	**2,464**	**1,869**
Tax calculated using domestic tax rates applicable to income in the respective countries	**(669)**	**(496)**
Tax effect from:		
▶ untaxed transactions	15	10
▶ deferred tax assets not recognized during the year	(81)	(103)
▶ net change in unrecognized deferred tax assets	5	-
▶ changes in tax rates	(2)	(9)
▶ taxes with no tax base (tax credits, withholding tax, etc.)	(76)	(105)
▶ other items	11	(3)
INCOME TAX	**(797)**	**(706)**

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.

In 2015 and 2016, the difference between the Group's effective and theoretical tax rates can be explained mainly by deferred tax assets not recognized during the year and by withholding taxes, tax credits and other taxes whose base is not the income before tax.

NOTE 12 EARNINGS PER SHARE

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

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The Company has three types of dilutive potential shares: convertible bonds (note 26.1 "Bonds and commercial paper"), stock options (note 28.1 "Stock option plans") and performance shares (note 28.2 "Performance share plans"). When at closing date the convertible bonds are dilutives, they are assumed to have been converted into ordinary shares, and net income is adjusted to eliminate the interest expense less the tax effect. 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, 2016	Year ended December 31, 2015
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,676	1,168
▶ Less, estimated grants to the General Partners	(12)	(8)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,664**	**1,160**
▶ Plus, interest expenses on convertible bonds	28	27
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,692**	**1,187**
Weighted average number of shares *(thousands of shares)* **outstanding used in the calculation of basic earnings per share**	**180,685**	**184,734**
▶ Plus, adjustment for share option plans	422	561
▶ Plus, adjustment for convertible bonds	5,598	5,598
▶ Plus, adjustment for performance shares	729	974
Weighted average number of shares used in the calculation of diluted earnings per share	**187,434**	**191,867**
Earnings per share *(in €)*		
▶ Basic	9.21	6.28
▶ Diluted	9.03	6.19

Since the convertible bonds, as described in the note 26.1 "Bonds and commercial paper", are dilutive in 2016, they have been considered in the calculation of diluted earnings per share. Taking into account the evolution of the average share price in 2016, 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 2016 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, 2015	**856**	**1,647**	**2,503**
Translation adjustments	(76)	1	**(75)**
Additions (including new emission rights: €5 million)	-	140	**140**
Disposals	-	(33)	**(33)**
Changes in scope of consolidation	53	36	**89**
Transfers and other	(1)	4	**3**
Gross carrying amounts at December 31, 2015	**832**	**1,795**	**2,627**
Translation adjustments	58	28	**86**
Additions (including new emission rights: €4 million)	-	162	**162**
Disposals	-	(54)	**(54)**
Changes in scope of consolidation (note 13.1)	104	20	**124**
Transfers and other	(1)	5	**4**
Gross carrying amounts at December 31, 2016	**993**	**1,956**	**2,949**
Amortization and impairment at January 1, 2015	**(21)**	**(1,045)**	**(1,066)**
Translation adjustments	-	(12)	**(12)**
Amortization	-	(126)	**(126)**
Net impairment	(9)	(9)	**(18)**
Disposals	-	25	**25**
Changes in scope of consolidation	-	(7)	**(7)**
Transfers and other	1	-	**1**
Amortization and impairment at December 31, 2015	**(29)**	**(1,174)**	**(1,203)**
Translation adjustments	-	(19)	**(19)**
Amortization	-	(144)	**(144)**
Net impairment	(2)	(6)	**(8)**
Disposals	-	17	**17**
Changes in scope of consolidation	-	-	**-**
Transfers and other	1	-	**1**
Amortization and impairment at December 31, 2016	**(30)**	**(1,326)**	**(1,356)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2016	**963**	**630**	**1,593**
Net carrying amounts at December 31, 2015	**803**	**621**	**1,424**

13.1 Livebookings Holdings Limited

On December 29, 2015, the Group took control of Livebookings Holdings Limited, the European leader with its BookaTable trademark in the online restaurant reservation market with headquarters in London. The Group was previously holding a 9.1% interest in the company and acquired an additional 90.8% of the share capital for an amount of €106 million. At December 31, 2015 this acquisition was provisionally reported as "Non-current financial assets and other assets".

At the acquisition-date, the fair value of both the consideration transferred and the previously owned interest, amounted to €115 million.

During 2016, the Group has finalised the price allocation and the related acquisition accounting entries.

The assets acquired and liabilities assumed measured at fair value are detailed in the following table:

(in € million)	At acquisition date
Intangible assets [(1)]	19
Property, plant and equipment (PP&E)	-
Non-current financial assets and other assets	-
Non-current assets	**19**
Inventories	-
Trade receivables and other current assets [(2)]	4
Cash and cash equivalents	4
Current assets	**8**
Non-current financial liabilities	-
Provisions and other non-current liabilities	-
Deferred tax liabilities	4
Non-current liabilities	**4**
Current financial liabilities	-
Trade payables and other current liabilities	10
Current liabilities	**10**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**13**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for the trademark and the technology while using an income approach for the client portfolio. The BookaTable trademark has been valued at €13 million. Its remaining useful life is 10 years. The fair value of the client portfolio has been measured at €4 million. It will be amortized over its remaining useful life of 11 years. The technology has been valued at €2 million.

(2) At the acquisition date the trade receivables amounted to €4 million and they have been kept at the same value.

The purchase price allocation, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for an amount of €102 million, calculated as follows:

(in € million)	At acquisition date
Fair value of consideration transferred (1)	115
Fair value of net assets acquired (2)	13
GOODWILL (1) - (2)	**102**

With this acquisition the Group believes that the complementarity with its Michelin Restaurant activity will allow to build synergies between the two entities. It has access to the BookaTable technology and online reservation site. The Group will allow BookaTable to take advantage of the Michelin name, well-known within the restauration and gastronomy business, to increase the number of its reservation site's customers. Furthermore the two entities are complementary from a geographical point of view; BookaTable has a strong presence in the United Kingdom and in the Nordic Countries, whereas Michelin Restaurant is active in France and Germany. These aspects have led to the allocation of the entire goodwill, amounting to €102 million, to the CGU consisting of BookaTable and Michelin Restaurant.

In 2016 BookaTable has contributed to the Group's net sales for an amount of €20 million, to the operating result for € -8 million (including €2 million of amortization relating to the intangible assets identified during the price allocation) and to the net result for € -5 million.

Livebookings Holdings Limited is allocated to the operating segment "Speciality businesses".

13.2 Goodwill

The amounts allocated to the CGUs are as follows:

(in € million)	December 31, 2016	December 31, 2015
CGU Passenger car and light truck tires Southeast Asia / Australia	125	120
CGU Passenger car and light truck tires North America	128	123
CGU Passenger car and light truck tires Europe	113	119
Group of CGUs Truck tires South America [(2)]	233	189
Group of CGUs Truck tires North America [(2)]	88	71
Group of CGUs Truck tires Europe [(2)]	115	106
CGU BookaTable [(1)]	88	-
Other CGUs [(3)]	73	75
GOODWILL	**963**	**803**

(1) Corresponding to the goodwill recognized in relation to the acquisition of Livebookings Holdings Limited at 2016 closing rate (note13.1).

(2) In 2015, the synergies identified at Sascar's acquisition, reflecting the opportunity for Sascar to have access to the Group's customers in Brazil and to expand its service offering in other geographical zones led the Group to allocate the goodwill to three groups of CGUs (comprising Truck tire, fleet services and digital activities) in South America, in North America and in Europe.

(3) Including €19 million (2015: €22 million) that are a part of the goodwill recognized in relation to the acquisition of Blackcircles in 2015.

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 ranging from 1.5% to 2.2% for the CGUs located in mature countries and from 3.0% to 4.5% for the CGUs located in emerging countries.
- The rates used to discount the CGUs' future cash flows are based on the WACC (Weighted Average Cost of Capital) and range between 6.9% and 13.7% depending on the geographical zones and type of activity.

As the recoverable amount of the above CGUs and group of CGUs is in excess of their assets value, no sensitivity analysis is disclosed, with the exception of the group of CGU Truck tires South America for which a WACC increase of 100 basis points would lead to an impairment of €40 million.

13.3 Intangible assets

In 2016, additions to intangible assets, amounting to €162 million (2015: €140 million) break down into the following categories:

- Software: €148 million
- Emission rights – allowances granted: €4 million
- Other: €10 million

/ 13.3.1 Software

The net carrying amount of software at December 31, 2016 was €455 million (2015: €424 million). Software is initially recognized at cost. Cost includes cost of acquisition or production cost and other cost directly attributable to the acquisition or production.

/ 13.3.2 Trademarks

At December 31, 2016 the net carrying amount of trademarks was €61 million (2015: €48 million). These amounts correspond mainly to the fair value of Sascar, Blackcircles and BookaTable trademarks.

/ 13.3.3 Emission rights

The allowances granted are recognized as an intangible asset at their price on the grant date. A government grant for the same amount is recognized in liabilities. The expense and the related liability for actual emissions and the income corresponding to the use of the government grant are accounted for using the price in force at the grant date. The balance of the rights granted at December 31, 2016 amounted to 1.9 million metric tons (2015: 1.8 million metric tons) representing a value of €12 million (2015: €13 million). The liability related to actual emissions in 2016 amounts to 0.8 million metric tons (2015: 0.7 million metric tons) representing a value of €5 million (2015: €6 million). It will be offset by the delivery of the allowances granted.

/ 13.3.4 Development costs

In 2016 and 2015, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfil six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

13.4 Impairment of goodwill and intangible assets

Accumulated impairment losses on goodwill and intangible assets at December 31, 2016 amounted to €60 million (2015: €50 million).

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, 2015	**5,772**	**16,832**	**1,366**	**23,970**
Translation adjustments	85	267	12	**364**
Additions (including finance leases: €55 million)	464	1,141	118	**1,723**
Disposals	(39)	(454)	(49)	**(542)**
Changes in scope of consolidation	-	2	13	**15**
Transfers and other	5	(43)	2	**(36)**
Gross carrying amounts at December 31, 2015	**6,287**	**17,745**	**1,462**	**25,494**
Translation adjustments	128	468	34	**630**
Additions (including finance leases: €42 million)	470	1,119	106	**1,695**
Disposals	(199)	(471)	(68)	**(738)**
Changes in scope of consolidation	-	-	1	**1**
Transfers and other	5	(10)	-	**(5)**
Gross carrying amounts at December 31, 2016	**6,691**	**18,851**	**1,535**	**27,077**
Depreciation and impairment at January 1, 2015	**(2,567)**	**(10,375)**	**(947)**	**(13,889)**
Translation adjustments	(38)	(173)	(13)	**(224)**
Depreciation	(169)	(957)	(72)	**(1,198)**
Net impairment	(50)	(104)	-	**(154)**
Disposals	21	419	45	**485**
Changes in scope of consolidation	-	(2)	(10)	**(12)**
Transfers and other	14	16	-	**30**
Depreciation and impairment at December 31, 2015	**(2,789)**	**(11,176)**	**(997)**	**(14,962)**
Translation adjustments	(49)	(281)	(20)	**(350)**
Depreciation	(175)	(997)	(76)	**(1,248)**
Net impairment	(53)	(78)	(16)	**(147)**
Disposals	155	465	65	**685**
Changes in scope of consolidation	-	-	(1)	**(1)**
Transfers and other	1	(1)	(1)	**(1)**
Depreciation and impairment at December 31, 2016	**(2,910)**	**(12,068)**	**(1,046)**	**(16,024)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2016	**3,781**	**6,783**	**489**	**11,053**
Net carrying amounts at December 31, 2015	**3,498**	**6,569**	**465**	**10,532**

PP&E under construction amounted to €2,027 million (2015: €1,931 million).

Accumulated impairment losses amounted to €355 million (2015: €362 million).

The borrowing costs capitalized in 2016 in PP&E amounted to €12 million (2015: €11 million).

PP&E held under finance leases amounted to €165 million (2015: €123 million). The gross carrying amounts of these assets totalled €222 million (2015: €168 million).

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

(in € million)	December 31, 2016		December 31, 2015	
	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	16	19	16	18
Between one and five years	61	73	53	59
More than five years	70	77	48	57
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**147**	**169**	**117**	**134**

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, 2016	December 31, 2015
Available-for-sale financial assets (note 15.1)	208	243
Loans and deposits (note 15.2)	62	71
Derivative instruments (note 16.1)	45	89
Other	8	7
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**323**	**410**

15.1 Available-for-sale financial assets

Available-for-sale financial assets consist essentially of a portfolio of shares of non-listed companies (note 4.4).

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

(in € million)	2016	2015
At January 1	**243**	**151**
Translation adjustments	3	4
Additions [(1)]	25	118
Disposals [(1)]	(116)	(6)
Impairment reversal	(4)	1
Fair value changes	57	(25)
AT DECEMBER 31	**208**	**243**

(1) Available-for-sale financial assets at December 31, 2015 included €114 million related to the acquisition on December 29, 2015 of Livebookings Holdings Limited which has been consolidated in 2016 (note 13.1).

15.2 Loans and deposits

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2016	December 31, 2015
Gross loans and deposits	102	111
Impairments	(40)	(40)
TOTAL	**62**	**71**

The balance includes loans to employees and customers.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note 3.5 "Hedging", some derivatives, while complying with the Group financial risk management policies, do not qualify or have not been designated as hedging instruments for hedge accounting purposes.

16.1 Derivatives recognized in assets

	December 31, 2016		December 31, 2015	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	18	383	22	400
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	4	61	1	40
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	23	170	66	532
▶ Interest-rate derivatives	-	-	-	91
▶ Other derivatives	-	-	-	-
Non-current derivative instruments (note 15)	**45**	**614**	**89**	**1,063**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	-	16	4	33
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	1	3	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	38	1,765	54	1,650
▶ Interest-rate derivatives	-	143	-	-
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 21)	**39**	**1,927**	**58**	**1,683**
TOTAL ASSETS	**84**	**2,541**	**147**	**2,746**

The Group grants cash collaterals to mitigate its credit risk associated with its derivative assets. The amount of collaterals transferred is €77 million as of December 31, 2016 (December 31, 2015: €80 million).

16.2 Derivatives recognized in liabilities

(in € million)	December 31, 2016 Fair values	December 31, 2016 Contractual amounts	December 31, 2015 Fair values	December 31, 2015 Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	4	65	10	129
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	94	663	88	517
▶ Interest-rate derivatives	2	198	5	935
▶ Other derivatives	-	-	-	-
Non-current derivative instruments (note 26)	**100**	**926**	**103**	**1,581**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	7	65	-	9
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	1	5	1	6
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	73	1,968	36	1,360
▶ Interest-rate derivatives	-	199	1	321
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 26)	**81**	**2,237**	**38**	**1,696**
TOTAL LIABILITIES	**181**	**3,163**	**141**	**3,277**

The Group holds cash collaterals to guarantee its own credit risk associated with its derivatives liabilities. The amount of collaterals received is €7 million as of December 31, 2016 (December 31, 2015: €7 million).

16.3 Derivative contractual amounts

The Group concluded long term currency derivative contracts with maturities between one and six years for a total amount of €958 million (2015: €1,218 million). The nominal amounts by major currencies bought against the euro are denominated in USD for €147 million (2015: €221 million), in BRL for €145 million (2015: €206 million), in CNH and CNY for €365 million (2015: €394 million) and in THB for €220 million (2015: €220 million). The maturity of the other currency derivative contracts does not generally exceed one year.

The contractual amounts of the currency derivatives are presented by currency in the table below:

	December 31, 2016							December 31, 2015						
	Currencies purchased forward							Currencies purchased forward						
(in € million)	EUR	CNY	USD	THB	BRL	Other	Total	EUR	CNY	USD	THB	BRL	Other	Total
Currencies sold forward														
EUR	-	549	382	249	307	1,037	**2,524**	-	459	466	292	411	639	**2,267**
CNY	567	-	23	-	-	24	**614**	493	-	56	-	-	22	**571**
USD	72	-	-	195	79	38	**384**	13	43	-	216	40	58	**370**
JPY	211	10	-	1	-	-	**222**	262	-	7	1	-	-	**270**
HUF	120	-	1	-	-	-	**121**	66	-	-	-	-	-	**66**
THB	59	-	49	-	-	2	**110**	56	-	15	-	-	-	**71**
AUD	90	-	-	1	-	-	**91**	30	-	-	1	-	-	**31**
Other	579	-	105	-	-	23	**707**	521	-	99	-	2	2	**624**
TOTAL	**1,698**	**559**	**560**	**446**	**386**	**1,124**	**4,773**	**1,441**	**502**	**643**	**510**	**453**	**721**	**4,270**

Currency hedges in CNY include off-shore derivatives denominated in CNH.

The contractual amounts of other derivative financial instruments are presented by currency and by maturity in the table below:

(in € million)	December 31, 2016				December 31, 2015			
	Less than 1 year	Between 1 and 3 years	More than 3 years	Total	Less than 1 year	Between 1 and 3 years	More than 3 years	Total
EUR	100	483	-	**583**	-	200	899	**1,099**
INR	24	24	-	**48**	22	47	-	**69**
THB	27	26	-	**53**	25	51	-	**76**
USD	191	48	-	**239**	274	229	-	**503**
Interest-rate derivatives	**342**	**581**	**-**	**923**	**321**	**527**	**899**	**1,747**
EUR	7	-	-	**7**	5	-	-	**5**
USD	1	-	-	**1**	1	-	-	**1**
Other currencies	-	-	-	**-**	-	-	-	**-**
Other derivatives	**8**	**-**	**-**	**8**	**6**	**-**	**-**	**6**
TOTAL	**350**	**581**	**-**	**931**	**327**	**527**	**899**	**1,753**

At December 31, 2016, the Group has outstanding short term futures contracts on natural rubber with an asset market value of €4 million (2015: asset of €1 million) which has been fully cashed in through the daily margin calls. The contractual values of these futures are €15 million (2015: €23 million).

NOTE 17 EQUITY METHOD INVESTMENTS

Investments in joint ventures and associates amounted to €309 million (2015: €309 million). These include essentially Allopneus SAS in France, Double Coin Group (Anhui) Warrior Tire Co., Ltd in China, E.A. Juffali & Brothers for Tyres in Saudi Arabia, MC Projects B.V. in the Netherlands, Royal Lestari Utama (a joint-venture created in Indonesia in 2015 with Barito Pacific Group) and SIPH Group in France.

The financial statements of equity method investments include the following amounts:

(in € million)	2016	2015
Assets	1,259	1,173
Liabilities	646	542
Net sales	1,374	1,544
Net income	(23)	50

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the consolidated statement of financial position are as follows:

(in € million)	December 31, 2016	December 31, 2015
Deferred tax assets	1,191	1,259
Deferred tax liabilities	(117)	(118)
NET DEFERRED TAX ASSET	**1,074**	**1,141**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2016	December 31, 2015
Employee benefits	1,084	1,180
Inventories	186	166
Financial instruments	109	110
Provisions	97	56
Unused tax losses	68	55
Unused tax credits	9	11
Goodwill & Intangible assets	26	(38)
Property, plant and equipment	(631)	(564)
Other	126	165
NET DEFERRED TAX ASSET	**1,074**	**1,141**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2016	2015
At January 1	**1,141**	**1,061**
Translation adjustments	1	46
Deferred tax income/(expense) (note 11)	(48)	(42)
Tax recognized in other comprehensive income	(17)	82
Changes in scope of consolidation	(3)	(5)
Other	-	(1)
AT DECEMBER 31	**1,074**	**1,141**

In 2016, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset comes essentially from variations of temporary differences on employee benefits.

In 2015, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset comes essentially from provisions for withholding taxes on subsidiaries' retained earnings.

The deferred income tax recognized in other items of comprehensive income is as follows:

(in € million)	December 31, 2016	December 31, 2015
Post-employment benefits	566	576
Available-for-sale financial assets	(24)	(13)
Compound financial instruments (convertible bond)	(13)	(13)
TOTAL DEFERRED TAX INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**529**	**550**

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2016	December 31, 2015
Deductible temporary difference	**123**	**119**
Tax losses		
▶ of which expiring in less than one year	10	-
▶ of which expiring between one to five years	111	80
▶ of which expiring in more than five years	57	125
▶ of which no expiration	296	240
Total tax losses	**474**	**445**
Tax credits	**1**	**5**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**598**	**569**

18.2 Current taxes

Current taxes in the consolidated statement of financial position are as follows:

(in € million)	2016	2015
Taxes receivables (note 22)	360	278
Taxes payables (note 30)	(126)	(144)
Net total at January 1	**234**	**134**
Current tax expense (note 11)	(749)	(664)
Income tax paid	765	754
Translation adjustments and other	-	10
Total changes	**16**	**100**
Taxes receivables (note 22)	438	360
Taxes payables (note 30)	(188)	(126)
NET TOTAL AT DECEMBER 31	**250**	**234**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2016	December 31, 2015
Raw materials and supplies	1,227	1,148
Work in progress	474	447
Finished goods	2,879	2,787
Total gross inventory	**4,580**	**4,382**
Write-downs on raw materials and supplies	(44)	(44)
Write-downs on work in progress	(1)	(1)
Write-downs on finished goods	(55)	(48)
Total write-downs	**(100)**	**(93)**
NET INVENTORY	**4,480**	**4,289**

Movements in inventory write-downs were as follows:

(in € million)	2016	2015
At January 1	**(93)**	**(94)**
Translation adjustments and other	(2)	(1)
Write-downs of inventories recognized as an expense in the period	(42)	(32)
Reversals of write-downs	37	34
AT DECEMBER 31	**(100)**	**(93)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2016	December 31, 2015
Gross trade receivables	3,156	2,855
Impairment	(114)	(112)
TRADE RECEIVABLES	**3,042**	**2,743**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2016:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,781**	**(34)**	**2,747**
Overdue			
▸ from less than three months	241	(3)	238
▸ between three and six months	35	(4)	31
▸ from more than six months	99	(73)	26
Overdue trade receivables	**375**	**(80)**	**295**
TRADE RECEIVABLES	**3,156**	**(114)**	**3,042**

Movements in impairment are broken down in the table below:

(in € million)	2016	2015
At January 1	**(112)**	**(121)**
Translation adjustments	(4)	1
Impairment charges	(44)	(29)
Impairment reversals	46	39
Changes in scope of consolidation	-	(2)
AT DECEMBER 31	**(114)**	**(112)**

Impairment reversals in 2016 include write-offs of €14 million (2015: €29 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, 2016	December 31, 2015
Loans and deposits	102	100
Cash management financial assets (note 26)	492	205
Derivative instruments (note 16.1)	39	58
CURRENT FINANCIAL ASSETS	**633**	**363**

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 amortised cost. (note 3.18 "Non derivative financial assets").

Loans and deposits include collaterals with financial institutions of €77 million (2015: €80 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, 2016	December 31, 2015
Suppliers – advances	173	135
Current tax – advance payments	438	360
Other taxes receivable	304	286
Other	293	237
Less impairment	(6)	(6)
OTHER CURRENT ASSETS	**1,202**	**1,012**

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, 2016	December 31, 2015
Cash at bank and in hand	287	172
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)	1,209	1,380
CASH AND CASH EQUIVALENTS	**1,496**	**1,552**

The average effective interest rate on short-term bank deposits was 0.38% in 2016 (2015: 0.59%).

Cash and cash equivalents are essentially held in Euros (2016: 87% after hedge, 2015: 88%)

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 (2016: €83 million, 2015: €150 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2015	**371**	**3,601**	**3,972**
Issuance of shares from the exercise of share options and performance shares	2	62	64
Cancellation of shares	(10)	(441)	(451)
Other	1	-	1
At December 31, 2015	**364**	**3,222**	**3,586**
Issuance of shares from the exercise of share options and performance shares	3	96	99
Cancellation of shares	(7)	(294)	(301)
Other	-	-	-
AT DECEMBER 31, 2016	**360**	**3,024**	**3,384**

(number of shares)	Share issued	Treasury shares	Shares outstanding
At January 1, 2015	**185,726,200**	**-**	**185,726,200**
Issuance of shares from the exercise of share options and performance shares	1,137,488	-	1,137,488
Purchase of shares	-	(4,961,534)	(4,961,534)
Disposal of shares	-	-	-
Reduction in capital	(4,961,534)	4,961,534	-
Other	28	-	28
At December 31, 2015	**181,902,182**	**-**	**181,902,182**
Issuance of shares from the exercise of share options and performance shares	1,503,749	-	1,503,749
Purchase of shares	-	(3,347,040)	(3,347,040)
Disposal of shares	-	-	-
Reduction in capital	(3,347,040)	3,347,040	-
Other	7,230	-	7,230
AT DECEMBER 31, 2016	**180,066,121**	**-**	**180,066,121**

The par value per share amounts to €2 (unchanged from 2015). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2016, the dividend payable for the year 2015 to the shareholders was €2.85 per share (2015: €2.50 per share). It has been fully settled in cash for a net amount of €515 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €3.25 per share in 2017 for the year 2016.

NOTE 25 RESERVES

(in € million)	Translation reserve	Treasury shares	Other reserves	Retained earnings	Total
At January 1, 2015	**(236)**	**-**	**138**	**5,632**	**5,534**
Dividends and other allocations	-	-	-	(483)	(483)
Share-based payments - cost of services rendered (notes 7 and 8)	-	-	-	9	9
Purchase of shares	-	(451)	-	-	(451)
Cancellation of shares	-	451	-	-	451
Other	-	-	-	-	-
Transactions with the shareholders of the Company	**-**	**-**	**-**	**(474)**	**(474)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,168	1,168
Post-employment benefits	-	-	-	*(317)*	*(317)*
Tax effect - Post-employment benefits	-	-	-	*82*	*82*
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(235)	(235)
Available-for-sale financial assets - change in fair values	-	-	*(25)*	-	*(25)*
Tax effect - available-for-sale financial assets - change in fair values	-	-	-	-	-
Available-for-sale financial assets - (gain)/loss recognized in income statement	-	-	-	-	-
Currency translation differences	*(72)*	-	-	-	*(72)*
Other	-	-	*7*	-	*7*
Other items of comprehensive income that may be reclassified to income statement	(72)	-	(18)	-	(90)
Comprehensive income	**(72)**	**-**	**(18)**	**933**	**843**
At December 31, 2015	**(308)**	**-**	**120**	**6,091**	**5,903**
Dividends and other allocations	-	-	-	(538)	(538)
Share-based payments - cost of services rendered (notes 7 and 8)	-	-	-	5	5
Purchase of shares	-	(301)	-	-	(301)
Cancellation of shares	-	301	-	-	301
Other	3	-	(1)	5	7
Transactions with the shareholders of the Company	**3**	**-**	**(1)**	**(528)**	**(526)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,676	1,676
Post-employment benefits	-	-	-	*(194)*	*(194)*
Tax effect - Post-employment benefits	-	-	-	*(8)*	*(8)*
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(202)	(202)
Available-for-sale financial assets - change in fair values	-	-	*57*	-	*57*
Tax effect - available-for-sale financial assets - change in fair values	-	-	*(9)*	-	*(9)*
Available-for-sale financial assets - (gain)/loss recognized in income statement	-	-	-	-	-
Currency translation differences	*314*	-	*2*	-	*316*
Other	-	-	*3*	*(3)*	-
Other items of comprehensive income that may be reclassified to income statement	314	-	53	(3)	364
Comprehensive income	**314**	**-**	**53**	**1,471**	**1,838**
AT DECEMBER 31, 2016	**9**	**-**	**172**	**7,034**	**7,215**

The equity part of the OCEANE zero coupon convertible bond (note 26 "Financial debts") amounts to €65 million (2015: €65 million) after tax. It is included in "Other reserves".

In April 2015, the Group announced a share buyback program of €750 million over a period of 18 to 24 months.

During 2016, the Group concluded with an investment services provider two payback conventions that committed the Group to repurchase a variable number of shares within the limit of a total amount of €300 million before December 15, 2016.

The average purchase price of the 3,347,040 shares acquired during 2016 was €89.63. All the shares were cancelled during the year.

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2016	December 31, 2015
Bonds	1,310	1,940
Loans from financial institutions and other	232	300
Finance lease liabilities	131	101
Derivative instruments	100	103
Non-current financial liabilities	**1,773**	**2,444**
Bonds and commercial paper	903	212
Loans from financial institutions and other	320	282
Finance lease liabilities	16	16
Derivative instruments	81	38
Current financial liabilities	**1,320**	**548**
FINANCIAL LIABILITIES	**3,093**	**2,992**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2016	December 31, 2015
Financial liabilities	3,093	2,992
Derivatives recognized as assets (note 16.1)	(84)	(147)
Borrowing collaterals (note 32.3.2)	(77)	(80)
Cash management financial assets (note 21)	(492)	(205)
Cash and cash equivalents (note 23)	(1,496)	(1,552)
NET DEBT	**944**	**1,008**

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, 2016	December 31, 2015
Bonds	1,388	1,894
Loans from financial institutions and other	232	320
Finance lease liabilities	131	101
Derivative instruments	100	103
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**1,851**	**2,418**

Changes in financial liabilities and derivatives are detailed by flow in the table below:

(in € million)	At January 1, 2016	Cash Flows from financial liabilities	Non-cash variations		At December 31, 2016
			Translation adjustments	Other [1]	
Bonds, loans from financial institutions and other	2,240	23	6	(727)	1,542
Finance lease liabilities	101	(10)	1	39	131
Derivative instruments	103	(6)	3	-	100
Non-current financial liabilities	**2,444**	**7**	**10**	**(688)**	**1,773**
Bonds, loans from financial institutions and other	493	(141)	110	761	1,223
Finance lease liabilities	16	(3)	-	3	16
Derivative instruments	39	43	2	(3)	81
Current financial liabilities	**548**	**(101)**	**112**	**761**	**1,320**
FINANCIAL LIABILITIES	**2,992**	**(94)**	**122**	**73**	**3,093**
Derivatives recognized as assets	(147)	75	(12)	-	(84)
Net impact net in the consolidated cash flow statement		**(19)**			

(1) Mainly due to (i) reclassification of bonds between long term and short term and (ii) new finance lease contracts.

26.1 Bonds and commercial paper

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

	December 31, 2016		December 31, 2015	
(in € million)	Current	Non-current	Current	Non-current
Bonds issued by Michelin Luxembourg SCS				
▶ nominal value of €302 million (2015: €209 million)				
▶ issued in September 2015 and September 2016 and due in September 2045				
▶ nominal interest rate of 3.25%				
▶ effective interest rate of 3.02%	-	316	-	206
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	-	296
Bonds issued by Michelin Luxembourg SCS				
▶ nominal value of €300 million				
▶ issued in May 2015 and due in May 2022				
▶ nominal interest rate of 1.125%				
▶ effective interest rate of 1.17%	-	299	-	299
Bonds issued by Michelin Luxembourg SCS				
▶ nominal value of €383 million (2015: €400 million)				
▶ issued in June 2012 and due in June 2019				
▶ nominal interest rate of 2.75% (1.10% after hedging)				
▶ hedged through a €383 million interest rate swaps (2015: €400 million) expiring in June 2019 (fair value hedge) (note 16)	-	398	-	419
Liability component of zero-coupon convertible bonds (OCEANEs) issued by Compagnie Générale des Établissements Michelin				
▶ net proceeds received of €694 million				
▶ annual gross yield of 3.07%				
▶ effective interest rate of 4.76%				
▶ conversion and/or exchange ratio of 1 bond for 1.036 ordinary share				
▶ issued in March 2007 and due in January 2017				
▶ amount redeemable at maturity date: €753 million	753	-	-	720
Commercial paper issued by Compagnie Générale des Établissements Michelin				
▶ nominal value in € equivalent: €74 million, £24 million, $53 million (2015: €212 million)				
▶ effective interest rate of 0.25% at December 31, 2016	150	-	212	-
TOTAL	**903**	**1,310**	**212**	**1,940**

At December 31, 2016, the weighted average nominal interest rate for bonds and commercial paper is 2.72% (2.38% after hedging).

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" and liabilities arising from put options granted to minority shareholders of subsidiaries.

Loans from financial institutions and other at December 31, 2016 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	BRL	Other	Total
Fixed rates	-	-	92	-	92
Floating rates	261	98	-	101	460
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**261**	**98**	**92**	**101**	**552**
Average effective interest rate paid in 2016	**0.62%**	**1.41%**	**8.13%**	**9.14%**	**4.26%**

The contractual repricing 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 in pension, insurance, healthcare 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 assistance 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 or improved defined contribution plans.

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, two different 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-2015; (ii) Canada: 95% of CPM 2014 Private – Scale B; (iii) UK: Generational SAPS S2PA CMI 2013 adjusted with 1.25% underpin and (iv) Germany: Heubeck RT 2005 G.

	December 31, 2016				December 31, 2015			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	19.4	22.0	22.1	18.8	19.8	22.0	22.0	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	20.7	22.9	23.1	20.7	21.2	22.8	23.0	20.7
Life expectancy for females at 65 at the end of the reporting period	21.4	24.5	24.8	22.8	21.8	24.4	24.7	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.7	25.2	26.1	24.8	23.3	25.1	26.0	24.8

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2016	December 31, 2015
Present value of fully or partly funded obligations	8,203	-	8,203	7,919
Fair value of plan assets	(6,520)	-	(6,520)	(6,448)
Funded status deficit/(surplus)	**1,683**	**-**	**1,683**	**1,471**
Present value of unfunded obligations	1,013	2,021	3,034	3,204
Unrecognized asset due to application of asset ceiling	46	-	46	213
NET DEFINED BENEFIT OBLIGATION	**2,742**	**2,021**	**4,763**	**4,888**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			4,763	4,888
NET LIABILITY	**2,742**	**2,021**	**4,763**	**4,888**

At December 31, 2016, the present value of the defined benefit obligation is made up of €4,450 million relating to active employees, €1,263 million relating to deferred members and €5,524 million relating to members in retirement (2015: respectively €4,618 million, €1,097 million and €5,408 million).

At December 31, 2016, the present value of the defined benefit obligation is made up of €8,772 million relating to vested benefits and €2,465 million relating to non-vested benefits (2015: respectively €8,461 million and €2,662 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	2016	2015
At January 1	**2,617**	**2,271**	**4,888**	**4,612**
Contributions paid to the funds	(74)	-	(74)	(240)
Benefits paid directly to the beneficiaries	(32)	(124)	(156)	(155)
Other movements	8	(63)	(55)	(53)
Items recognized in operating income				
Current service cost	68	59	127	137
Actuarial (gains) or losses recognized on other long term benefit plans	-	-	-	(5)
Past service cost resulting from plan amendments	2	(264)	(262)	-
Effect of plan curtailments or settlements	(20)	1	(19)	2
Effect of plan curtailments recognized within reorganizations and adaptation of activities	(5)	(14)	(19)	(5)
Other items	(1)	-	(1)	-
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	72	67	139	141
Items recognized in other comprehensive income				
Translation adjustments	(47)	48	1	137
Actuarial (gains) or losses	337	40	377	118
Portion of unrecognized asset due to the application of the asset ceiling	(183)	-	(183)	199
AT DECEMBER 31	**2,742**	**2,021**	**4,763**	**4,888**

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	2016	2015
At January 1	**1,907**	**461**	**2,368**	**2,051**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	(58)	(15)	(73)	250
▶ Due to experience	(38)	(13)	(51)	(121)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	749	70	819	(139)
▶ Due to experience	(315)	(2)	(317)	128
Unrecognized asset due to application of asset ceiling	(183)	-	(183)	199
Change in the scope of consolidation	(14)	-	(14)	-
AT DECEMBER 31	**2,048**	**501**	**2,549**	**2,368**
Of which actuarial gains or (losses)	*2,002*	*501*	*2,503*	*2,138*
Of which asset ceiling effect	*46*	*-*	*46*	*230*

In 2016, the net amount recognized in the consolidated income statement was an income of €35 million (2015: expense of €270 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2016	Year ended December 31, 2015
Cost of services rendered during the year	68	59	127	137
Net interest on the defined benefit liability (asset)	72	67	139	141
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	(5)
Past service cost recognized during the year:				
▶ Due to the introduction of or modifications to defined benefit plans	2	(264)	(262)	-
▶ Due to curtailments of defined benefit plans	-	-	-	2
Effect of defined benefit plans settlements	(20)	1	(19)	-
Other items	(1)	-	(1)	-
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	(5)	(14)	(19)	(5)
TOTAL RECORDED IN THE INCOME STATEMENT	**116**	**(151)**	**(35)**	**270**

Annual charges are determined with the assistance of independent actuaries at the beginning of each financial year based on the following factors:

- charge corresponding to acquisition of an additional year of rights ("cost of services rendered during the year");
- charge/income corresponding to the discounting adjustment to reflect the impact of the passage of time ("net interest");
- income or charge from annual recognition of actuarial gains or losses on other long term defined benefit plans ("Actuarial (gains) or losses recognized during the year");
- gain/loss resulting from changes or introduction of benefit plans ("past service cost recognized during the year");
- gain/loss resulting from curtailments of any benefit plans ("past service cost recognized during the year");
- gain/loss resulting from settlements of any benefit plans ("past service cost recognized during the year").

/ 27.1.1 Pension plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary.

Under defined benefit plans, future level of benefits are defined by the plan regulations. The valuation of such defined benefit plans is carried out with the assistance of independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds or insurers specialized in managing these assets. In the case of unfunded plans such as the German pension plans, a provision is made in the consolidated statement of financial position.

The main pension plans provided within the Group are as follows:

USA

The defined benefit plan in USA is the Michelin Retirement Plan (MRP). The provisions applicable to the main population are described below.

The plan was closed to new entrants as of January 1, 2004. After this date new entrants are enrolled in a defined contribution plan.

Some participants chose to stop participating in the Michelin Retirement Plan as of July 1, 2004 or as of July 1, 2007. Those participants may choose to receive the accrued frozen benefit as an annuity or as a lump sum on retirement. These participants have been enrolled in a defined benefit contribution plan.

For participants that did not choose to stop participating in the Michelin Retirement Plan as of July 1, 2007, accruals were frozen under the Plan as of December 31, 2016. These participants will be enrolled in a defined contribution plan. Those participants may only receive this benefit as an annuity.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 and have completed at least 10 years of vesting service are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental benefit may be granted for employees reaching age 55 and who have completed 30 years of service until the employee is eligible for social security benefit.

The plan provides a guaranteed monthly benefit at retirement based on a defined formula (with a lower accrual rate on the social security wage bases) that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan's pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides a cost-of-living adjustment of the pension only for employees hired before January 1, 1991.

The plan is funded solely by employer contributions.

Canada

There is one major defined benefit plan in Canada, Michelin Retirement Plan (MRP). Other minor defined benefit plans which are closed to new entrants are valued but not detailed further.

The Michelin Retirement Plan (MRP) was closed to new entrants as from January 1, 2005. After this date new entrants are enrolled in a defined contribution plan. Accruals for most of the participants were frozen under the plan as of December 31, 2015. These participants are enrolled in a defined benefit contribution plan.

The plan sets the normal retirement age at 65. However, employees having 30 years of service or who have reached the age 55 are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental bridge is granted for employees having 30 years of service to partially compensate early retirement.

The plan provides a guaranteed monthly annuity at retirement based on a defined formula that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit or a beneficiary pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an annual increase of the pension based on a percentage inferior to Consumer Price Index.

The plan is funded solely by employer contributions.

United Kingdom

The defined benefit retirement plan in the UK is the Michelin Pension and Life Assurance Plan.

The plan was closed to new entrants as from March 31, 2005 and replaced by a defined contribution plan and as of January 1, 2009 it was closed for all future accruals.

Accruals up to December 31, 2008 are frozen but pensions are still linked to the average final salary at retirement.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 are eligible for early retirement with the Group's consent. In the case of early retirement, the accrued benefit is reduced by an actuarial reduction factor.

The plans provide for an annual pension based on the employee's pensionable earnings. Most employees take the maximum amount allowed by tax legislation in the form of a lump sum.

The plan includes provision for death in service benefits, provision for spouse reversion benefit as well as disability benefits.

The plan provides an indexation of the pension benefit based on a capped inflation rate.

The plan is funded solely by employer contributions.

Germany

There is one major defined benefit retirement plan in Germany, the "Versorgungsordnung 1979 (VO 1979)" of MRW (Michelin Reifenwerke AG).

The plan was closed to new entrants as from January 1, 2000. After this date new entrants are enrolled in defined contribution plans.

The plan sets the normal retirement age at 65.

The plans provide lifetime monthly annuity which are based on the employee pensionable compensation.

A flat rate applies to the compensation exceeding the social security ceiling and an additional rate takes into account the years of service on the total pensionable earnings.

The plan includes provision in case of death in service provisions as well as post-retirement spouse and orphan's pensions and disability provisions.

There is a legal obligation to adjust every three years the pension annuity by the inflation up to the average increase of the employees' salaries.

France

There is one major pension defined benefit plan in France, *"Régime de retraite supplémentaire MFPM"*.

In order to be eligible, employees must reach 10 years of service and be present at the retirement date.

This plan had been set up in 1996 in order to grant an additional retirement benefit to all employees when the retirement replacement ratio of the mandatory state plans is below the trigger threshold of 55%. At this point an additional benefit is calculated based on service and pensionable earnings (capped additional plan).

If mandatory state pension plus additional benefit from this plan reaches 55% of pensionable salary, the annuity paid by the plan is capped at this level. Closure of the plan being not possible for new entrants, the threshold of 55% is decreasing progressively until 2046 where it will be nil. In return, employees must participate to a defined contribution plan (Article 83) and can also participate in other 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)	2016				2015			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	4,274	4,543	35	**8,852**	4,130	4,265	45	**8,440**
Translation adjustments	216	(413)	7	**(190)**	250	178	(6)	**422**
Changes in scope of consolidation	-	8	-	**8**	5	(7)	(2)	**(4)**
Current service cost	23	44	1	**68**	36	32	2	**70**
Interest cost on the defined benefit obligation	176	128	3	**307**	172	140	3	**315**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	2	-	-	**2**	-	-	-	**-**
▶ Past service cost due to curtailments of defined benefit plans	-	(5)	-	**(5)**	1	(3)	-	**(2)**
▶ (Gains) or losses on settlements of defined benefit plans	-	(20)	-	**(20)**	-	-	-	**-**
Benefits paid	(264)	(181)	(4)	**(449)**	(264)	(177)	(3)	**(444)**
Other items	-	(1)	3	**2**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	22	612	7	**641**	(56)	115	(4)	**55**
Present value of the obligations at the end of the year	**4,449**	**4,715**	**52**	**9,216**	**4,274**	**4,543**	**35**	**8,852**
Fair value of plan assets at the beginning of the year	3,813	2,610	25	**6,448**	3,731	2,383	28	**6,142**
Translation adjustments	198	(340)	8	**(134)**	205	140	(6)	**339**
Changes in scope of consolidation	-	(1)	-	**(1)**	-	(4)	-	**(4)**
Interest income on plan assets	156	85	3	**244**	153	91	3	**247**
Contributions paid to the plans	2	71	1	**74**	32	208	1	**241**
Administration costs	-	-	-	**-**	-	(5)	-	**(5)**
Benefits paid by the plans	(263)	(151)	(2)	**(416)**	(263)	(147)	(1)	**(411)**
Other items	(2)	-	3	**1**	-	-	-	**-**
Actual return on plan assets excluding interest income	70	235	(1)	**304**	(45)	(56)	-	**(101)**
Fair value of plan assets at the end of the year	**3,974**	**2,509**	**37**	**6,520**	**3,813**	**2,610**	**25**	**6,448**
Deficit/(Surplus) at the end of the year	**475**	**2,206**	**15**	**2,696**	**461**	**1,933**	**10**	**2,404**
Deferred items at the beginning of the year	(210)	-	(3)	**(213)**	(28)	-	-	**(28)**
Translation adjustments	(9)	-	-	**(9)**	13	-	1	**14**
Unrecognized asset due to application of the asset ceiling generated during the year	173	-	3	**176**	(195)	-	(4)	**(199)**
Deferred items at the end of the year	**(46)**	**-**	**-**	**(46)**	**(210)**	**-**	**(3)**	**(213)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**521**	**2,206**	**15**	**2,742**	**671**	**1,933**	**13**	**2,617**

France

In 2016, the Group has implemented the reorganization of the manufacturing engineering function and has decided to close a retreading facility in Clermont-Ferrand. These two operations have generated a curtailment of the Company-sponsored pension plan *(retraite supplémentaire)* for an amount of €5 million recognized as an income from non-recurring activities. At the same time, a provision for reorganizations and adaptation of activities has been recognized as an expense on the same line of the consolidated income statement and for an equivalent amount.

Spain

The Spanish pension plan *"Regimen de Prevision"* has been fully outsourced to an insurance company. The Group no longer has obligations towards the participants of the plan. The full settlement of the plan has generated an income of €20 million recognized as an operating income from non-recurring activities.

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 2016, the amount recognized resulting from the effect of the asset ceiling was €-183 million (2015: €199 million)

In 2016, the present value of defined benefit pension obligations increased by €364 million. This change was due to:

(in € million)	2016	2015
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	190	(422)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(641)	(55)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	74	59
Changes in plan regulations	23	2
Changes in the scope of consolidation	(8)	4
Other items	(2)	-

The fair value of plan assets amounted to €6,520 million at December 31, 2016, showing an increase of €72 million compared to December 31, 2015. The factors behind this variation were as follows:

(in € million)	2016	2015
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(134)	338
Difference between the contributions paid to the funds and the benefits paid by the funds	(342)	(175)
Actual return on plan assets	548	147
Changes in the scope of consolidation	(1)	(4)
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 2016 and the previous four periods:

(in € million)	2016	2015	2014	2013	2012
Defined benefit obligation	(9,216)	(8,852)	(8,440)	(7,079)	(7,563)
Plan assets	6,520	6,448	6,142	5,182	5,195
SURPLUS/(DEFICIT)	**(2,696)**	**(2,404)**	**(2,298)**	**(1,897)**	**(2,368)**
Experience adjustment to:					
▶ plan liabilities	38	75	32	(43)	(60)
▶ plan assets	315	(107)	538	166	227

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:

	2016	2015	2014	2013	2012
Experience adjustment to:					
▶ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.41%	-0.85%	-0.38%	0.61%	0.79%
▶ to the plan assets in percentage of the fair value of the assets	4.83%	-1.66%	8.76%	3.20%	4.37%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2016			December 31, 2015		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.02%	2.30%	11.10%	4.23%	3.08%	12.65%
Inflation rate	2.37%	2.78%	5.00%	2.38%	2.54%	5.00%
Rate of salary increases	2.85%	2.69%	6.00%	2.84%	2.49%	6.00%
Weighted average duration of the defined benefit obligation	12.0	16.5	11.3	12.3	15.1	10.5

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 2016 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.70%	7.54%
Discount rate on the aggregate of current service cost and interest cost on the obligation	5.93%	-7.15%
Inflation rate on the defined benefit obligation (DBO)	5.12%	-5.03%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	5.03%	-5.03%
Salary increase rate on the defined benefit obligation (DBO)	1.41%	-1.19%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	2.39%	-2.12%
Interest rates on the fair market value of plan assets	-4.82%	5.40%

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, 2016				Year ended December 31, 2015			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	23	44	1	**68**	36	35	2	**73**
Interest cost on the defined benefit obligation	176	128	3	**307**	172	140	3	**315**
Interest income on plan assets	(147)	(85)	(3)	**(235)**	(153)	(91)	(3)	**(247)**
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	2	-	-	**2**	-	-	-	**-**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	1	-	-	**1**
Effect of defined benefit plans settlements	-	(20)	-	**(20)**	-	-	-	**-**
Other items	-	(1)	-	**(1)**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(5)	-	**(5)**	-	(3)	-	**(3)**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**54**	**61**	**1**	**116**	**56**	**81**	**2**	**139**
Actual return on plan assets	**226**	**320**	**2**	**548**	**109**	**36**	**2**	**147**

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

	December 31, 2016					December 31, 2015				
	Canada	USA	UK	Other	Total	Canada	USA	UK	Other	Total
Quoted securities										
Local equities	3.5%	11.0%	3.0%	0.0%	**6.4%**	3.5%	13.1%	3.4%	0.0%	**7.3%**
Foreign and global equities	8.9%	10.0%	18.7%	0.0%	**12.5%**	7.8%	10.6%	14.3%	0.0%	**11.1%**
Alternative investments	5.2%	10.3%	19.6%	0.0%	**12.3%**	8.3%	9.3%	24.8%	0.0%	**14.6%**
Real estate	0.0%	0.0%	7.2%	0.0%	**2.5%**	0.0%	0.0%	7.6%	0.0%	**2.8%**
Indexed linked bonds	0.1%	0.1%	10.8%	14.0%	**4.4%**	0.2%	0.2%	8.2%	8.4%	**3.4%**
Fixed income government and agencies	21.3%	8.9%	6.3%	0.2%	**9.9%**	20.5%	7.3%	3.0%	1.6%	**7.8%**
Corporate bonds	11.6%	26.5%	6.6%	0.0%	**15.8%**	11.8%	25.3%	8.5%	0.0%	**15.8%**
Other fixed income, multi-asset credit, emerging market bonds	35.9%	20.2%	18.8%	0.0%	**21.8%**	33.8%	20.7%	21.5%	0.0%	**22.6%**
Cash & cash equivalent	2.6%	2.7%	3.5%	0.8%	**2.9%**	1.6%	3.1%	5.1%	0.7%	**3.5%**
Total quoted securities	**89.2%**	**89.7%**	**94.5%**	**15.0%**	**88.5%**	**87.5%**	**89.6%**	**96.4%**	**10.7%**	**88.9%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	85.0%	**3.2%**	0.0%	0.0%	0.0%	89.3%	**3.2%**
Private placements [(1)]	4.0%	2.9%	5.5%	0.0%	**3.9%**	4.8%	3.6%	3.6%	0.0%	**3.7%**
Real estate	6.8%	7.4%	0.0%	0.0%	**4.4%**	7.7%	6.8%	0.0%	0.0%	**4.2%**
Total non-quoted securities	**10.8%**	**10.3%**	**5.5%**	**85.0%**	**11.5%**	**12.5%**	**10.4%**	**3.6%**	**89.3%**	**11.1%**
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	**17.6**	**16.4**	**30.2**	**N/A**	**20.7**	**18.9**	**17.9**	**18.3**	**N/A**	**18.3**

(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 at a discounted price.

An internal group of experts, composed by the chairmen or Chief Investment Officers of the main investment committees and Group specialists, has issued investment guidelines for the use of the local investment committees giving the investment best practices. Among other issues, these guidelines state not to invest directly in any Michelin securities or in any properties used by the Group. Fund managers do not have such restrictions. The Group has no significant amount invested in its own securities. Michelin does not occupy or use any of the real estate assets included in the various portfolios. Detailed information is not available about the underlying assets held in general insurance funds or alternative investments.

Alternative investments are composed of hedge funds and some funds of hedge funds. In the UK there are also diversified growth funds for which the managers can switch between main asset classes depending on market conditions. This kind of investment is expected to have an equity-like return for a lower volatility.

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 corporate bonds like return 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 such 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.

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 lower liquid asset classes which may complicate the de-risking process by creating concentrated positions or requiring transactions at discounted prices.

The LHA are hedging the duration risk as well as in some cases the credit spread and inflation risk. The LHA portfolios are primarily composed of government and corporate bonds. The larger plans also use completion managers to implement custom solutions in order to hedge key rate duration according to the policy set by each pension fund.

Foreign exchange risks might be covered 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 2016 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				
2016	3	100	3	**106**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2017	1	112	-	**113**
2018	1	89	1	**91**
2019	2	89	-	**91**
2020	3	105	-	**108**
2021	3	118	-	**121**
2022-2026	478	662	3	**1,143**

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 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 10 years of service at the date of retirement.

For the Medicare retirees, the health care coverage comes as an addition to the Medicare basis.

Medical and prescription drug expenses are covered by the plan. The retirees contribute to the cost of the post-retirement medical plan.

The Group pays a premium for the administrative services. This plan is not pre-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, 2016				December 31, 2015			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	1,184	1,055	32	**2,271**	1,095	1,159	32	**2,286**
Translation adjustments	45	-	3	**48**	70	(6)	(3)	**61**
Changes in scope of consolidation	-	(9)	-	**(9)**	(4)	(47)	2	**(49)**
Current service cost	12	44	4	**60**	14	49	4	**67**
Interest cost on the defined benefit obligation	46	20	1	**67**	46	25	2	**73**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	(271)	7	-	**(264)**	(1)	1	-	**-**
▶ Past service cost due to curtailments of defined benefit plans	-	(14)	-	**(14)**	-	(1)	-	**(1)**
▶ (Gains) or losses on settlements of defined benefit plans	-	1	-	**1**	-	-	-	**-**
Benefits paid	(59)	(63)	(2)	**(124)**	(53)	(68)	(2)	**(123)**
Other items	-	(55)	-	**(55)**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	1	39	-	**40**	17	(57)	(3)	**(43)**
Present value of the obligations at the end of the year	**958**	**1,025**	**38**	**2,021**	**1,184**	**1,055**	**32**	**2,271**
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	-	-	-	**-**	-	-	-	**-**
Administration costs	-	-	-	**-**	-	-	-	**-**
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	**958**	**1,025**	**38**	**2,021**	**1,184**	**1,055**	**32**	**2,271**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**958**	**1,025**	**38**	**2,021**	**1,184**	**1,055**	**32**	**2,271**

USA

In 2016, the Pension and Benefit Board approved a plan amendment 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 the amount of $600 annually per retiree and eligible dependents through the AON Retiree Health Exchange to either reimburse Medicare, Medicare supplement and/or prescription drug premiums.
- Catastrophic retiree Reimbursement Account: If the retiree or dependent reaches the catastrophic drug coverage, he or she can receive reimbursement for the 5% out-of-pocket cost.

The plan amendment results in a significant decrease of the net defined benefit obligation, generating a negative past service cost of €271 million recognized as an operating income from non-recurring activities.

France

In 2016, a curtailment on the whole of the defined benefit plans in France, linked to the reorganization of the manufacturing engineering function and to the closure of a retreading facility in Clermont-Ferrand, has been recognized for an amount of €14 million as an income from non-recurring activities. At the same time, a provision for reorganizations and adaptation of activities has been recognized as an expense on the same line of the consolidated income statement and for an equivalent amount.

In 2016 the present value of "other defined benefit plans" decreased by €250 million, due to:

	2016	2015
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(48)	(61)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(40)	43
Difference between the costs (service cost and interest cost) and the benefits paid during the year	(3)	(17)
Changes in plan regulations	277	1
Changes in the scope of consolidation	9	49
Other items	55	-

The present value of the defined benefit obligation and experience adjustments are as follows for 2016 and the previous four periods:

(in € million)	2016	2015	2014	2013	2012
Defined benefit obligation	(2,021)	(2,271)	(2,286)	(1,993)	(2,252)
Experience adjustments to plan liabilities	16	25	65	86	5
Experience adjustments to plan liabilities *(in % of present value of the obligation (DBO)*	-0.79%	-1.10%	-2.84%	-4.32%	-0.22%

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

	December 31, 2016			December 31, 2015		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.02%	1.70%	6.47%	4.23%	1.99%	6.38%
Weighted average duration of the defined benefit obligation	10.7	12.1	10.2	12.9	11.7	10.9

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2016		December 31, 2015	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.96%	5.64%	8.00%	5.12%
Minimum long-term rate of annual growth in healthcare costs	5.00%	4.25%	5.00%	4.25%
Year in which the minimum growth rate will be achieved	2026	2028	2023	2023

The discount rate and the assumed health care cost trend rate are the main 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.

A 0.5-point shift in these rates, all else otherwise being equal, compared to those used for 2016 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-5.52%	6.07%
Discount rate on the aggregate of current service cost and interest cost on the obligation	1.32%	-1.57%
Healthcare cost trend on the healthcare defined benefit obligation	1.65%	-1.52%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	1.59%	-1.46%

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

(in € million)	Year ended December 31, 2016				Year ended December 31, 2015			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	12	43	4	**59**	14	46	4	**64**
Interest cost on the defined benefit obligation	46	20	1	**67**	46	25	2	**73**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	1	(1)	**-**	-	(5)	-	**(5)**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	(271)	7	-	**(264)**	(1)	1	-	**-**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	-	1	-	**1**
Effect of defined benefit plans settlements	-	1	-	**1**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(14)	-	**(14)**	-	(2)	-	**(2)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**(213)**	**58**	**4**	**(151)**	**59**	**66**	**6**	**131**

Group payments made under "other defined benefit plans" in 2016 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2016	59	63	2	**124**
Estimates of benefit payments to be made				
2017	61	60	2	**123**
2018	63	29	2	**94**
2019	64	45	2	**111**
2020	64	67	2	**133**
2021	64	81	2	**147**
2022-2026	302	353	9	**664**

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 2016, the contributions paid to defined contribution plans and expensed amounted to €213 million (2015: €187 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:

	2016		2015	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**65.87**	**1,733,471**	**67.41**	**2,743,458**
Granted	-	-	-	-
Forfeited	85.79	(338,023)	66.68	(99,988)
Exercised	67.27	(723,420)	70.41	(909,999)
AT DECEMBER 31	**54.35**	**672,028**	**65.87**	**1,733,471**

672,028 of the 672,028 options outstanding as at December 31, 2016 are exercisable (2015: 1,592,445 exercisable out of a total of 1,733,471).

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2016		December 31, 2015	
Grant dates	Vesting dates	Expiry dates	Exercise prices *(in € per option)*	Number of options outstanding	Exercise prices *(in € per option)*	Number of options outstanding
May 2006	May 2010	May 2015	55.99	-	55.99	-
May 2007	May 2011	May 2016	87.85	-	87.85	596,721
May 2008	May 2012	May 2017	59.85	75,662	59.85	167,878
November 2009	November 2013	November 2018	51.16	317,554	51.16	541,785
May 2010	May 2014	May 2019	52.13	102,910	52.13	150,951
May 2011	May 2015	May 2020	66.00	93,288	66.00	135,110
June 2012	June 2016	June 2021	51.16	82,614	51.16	141,026
NUMBER OF STOCK OPTIONS OUTSTANDING				**672,028**		**1,733,471**

28.2 Performance share plans

Changes in the number of performance share rights are as follows:

	2016	2015
	Number of outstanding performance share rights	Number of outstanding performance share rights
At January 1	**732,406**	**1,007,798**
Granted	120,520	84,892
Forfeited	(61,027)	(132,795)
Shares delivered	(122,963)	(227,489)
AT DECEMBER 31	**668,936**	**732,406**

In November 2016, 120,520 rights to performance shares have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2020 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (share price on the market, industrial environmental performance, employee engagement level, increase in operating income) are met. The fair value of a right to a performance share is estimated at €66.41. 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 condition 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 2016 is estimated at €6 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2016 Number of outstanding performance share rights	December 31, 2015 Number of outstanding performance share rights
	France	Other countries	France	Other countries	France	Other countries		
2011	2014	2015	2 years	None	37.49	35.49	-	-
2012	2015	2016	2 years	None	61.87	59.46	-	178,632
2013	2017	2017	None	None	69.43	69.43	78,168	78,544
2014	2018	2018	None	None	63.05	63.05	279,864	283,670
2014	2018	2018	None	None	63.05	63.05	106,244	106,668
2015	2019	2019	None	None	82.24	82.24	84,140	84,892
2016	2020	2020	None	None	66.41	66.41	120,520	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**668,936**	**732,406**

The expense recognized in 2016 for the performance share plans amounts to €7 million (2015: €9 million) and is included in "Other operating income and expenses from recurring activities".

28.3 Employee share purchase plans

In 2016, the Group launched a share offer for all its employees located in countries where the legal and fiscal requirements are met. This share purchase plan (Bib'Action), carried out under the Company savings plan *(Plan d'Épargne Groupe),* is a standard plan allowing employees to invest in Michelin shares at a discounted price. The shares acquired by the employees participating in the plan cannot be sold or transferred during a five-year period.

The share subscription price was set at €76.38, after a 20% discount on the reference price of €95.47, the latter being the average of the Michelin share's opening trading price of the last twenty trading days preceding the price fixing day. The employees were granted one free share for each share purchased capped to the first five. 657,366 shares were purchased during this share offer.

The global expense recognized in the income statement by the Group in relation to this plan amounts to €16 million after deduction of the effect of the five-year restriction.

The main features of the plan and the assumptions used for the valuation of the cost linked to the shares acquired by Group employees are as follows:

Maturity of the plan	5 years
Number of shares subscribed	657,366
Reference price *(in €)*	95.47
Subscription price *(in €)*	76.38
Five-year risk-free rate (1)	-0.28%
Five-year market participant rate (2)	5.30%
Dividend yield	2.99%
Cost of the lock-up period *(in % of the reference price)*	23.82%
Cost recognized *(in € per share)*	23.95

(1) The risk-free interest rate is based on the yield of French government bonds with the equivalent maturity.
(2) The five-year market participant rate is an average of non-affected 5-year individual loan rates.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions and other long-term liabilities amount to €1,604 million (2015: €1,680 million) and include provisions for reorganizations and adaptation of activities and litigation provisions as well as other provisions and long-term liabilities.

Movements in provisions during the year:

(in € million)	Reorganizations and adaptation of activities	Litigation	Other provisions	Total
At January 1, 2016	**316**	**252**	**105**	**673**
Additional provisions	91	82	46	**219**
Provisions utilized during the year	(98)	(79)	(36)	**(213)**
Unused provisions reversed during the year	(21)	(6)	(8)	**(35)**
Translation adjustments	(14)	4	3	**(7)**
Other effects	-	-	-	**-**
AT DECEMBER 31, 2016	**274**	**253**	**110**	**637**

29.1 Reorganizations and adaptation of activities

At December 31, 2016, the remaining provisions for reorganizations and adaptation of activities relate to following countries:

	December 31, 2016	December 31, 2015
France	109	80
United Kingdom	76	110
Italy	42	50
Germany	21	34
Spain	3	15
Hungary	2	14
Other countries	21	13
TOTAL	**274**	**316**

29.2 Other provisions

These amounts represent the risks arising from a commercial, technical, tax or social origin and have been identified by the Group with regard to its clients, suppliers and other third parties. These risks arise in the course of the Group ordinary activities.

NOTE 30 OTHER CURRENT LIABILITIES

The carrying amount of other current liabilities is presented in the table below:

(in € million)	December 31, 2016	December 31, 2015
Customers – Deferred rebates	969	971
Employee benefits	500	514
Social security liabilities	231	232
Reorganizations and adaptation of activities liabilities	3	5
Current income tax payable	188	126
Other taxes	195	190
Other	310	280
OTHER CURRENT LIABILITIES	**2,396**	**2,318**

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, 2016	Year ended December 31, 2015
Investment grants	(12)	(9)
Change in employee benefit obligations	(94)	(260)
Change in litigation and other provisions	(20)	2
Costs related to the reorganizations and adaptation of activities	(99)	(96)
Other	19	(3)
Operating income and expenses from non-recurring activities (cash) and change in provisions	**(206)**	**(366)**
Interest and other financial expenses paid	(210)	(198)
Interest and other financial income received	44	32
Dividends received	20	23
Cost of net debt and other financial income and expenses paid	**(146)**	**(143)**
Change in inventories	(83)	60
Change in trade receivables and advances	(319)	(66)
Change in trade payables and advances	72	(47)
Change in trade payables under factoring contracts	217	81
Change in other receivables and payables	(89)	(4)
Change in working capital, net of impairments	**(202)**	**24**
Purchases of intangible assets (note 13)	(158)	(135)
Purchases of PP&E (note 14)	(1,653)	(1,668)
Government grants received	21	11
Change in capital expenditure payables	(25)	18
Purchases of intangible assets and PP&E	**(1,815)**	**(1,774)**
Increase in other non-current financial assets	(6)	(23)
Decrease in other non-current financial assets	13	11
Net cash flows from cash management financial assets	(287)	109
Net cash flows from borrowing collaterals	2	(8)
Net cash flows from other current financial assets	(6)	(3)
Cash flows from other financial assets	**(284)**	**86**
Increase in non-current financial liabilities	115	843
Decrease in non-current financial liabilities	(92)	(62)
Repayment of finance lease liabilities	(13)	(10)
Net cash flows from current financial liabilities	(141)	(258)
Derivatives	112	(51)
Cash flows from financial liabilities	**(19)**	**462**
Details of non-cash transactions:		
▶ New finance leases (note 14)	42	55
▶ Increase/(Decrease) of liabilities to minority shareholders	-	16
▶ New emission rights	4	5

Some items of the "Cash flows from operating activities" section in the consolidated cash flow statement for the year ended December 31, 2015 have been reclassified to conform with the current period's presentation.

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, 2016	December 31, 2015
Within one year	220	196
Between one and five years	402	361
More than five years	101	89
TOTAL FUTURE MINIMUM PAYMENTS	**723**	**646**

Total operating lease rents recognized in the income statement in 2016 amounted to €381 million (2015: €381 million).

/ 32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2016, amounts to €457 million (of which €94 million is likely to be delivered from 2018).

/ 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 2017. 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, 2014. 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, 2016, the present value of the future contributions is lower than the provision booked in the Group accounts.

/ 32.2.2. URSSAF audit

A French subsidiary of the Group received formal notice, in 2013 and 2016, from the administration in charge of social security contribution collections, to pay a total amount of €114 million (excluding late payments).

The claims not accepted for which a provision has not been set aside amount to €34 million, for which the Group has submitted for out-of-court or legal settlements. Despite the uncertainties inherent to this type of procedure, the Group believes it is more likely than unlikely that it will make its points of view prevail.

The risks related to other claims not accepted and for which the Group has submitted for out-of-court or legal settlements were fully taken into consideration in the consolidated financial statements as at December 31, 2016

/ 32.2.3. Tax audit in Germany

Following a tax audit covering the periods 2005 to 2009, a German subsidiary received during the year 2015 notifications of intended tax adjustments on a €305 million tax base. The tax authorities are contesting in the main (€286 million) the effects on the subsidiary of the transfer price policy applied by the Group. No significant new elements with regards to this claim have been identified in 2016.

The Group does not accept any of the positions taken by the German tax authorities and considers that:

- It is more unlikely than likely that the subsidiary will have to face a financial loss in connexion with these tax adjustments;
- Furthermore, it is not possible at this stage of the proceedings to reliably evaluate the potential financial risk related to these tax litigations.

In 2016 a new tax audit covering the periods 2010 to 2014 was instigated; no specific elements have been raised as at the date of the closing of the consolidated accounts.

/ 32.2.4 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 BRL1,092 million (around €300 million at 2016 closing exchange rate) credit line.

In 2013, a lawsuit was instigated against the subsidiary, the plaintiff pleading the unconstitutional nature of the decree by which the advantages had been given.

After having received a favorable ruling in 2015, the subsidiary was condemned on appeal in October 2016. The judgment only concerned the deferred tax payments relating to the importation of industrial machines for the Resende plant. The Group estimates that the amount of financial risk related to this litigation to be in the region of BRL35 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 and the appeal will be judged on the merits of the case in 2017.

At the date of the closing of the consolidated accounts, the preliminary decision concerning the sequestration of the company's assets, pronounced following the lawsuit initiated in November 2016, has not been put into effect.

The Group contests all of the positions expressed by the Brazilian legal authorities in the different lawsuits and considers that it is more likely than unlikely that it will make its points of view prevail.

/ 32.2.5 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 €34 million (2015: €28 million).

/ 32.3.2 Financial assets

Loans and deposits amounting to €77 million (2015: €80 million) are pledged as collateral for financial borrowings (note 26 "Financial liabilities").

/ 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 €476 million (2015: €483 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, 2016 (2015: €15 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 ACQUISITIONS AND DIVESTMENTS OF BUSINESSES

On December 15, 2016, the Group acquired Levneo, the holding of a group of companies producing and commercializing motorbikes and bicycle tires under the Levorin trademark. The company is specialized in the "commuting" segment and operates in the Brazilian market. This acquisition generated a cash outflow of €8 million. Price adjustments could occur, in particular once the final evaluation of the company's financial liabilities has been completed.

Furthermore, on December 20, 2016, the Group acquired, for a consideration of €4 million, the Spanish company "Reservas de Restaurantes, S.L.", operating in the online restaurant reservation business through its internet site "Restaurantes.com".

Given the acquisition dates of these two entities, it has not been possible to integrated them according to the acquisition method before the consolidated financial statements' finalisation and they are provisionally presented under the section "Non-current financial assets and other assets" of both the Consolidated Statement of Financial Position and the Consolidated Cash Flow Statement, as at December 31, 2016. Consolidation and purchase price allocation will be carried out during the accounting period beginning on January 1, 2017.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1 Subsidiaries, joint ventures and associates

The list of the major Group subsidiaries is included in note 36 "List of main Group companies". Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated in consolidation.

Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2016	2015
Income statement		
Income for the sale of goods or supply of services	111	140
Expenses for the purchase of products or supply of services	(142)	(116)
Balance sheet		
Financial liabilities	(5)	(14)
Accounts payable	(5)	(7)
Accounts receivable	31	29

34.2 Senior Management and Supervisory Board

In 2016, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2015 net income and amounting to €1.3 million (2015: €0.8 million).

He was entitled to a global compensation of €1.5 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin (2015: €1.4 million). The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.6 million (2015: €0.4 million). A provision of €2.2 million (social charges included) is recognized as at December 31, 2016 (2015: €1.7 million) based on the present value of the vested rights in a long term incentive bonus program.

The global compensation granted in 2016 to the 13 [(1)] members of the Group Executive Committee (2015: 12 members [(1)]) was €20 million (2015: €19 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Short term benefits	14.0	14.4
Post-employment benefits	3.1	2.7
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	2.5	1.9
COMPENSATION GRANTED TO MEMBERS OF THE GROUP EXECUTIVE COMMITTEE	**19.6**	**19.0**

The attendance fees paid in 2016 to the Supervisory Board members for 2015 meetings were €0.4 million (2015: €0.3 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 2016 consolidated financial statements.

In January 2017, The Group reimbursed its convertible bond for an amount of €753 million (note 26.1 "Bonds and commercial paper").

In January 2017, the Group issued exclusively cash-settled five year convertible bonds with a total face value of 500 million US dollars. These bonds, which were issued at 100% of their face value, are redeemable at par (if they are not converted) and their coupon's interest rate is 0%.

In addition to that bond issuance, the Group subscribed to financial instruments with the same maturity, enabling it to fully cover its exposure to any positive or negative changes in the share price.

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.

(1) Members of the Group Executive Committee as at December 31.

NOTE 36 LIST OF MAIN GROUP COMPANIES

Countries are presented based on the Michelin geographical regions and within each regions are listed according to the alphabetical order of the French names.

Companies	Registered office	Nature	% of interest
EUROPE			
Germany			
Laurent Reifen GmbH	Oranienburg	Manufacturing & commercial	100.00
Michelin Reifenwerke AG & Co. KgaA	Karlsruhe	Manufacturing & commercial	100.00
Euromaster GmbH	Kaiserslautern	Commercial	100.00
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Karlsruhe	Financial	100.00
Meyer Lissendorf GmbH & Co. KG International Trading	Goennersdorf	Miscellaneous	100.00
Ihle Baden-Baden AG	Baden-Baden	Miscellaneous	100.00
Tirecorp GmbH	Baden-Baden	Miscellaneous	100.00
Ihle International GmbH	Baden-Baden	Miscellaneous	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Denmark			
Euromaster Danmark A/S	Skanderborg	Commercial	100.00
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.80
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	100.00
Nex Tyres, S.L.	Lleida	Miscellaneous	50.00
Reservas de restaurantes, S.L.	Madrid	Miscellaneous	100.00
Finland			
Suomen Euromaster Oy	Pori	Commercial	100.00
France			
Compagnie Générale des Établissements Michelin	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Avallon	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Bassens	Manufacturing	100.00
Euromaster France	Montbonnot Saint-Martin	Commercial	98.41
Michelin Aircraft Tyre	Clermont-Ferrand	Commercial	100.00
Transityre France	Clermont-Ferrand	Commercial	100.00
Michelin Travel Partner	Boulogne-Billancourt	Commercial	100.00
Spika	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Montbonnot Saint-Martin	Commercial	96.81
Tyredating	Lyon	Commercial	100.00
Ihle France	Schiltigheim	Miscellaneous	100.00
Eurodrive Services and Distribution	Clermont-Ferrand	Commercial	100.00
GIE Michelin Placements	Clermont-Ferrand	Financial	100.00
Greece			
Elastika Michelin A.E.	Halandri	Commercial	100.00
Hungary			
Michelin Hungaria Tyre Manufacture Ltd.	Nyíregyháza	Manufacturing & commercial	100.00
Ireland			
Miripro Insurance Company Limited	Dublin	Miscellaneous	100.00
Italy			
Società per Azioni Michelin Italiana	Turin	Manufacturing & commercial	100.00
Luxembourg			
Michelin Luxembourg SCS	Luxembourg	Financial	100.00

Companies	Registered office	Nature	% of interest
The Netherlands			
Euromaster Bandenservice B.V.	Deventer	Commercial	100.00
Michelin Nederland N.V.	Drunen	Commercial	100.00
Transityre B.V.	Breda	Commercial	100.00
Michelin Finance (Pays-Bas) B.V.	Amsterdam	Financial	100.00
Poland			
Michelin Polska S.A.	Olsztyn	Manufacturing & commercial	100.00
Serbia			
Tigar Tyres d.o.o.	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Voluntari	Manufacturing & commercial	99.86
Euromaster Tyre & Services Romania S.A.	Voluntari	Commercial	100.00
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Birmingham	Commercial	100.00
Blackcircles.com Limited	Peebles	Commercial	100.00
LB Central Limited	London	Miscellaneous	100.00
Livebookings Holdings Limited	London	Miscellaneous	100.00
Sweden			
Euromaster AB	Varberg	Commercial	100.00
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Givisiez	Commercial	100.00
Nitor S.A.	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière Michelin, SCmA	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Granges-Paccot	Miscellaneous	100.00
Michelin Mexico Properties Sàrl	Granges-Paccot	Miscellaneous	100.00
Turkey			
Michelin Lastikleri Ticaret A.S.	Istanbul	Commercial	100.00
AFRICA / INDIA / MIDDLE EAST			
South Africa			
Michelin Tyre Company South Africa Proprietary Limited	Boksburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Commercial	100.00
Nigeria			
Michelin Tyre Services Company Ltd.	Lagos	Commercial	60.28
India			
Michelin India Private Limited	Chennai	Manufacturing	100.00
NORTH AMERICA			
Canada			
Michelin North America (Canada) Inc.	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	New Glasgow	Commercial	100.00
United States of America			
Michelin North America, Inc.	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Wilmington	Commercial	100.00
Tire Centers, LLC	Wilmington	Commercial	100.00
CR Funding Corporation	Wilmington	Financial	100.00
Michelin Corporation	New York	Financial	100.00
Oliver Rubber Company, LLC	Wilmington	Manufacturing	100.00
Mexico			
Michelin Mexico Holding, S.A. de C.V.	Queretaro	Financial	100.00
Industrias Michelin, S.A. de C.V.	Mexico City	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% of interest
SOUTH AMERICA			
Argentina			
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Buenos Aires	Commercial	100.00
Brazil			
Sociedade Michelin de Participações, Indústria e Comércio Ltda.	Rio de Janeiro	Manufacturing & commercial	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda.	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda.	Rio de Janeiro	Miscellaneous	100.00
Michelin Monitoramento de Ativos do Brasil Ltda.	Rio de Janeiro	Miscellaneous	100.00
Sascar Participações S.A.	Santana Do Parnaíba	Miscellaneous	100.00
Sascar Tecnologia E Segurança Automotiva S.A.	Santana Do Parnaíba	Miscellaneous	100.00
Levneo Participações Ltda	Guarulhos	Manufacturing & commercial	100.00
Chile			
Michelin Chile Ltda.	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Bogotá	Commercial	99.96
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
SOUTHEAST ASIA / AUSTRALIA			
Australia			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00
Indonesia			
PT Michelin Indonesia	Jakarta	Commercial	100.00
PT Synthetic Rubber Indonesia	Jakarta	Manufacturing	55.00
Malaysia			
Michelin Malaysia Sdn. Bhd.	Petaling Jaya	Commercial	100.00
Singapore			
Michelin Asia (Singapore) Co. Pte. Ltd.	Singapore	Commercial	100.00
Michelin Asia-Pacific Pte Ltd	Singapore	Miscellaneous	100.00
Société des Matières Premières Tropicales Pte. Ltd.	Singapore	Miscellaneous	100.00
Thailand			
Michelin Siam Company Limited	Bangkok	Manufacturing & commercial	100.00
Michelin Thai Holding Co., Ltd.	Bangkok	Financial	100.00
Vietnam			
Michelin Vietnam Company Limited	Ho Chi Minh City	Commercial	100.00
CHINA			
China			
Michelin Shenyang Tire Co., Ltd.	Shenyang	Manufacturing	100.00
Shanghai Michelin Tire Co., Ltd.	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd.	Shanghai	Commercial	100.00
Taiwan			
Michelin Tire Taiwan Co., Ltd.	Taipei	Commercial	100.00
EASTERN EUROPE			
Russia			
Michelin Russian Tyre Manufacturing Company LLC	Davydovo	Manufacturing & commercial	100.00
Ukraine			
Michelin Ukraine LLC	Kiev	Commercial	100.00
JAPAN / KOREA			
Japan			
Nihon Michelin Tire Co., Ltd.	Tokyo	Commercial	100.00
South Korea			
Michelin Korea Co., Ltd.	Seoul	Commercial	100.00

NOTE 37 STATUTORY AUDITORS'FEES

The following table sets out the details of the fees charged in 2015 and 2016 by the Michelin Group auditors:

	PricewaterhouseCoopers		Deloitte		Total	
(in € thousand)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Audit fees	4,828	4,223	2,602	2,966	7,430	7,189
Non Audit fees	867	1,348	982	847	1,849	2,195
TOTAL	**5,695**	**5,571**	**3,584**	**3,813**	**9,279**	**9,384**

7.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

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. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of Compagnie Générale des Établissements Michelin

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of Compagnie Générale des Établissements Michelin;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Managing Chairman. Our role is to express an opinion on these consolidated financial statements based on our audit.

/ I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2016 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.

/ II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matter:

- Note 2.5 to the consolidated financial statements related to the basis of preparation of the consolidated financial statements presents the main assumptions and estimates used by the management, in particular with respect to impairment of non-financial assets, to employee benefits and income tax.

  As mentioned in note 2.5.1 the actual future cash flows as well as the actual income and expenses may differ from the estimates used, depending upon market trends and changes in the economic environment.

  We have examined the process applied by the management for the determination of the assumptions and estimates used and their implementation, the related evaluation of assets and liabilities as well as the corresponding information disclosed in the notes to the consolidated financial statements.

This assessment was made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

/ III.Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, February 13, 2017

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Pascale Chastaing-Doblin

The Statutory Auditors
Members of the "Compagnie régionale de Versailles"

8 / COMPANY FINANCIAL STATEMENTS

8.1 REVIEW OF THE FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN 276

8.1.1 Income Statement 276

8.1.2 Balance Sheet 276

8.2 FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (PARENT COMPANY) 277

Balance Sheet at December 31, 2016 277

Income Statement for the Year ended December 31, 2016 279

Notes to the Financial Statements 280

8.3 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS 290

8.4 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES 291

8.5 STATEMENT OF CHANGES IN EQUITY 292

8.6 APPROPRIATION OF 2016 NET INCOME 292

8.7 FIVE-YEAR FINANCIAL SUMMARY 293

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 all the manufacturing, sales and research operations based in France;
- Compagnie Financière Michelin "Senard et Cie" (CFM), a wholly-owned subsidiary that owns most of the Group's manufacturing, sales and research companies outside of France and coordinates their operations.

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

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

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

8.1.1 INCOME STATEMENT

CGEM reported net income of €1,415.9 million in 2016 versus €589.7 million in 2015.

8.1.1 a) Operating income

Operating income amounted to €136.3 million, compared with €161.6 million in 2015. Royalty revenue decreased by 4.8% during the year, reflecting a similar fall in net sales by Group companies, while operating expenses declined by €1.5 million to €401.4 million versus €402.9 million in 2015.

8.1.1 b) Financial income

Net financial income amounted to €1,303.9 million in 2016, compared with €468.2 million the previous year, reflecting an increase in dividend income.

8.1.2 BALANCE SHEET

Equity amounted to €6,987 million at December 31, 2016 versus €6,294 million a year earlier. The increase primarily reflected the rise in net income, which was partially offset by the decline in share capital and paid-in capital in excess of par due to the cancellation of 3,347,040 shares during the year under the share buyback program launched by the Group in April 2015.

8.2 FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (PARENT COMPANY)

BALANCE SHEET AT DECEMBER 31, 2016

ASSETS *(in € thousand)*		Note	December 31, 2016 Cost	December 31, 2016 Depreciation, amortization & provisions	December 31, 2016 Net	December 31, 2015 Net
Non-current assets						
Intangible assets						
Brands, licenses and other rights			449,191	26,191	423,000	0
Other intangible assets			61	61	0	0
		5	**449,252**	**26,252**	**423,000**	**0**
Property and equipment						
Land			102	0	102	102
Buildings			1,837	1,837	0	0
Other			346	346	0	0
		5	**2,285**	**2,183**	**102**	**102**
Investments[1]						
Shares in subsidiaries and affiliates		5-6-7-21-22	6,145,676	67,269	6,078,407	6,083,038
Loans and advances to subsidiaries and affiliates		5-7-9	400,421	0	400,421	350,424
Loans		5-6-7-9	257,877	3,004	254,873	253,970
Other equity interests		5-7-22	2,782	0	2,782	3,009
		5	**6,806,756**	**70,273**	**6,736,483**	**6,690,441**
	(I)		**7,258,293**	**98,708**	**7,159,585**	**6,690,543**
Current assets						
Receivables[2]		7-9	692,393	0	692,393	579,478
Marketable securities		8	1	0	1	1
Cash			867,107	0	867,107	891,506
			1,556,220	**0**	**1,559,571**	**1,470,985**
Prepaid expenses[2]			70	0	70	430
	(II)		**1,559,571**	**0**	**1,559,571**	**1,471,415**
Deferred charges and bond call premiums	**(III)**		**0**		**0**	**0**
Conversion losses	**(IV)**					
ASSETS	**(I)+(II)+(III)+(IV)**		**8,817,863**	**98,708**	**8,719,156**	**8,161,958**
(1) of which: short-term					*655,297*	*90,946*
(2) of which: long-term					*0*	*0*

EQUITY AND LIABILITIES *(in € thousand)*		Note	December 31, 2016	December 31, 2015
Equity				
Share capital		11	360,132	363,804
Paid-in capital in excess of par		11	3,023,996	3,222,121
Revaluation reserve		12	624,772	624,772
Other reserves		12	1,284,333	1,284,579
Retained earnings		12	215,837	147,895
Net income for the year		12	1,415,894	589,684
Untaxed reserves		12	61,598	61,598
	(I)		**6,986,562**	**6,294,453**
Liabilities[1]				
Convertible bonds		10	753,134	731,648
Other bonds		10	8	8
Other borrowings		10	150,002	212,426
Other financial liabilities[2]		7-10	412,985	601,265
Accrued taxes and payroll costs		10	25,470	3,144
Other liabilities		7-10	390,995	319,014
	(II)		**1,732,594**	**1,867,505**
Conversion gains	**(III)**		**0**	**0**
EQUITY AND LIABILITIES	**(I)+(II)+(III)**		**8,719,156**	**8,161,958**
(1) of which: long-term			*0*	*731,648*
of which: short-term			*1,732,594*	*1,135,857*
(2) of which: short-term bank loans and overdrafts			*0*	*0*

Notes 1 to 23 are an integral part of the financial statements of Compagnie Générale des Établissements Michelin.

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2016

(in € thousand)		Note	2016	2015
Revenue				
Royalties—of which, export revenues: 489,442		14	537,617	564,550
Other revenue			21	28
Total revenue	**(I)**		**537,638**	**564,578**
Operating expenses				
External charges[3]			393,272	393,563
Taxes other than on income			7,639	8,186
Wages and salaries		17-18	34	670
Payroll taxes			(4)	199
Other expenses			410	329
Total operating expenses	**(II)**		**401,351**	**402,947**
OPERATING INCOME	**(I)-(II)**		**136,287**	**161,631**
Financial income				
Dividends from subsidiaries and affiliates[1]		2	1,318,122	513,690
Interest income[1]			1,974	2,847
Provision reversals[1]			16,096	5
Exchange gains			9,040	19,094
Total financial income	**(III)**		**1,345,232**	**535,636**
Financial expense				
Amortization and provision expense[2]			6,172	23,511
Interest expense[2]			26,095	24,585
Exchange losses			9,069	19,366
Total financial expenses	**(IV)**		**41,336**	**67,462**
NET FINANCIAL INCOME	**(III)-(IV)**		**1,303,896**	**468,174**
INCOME BEFORE NON-RECURRING ITEMS AND TAX	**(I-II+III-IV)**		**1,440,183**	**629,805**
Non-recurring income				
From revenue transactions			0	0
From capital transactions			123	789
Total non-recurring income	**(V)**		**123**	**789**
Non-recurring expenses				
From revenue transactions			0	0
From capital transactions			128	399
Total non-recurring expenses	**(VI)**		**128**	**399**
NET NON-RECURRING INCOME (EXPENSE)	**(V-VI)**		**(5)**	**390**
INCOME TAX EXPENSE	**(VII)**	**15**	**24,284**	**40,511**
Total revenue	(I+III+V)		1,882,993	1,101,003
Total expenses	(II+IV+VI+VII)		467,099	511,319
NET INCOME			**1,415,894**	**589,684**
(1) of which: income from related parties			*1,335,255*	*515,005*
(2) of which: expenses paid to related parties			*6,566*	*23,511*

(3) External charges primarily comprised R&D and services costs rebilled to the Company by the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

DETAILED SUMMARY OF THE NOTES OF THE FINANCIAL STATEMENTS

Note 1 General Information 281
Note 2 Significant Events of the Year 281
Note 3 Basis of Preparation 281
Note 4 Summary of Significant Accounting Policies 281
Note 5 Non-Current Assets 282
Note 6 Provisions 283
Note 7 Items Relating to Several Balance Sheet Items 283
Note 8 Treasury Stock 283
Note 9 Maturities of Loans and Receivables 283
Note 10 Maturities of Payables and Long and Short-term debt 284
Note 11 Share Capital and Paid-In Capital in Excess of Par 284
Note 12 Other Equity 284
Note 13 Share-Based Payments 285
Note 14 Revenue 286
Note 15 Income Tax 287
Note 16 Market Risks 287
Note 17 Management Compensation 287
Note 18 Average Number of Employees 287
Note 19 Retirement Benefits 288
Note 20 Fees Paid to the Statutory Auditors 288
Note 21 Securities Portfolio at December 31, 2016 288
Note 22 List of Subsidiaries and Affiliates 289
Note 23 Financial Commitments 289

NOTE 1 GENERAL INFORMATION

The Company's financial year covers the 12 months from January 1 to December 31.

The following notes and tables form an integral part of the financial statements.

The financial statements were approved for publication by the Chief Executive Officer on February 9, 2017 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

- Since 1995, all R&D technology relating to tires and sustainability solutions had been owned 75% by the Company and 25% by Michelin Recherche et Technique SA (MRT).

  Compagnie Générale des Établissements Michelin owned two Group brands, Michelin and Kléber. MRT had a portfolio of other Group brands, including BFGoodrich and other brands of purely national or regional importance, the profits of which flowed exclusively to the Company.

  In order to simplify the ownership structure of intangible assets and more effectively align work, assets and functions with the resulting revenue flows, the decision was made to bring all of the technology that had until then been jointly owned by the Company and MRT as well as all of the brands held by MRT under the exclusive control of the Company. The assets were sold on December 31, 2016 for an amount of €423 million.
- Payment of a dividend of €1,311 million by Compagnie Financière Michelin "Senard et Cie".
- Cancellation of 3,347,040 shares bought back in 2016 for a total amount of €300,600 thousand.
- Issuance of 657,366 shares in connection with the Group's 2016 employee share ownership plan.

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 (*Plan comptable général,* 1999). These principles have been applied consistently in all periods presented unless otherwise specified.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Intangible assets

"Brands, patents and other rights" are stated at historical cost. Patents and other rights are amortized over seven years, while brands are not amortized.

Expenses incurred for the creation and protection of brands are recognized as expenses for the year.

"Other intangible assets" consist of vehicle parking rights, which are amortized over 40 years.

4.2 Property and equipment

/ 4.2.1 Cost

Property and equipment are stated at historical cost, except for assets held at the time of the 1976/1978 legal revaluation, which are stated at valuation.

/ 4.2.2 Depreciation

Property, plant 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 5 years.

4.3 Investments

/ 4.3.1 Shares in subsidiaries and affiliates

Cost: Shares in subsidiaries and affiliates are stated at historical cost, except for investments held at the time of the 1976/1978 legal revaluation, which are stated at valuation.

Net book values: Shares in subsidiaries are written down in the event of a lasting decline in value in use to below cost. Value in use generally corresponds to the Company's share in the investee's underlying adjusted or unadjusted net assets or consolidated net assets, as adjusted for its earnings outlook.

/ 4.3.2 Other equity interests

This item includes shareholdings that the Company intends to retain, but which are not held for purposes directly related to the Company's business.

Other equity interests are measured in the same way as shares in subsidiaries and affiliates.

/ 4.3.3 Loans

Loans are stated at nominal value and a provision for impairment is recognized to cover any risk of non-recovery.

4.4 Receivables

Accounts receivable are stated at nominal value and a provision for impairment is recognized to cover any risk of non-recovery.

4.5 Paid-in capital in excess of par

This item corresponds to premiums on shares issued for cash or on conversion of bonds, after deducting issuance costs net of tax. When shares are cancelled, the difference between their purchase cost and par value is recorded as a deduction from paid-in capital in excess of par.

4.6 Untaxed reserves

Substantially all untaxed reserves correspond to reinvested capital gains qualifying for rollover relief under the former Article 40 of the French General Tax Code *(Code général des impôts)*.

4.7 Conversion of foreign currencies

Revenues and expenses in foreign currencies are converted at the transaction date exchange rate.

Foreign currency receivables and payables are converted at the year-end exchange rate.

Foreign currency forward contracts that are outstanding at the balance sheet date are marked to market in the balance sheet. Their notional amounts are recognized in off-balance sheet items.

4.8 Income taxes

Income tax expense in the income statement includes the Company's current taxes, the net income of the tax group and the surtax on dividends.

NOTE 5 NON-CURRENT ASSETS

Changes in intangible assets, property and equipment and the corresponding depreciation/amortization can be analyzed as follows:

5.1 Changes in non-current assets

(in € thousand)	Cost at January 1, 2016	Additions, new loans, increases in accrued interest	Disposals, decommissioning, reduction in loans and accrued interest	Cost at December 31, 2016
Intangible assets	26,252	423,000	0	449,252
Property and equipment	2,285	0	0	2,285
	28,537	**423,000**	**0**	**451,537**
Shares in subsidiaries and affiliates	6,145,629	47	0	6,145,676
Loans and advances to subsidiaries and affiliates	350,424	49,997	0	400,421 (1)
Loans	271,522	0	(13,645)	257,877 (1)
Other equity interests	3,064	53	(335)	2,782
	6,770,639	**50,097**	**(13,980)**	**6,806,756**
TOTAL	**6,799,176**	**473,097**	**(13,980)**	**7,258,293**

(1) Loans are granted to related companies.

5.2 Depreciation and amortization

	At January 1, 2016	Increase for the year	Decrease for the year	At December 31, 2016
Accumulated amortization (Intangible assets)	26,252	0	0	26,252
Accumulated depreciation (Property and equipment)	2,183	0	0	2,183
TOTAL	**28,435**	**0**	**0**	**28,435**

NOTE 6 PROVISIONS

	At January 1, 2016	Increase for the year	Decrease for the year	At December 31, 2016
Provisions for impairment of shares in subsidiaries and affiliates and other equity interests	62,646	4,678	(55)	67,269
Provisions for impairment of loans	17,552	1,493	(16,041)	3,004
TOTAL	**80,198**	**6,171**	**(16,096)**	**70,273**

NOTE 7 ITEMS RELATING TO SEVERAL BALANCE SHEET ITEMS

	Transactions involving	
Balance sheet items (net book value)	Related companies	Other companies in which the Company holds an equity interest
Shares in subsidiaries and affiliates	6,078,407	0
Loans and advances to subsidiaries and affiliates	400,421	0
Loans	254,873	0
Other equity interests	0	2,762
Receivables	419,737	0
Other financial liabilities	412,985	0
Other liabilities	389,634	0

NOTE 8 TREASURY STOCK

The Company did not hold any treasury stock at December 31, 2016 (0 treasury shares held at December 31, 2015).

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	400,421	400,421	0
Loans	257,877	254,877	3,000
Current assets			
Receivables	692,393	692,393	0
TOTAL	**1,350,691**	**1,347,691**	**3,000**

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	753,134[(1)]	753,134	0	0
Other bonds	8	8	0	0
Other borrowings	150,002[(2)]	150,002	0	0
Other financial liabilities	412,985	412,985	0	0
Accrued taxes and payroll costs	25,470[(3)]	25,470	0	0
Other liabilities	390,995[(4)]	390,995	0	0
TOTAL	**1,732,594**	**1,732,594**	**0**	**0**

(1) 2007-2017 convertible bond issue. The related issuance costs were expensed.
(2) The commercial paper program totaled €1.5 billion, with the nominal amounts outstanding as of December 31, 2016 representing €74 million, US$55 million and £20 million.
(3) An accrual of €2,242 thousand was recorded in respect of the Chief Executive Officer's rights to long-term incentive plan payments that vested in prior years.
(4) Including €389,634 thousand in liabilities towards related companies and €884 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, 2016: 181,902,182 shares	**363,804**	**3,222,121**	**3,585,925**
Issuance of 1,510,979 shares in connection with the employee share ownership plan and on exercise of stock options	3,022	95,781	98,803
Cancellation of 3,347,040 shares	(6,694)	(293,906)	(300,600)
AT DECEMBER 31, 2016: 180,066,121 SHARES	**360,132**	**3,023,996**	**3,384,128**

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, 2016	**624,772**	**1,284,579**	**147,895**	**589,684**	**61,598**	**2,708,528**
Appropriation of 2015 net income			64,282	(589,684)		(525,402)
Dividends on treasury stock			3,660			3,660
Deduction for performance share issuance		(246)				(246)
2016 net income				1,415,894		1,415,894
AT DECEMBER 31, 2016	**624,772**	**1,284,333**	**215,837**	**1,415,894**	**61,598**	**3,602,434**
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		365,756				

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:

	2016		2015	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**65.87**	**1,733,471**	**67.41**	**2,743,458**
Granted	0.00	-	-	-
Cancelled	85.79	(338,023)	66.68	(99,988)
Exercised	67.27	(723,420)	70.41	(909,999)
AT DECEMBER 31	**54.35**	**672,028**	**65.87**	**1,733,471**

Of the 672,028 options outstanding at December 31, 2016, 672,028 were exercisable at that date (2015: 1,592,445 out of 1,733,471).

Stock option plans in effect at December 31, 2016:

			December 31, 2016		December 31, 2015	
Grant date	Start of exercise period	End of exercise period	Exercise price *(in € per option)*	Number of options outstanding	Exercise price *(in € per option)*	Number of options outstanding
May 2006	May 2010	May 2015	55.99	-	55.99	-
May 2007	May 2011	May 2016	87.85	-	87.85	596,721
May 2008	May 2012	May 2017	59.85	75,662	59.85	167,878
November 2009	November 2013	November 2018	51.16	317,554	51.16	541,785
May 2010	May 2014	May 2019	52.13	102,910	52.13	150,951
May 2011	May 2015	May 2020	66.00	93,288	66.00	135,110
June 2012	June 2016	June 2021	51.16	82,614	51.16	141,026
NUMBER OF OPTIONS OUTSTANDING				**672,028**		**1,733,471**

Performance share plans

The number of performance share rights outstanding may be analyzed as follows:

	2016	2015
	Number of performance share rights outstanding	Number of performance share rights outstanding
At January 1	**732,406**	**1,007,798**
Granted	120,520	84,892
Cancelled	(61,027)	(132,795)
Delivered	(122,963)	(227,489)
AT DECEMBER 31	**668,936**	**732,406**

In November 2016, 120,520 rights to shares of Company stock, subject to certain performance conditions (performance shares) were granted to Michelin Group employees. The rights are subject to a four-year vesting period ending in November 2020 without any lock-up period. The shares will vest at the end of this period if the performance objectives concerning growth in the share price and operating income, the environmental performance of manufacturing operations and the employee engagement level have been met. The fair value of each performance share right is estimated at €66.41, 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. The fair value of performance shares at date of grant may fall if the likelihood of meeting the market performance condition decreases.

Performance share plan data:

Grant date	Vesting date		Lock-up period		Fair value at date of grant		December 31, 2016 Number of performance share rights outstanding	December 31, 2015 Number of performance share rights outstanding
	France	Other countries	France	Other countries	France	Other countries		
2011	2014	2015	2 years	None	37.49	35.49	-	-
2012	2015	2016	2 years	None	61.87	59.46	-	178,632
2013	2017	2017	None	None	69.43	69.43	78,168	78,544
2014	2018	2018	None	None	63.05	63.05	279,864	283,670
2014	2018	2018	None	None	63.05	63.05	106,244	106,668
2015	2019	2019	None	None	82.24	82.24	84,140	84,892
2016	2020	2020	None	None	66.41	66.41	120,520	-
NUMBER OF PERFORMANCE SHARE RIGHTS OUTSTANDING							**668,936**	**732,406**

Employee share issues

In 2016, the Group launched the Bib'Action employee share issue open to all employees resident in countries where the plan was authorized under local legal and tax rules. Carried out in connection with the Group Savings Plan (PEG), Bib'Action gave employees an opportunity to purchase Michelin shares at a discount to their market price, subject to a five-year lock-up.

The issue price was set at €76.38, a 20% mark down on the reference price of €95.47, which corresponded to the average of the opening prices quoted for the Michelin share over the twenty trading days preceding the day on which the issue price was set. In addition, employee contributions were matched, with the Group contributing five shares for each of the first five shares purchased, thus increasing the number of shares received by participating employees.

A total of 657,366 shares were subscribed under the share issue.

The following table presents the main features of the plan and the key assumptions used to determine the plan costs:

Lock-up period	5 years
Number of shares purchased	657,366
Reference price *(in €)*	95.47
Purchase price for employees *(in €)*	76.38

NOTE 14 REVENUE

Revenue for the year totaled €537,617 thousand, consisting entirely of royalties received from:

France	48,175
Outside France	489,442
TOTAL	**537,617**

NOTE 15 INCOME TAX

Compagnie Générale des Établissements Michelin is the parent company of a tax group that also comprises thirteen French subsidiaries that are at least 95%-owned directly or indirectly.

Under the terms of the group relief agreement, each subsidiary in the tax group continues to record the income tax expense that it would have paid if it had been taxed on a stand-alone basis and any group relief is recorded at the level of Compagnie Générale des Établissements Michelin.

The income tax that would be payable by the thirteen subsidiaries if they were taxed on a stand-alone basis amounted to €6,482 thousand for 2016, before taking into account tax credits of €39,512 thousand.

Income tax recognized in the CGEM financial statements includes current taxes.

Income tax reported in the income statement can be analyzed as follows:

Current tax due from CGEM alone	30,621
Group relief	(17,910)
3% surtax on distributed income	15,652
Other	(4,079)
TOTAL	**24,284**

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, 2016, the Company had receivables corresponding to royalties with a net book value of €180 million. These receivables have been converted into euros at the year-end exchange rate. The policy is to hedge currency risk through currency futures.

16.3 Equity risk

The Company holds shares in subsidiaries and affiliates and other equity interests that are valued at value in use.

NOTE 17 MANAGEMENT COMPENSATION

As per its bylaws, the Company is administered by one or several General Managing Partners who are entitled to a share of the income distributed among all the General Partners in accordance with the provisions of the bylaws. The Managing Partner(s) do not receive any other compensation or benefits in kind.

The statutory share of 2015 profit allocated to the Chief Executive Officer and General Managing Partner in 2016 amounted to €1.2 million (2015: €0.7 million in respect of 2014 profit).

NOTE 18 AVERAGE NUMBER OF EMPLOYEES

	Employees on the payroll 2016	Employees on the payroll 2015
Managers	0	1
Employees	0	6
	0	**7**

NOTE 19 RETIREMENT BENEFITS

In light of the fact that the Company no longer has any employees, it is no longer liable for the payment of retirement benefits.

NOTE 20 FEES PAID TO THE STATUTORY AUDITORS

	Deloitte & Associés	PricewaterhouseCoopers Audit
Audit services	345	409
Non-audit services	-	21

NOTE 21 SECURITIES PORTFOLIO AT DECEMBER 31, 2016

	Number of securities	Book value
Shares in subsidiaries and affiliates		
Compagnie Financière Michelin "Senard et Cie"	25,023,334 shares	4,325,374
Manufacture Française des Pneumatiques Michelin	13,263,056 shares	1,614,296
Spika S.A.	200,000 shares	138,737
		6,078,407
Other equity interests		
SI Participations	17,776 shares	278
Siparex Associés	157,648 shares	2,484
Other		20
		2,782

NOTE 22 LIST OF SUBSIDIARIES AND AFFILIATES

Subsidiaries and affiliates *(in € thousand unless otherwise specified)*	**Share capital**[1][2]	**Other equity excl. income**[1][2]	**% interest**	**Book value of shares**		**Outstanding loans and advances**	**Guarantees given by the Company**	**Last published revenue**[2]	**Last published profit/(loss)**[1][2]	**Dividends received during the year**
				Cost	**Net**					
A. Detailed information about subsidiaries and affiliates (investments with a book value in excess of 1% of the Company's capital)										
Compagnie Financière Michelin "Senard et Cie" Route Louis-Braille 10, 1763 Granges-Paccot (Switzerland)	2,502,355 *(in CHF thousands)*	8,041,396 *(in CHF thousands)*	99.99	4,325,374	4,325,374	152,553	-	-	768,641 *(in CHF thousands)*	1,311,171
Manufacture Française des Pneumatiques Michelin Place des Carmes-Déchaux, 63000 Clermont-Ferrand	504,000	1,693,263	99.99	1,614,296	1,614,296	400,420	-	5,109,714	18,541	-
Spika S.A. 23, rue Breschet, 63000 Clermont-Ferrand	183,000	(38,025)	100.00	205,915	138,737	-	-	-	(20,303)	-
B. Aggregate information about other subsidiaries and affiliates										
1. Subsidiaries not listed under A:										
▶ French companies				-	-	-	-			-
▶ Foreign companies				91	-	-	-			
2. Affiliates not listed under A										
▶ French companies				2,762	2,762	-	-			-
▶ Foreign companies				-	-	-	-			-

(1) In local currency.
(2) Year ended December 31, 2015.

NOTE 23 FINANCIAL COMMITMENTS

23.1 Lines of credit

	2016	**2015**
Lines of credit granted by the Company to related companies	763,600	772,000
Drawdowns	(365,500)	(323,000)
AVAILABLE AT DECEMBER 31	**398,100**	**449,000**

These lines of credit expire in 2017 (€163,600 thousand) and 2018 (€600,000 thousand).

23.2 Currency futures

At December 31, 2016, the value in euros of the currency futures was as follows:

- currency to be received €123,991 thousand;
- currency to be delivered €120,262 thousand.

8.3 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

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. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of Compagnie Générale des Établissements Michelin

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of Compagnie Générale des Établissements Michelin ("the Company");
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Managing Chairman. Our role is to express an opinion on these financial statements based on our audit.

/ I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sample techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31,2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

/ II - Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

- The Company makes an annual assessment of the inventory value of its shares in subsidiaries and affiliates using the method described in the note 4 to the financial statements "Accounting policies—Investments".

  We have examined the methodology used by the Company and its implementation based on the available information, and we have assessed the fairness of the estimates made by the Company.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

/ III - Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Managing Chairman, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information relating to the statutory allocation and the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code *(Code de commerce)* relating to remunerations and benefits received by the Managing Partners and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine, February 13, 2017

PricewaterhouseCoopers Audit
Éric Bulle

Deloitte & Associés
Pascale Chastaing-Doblin

The Statutory Auditors
Members of the *"Compagnie régionale de Versailles"*

8.4 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

For the year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code 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 Compagnie Générale des Établissements Michelin ("the Company"), we hereby report on regulated agreements and commitments with third parties.

It is our responsibility to report to you, based on the information provided to us, on the main terms, conditions and the reasons justifying the interest for the Company, of the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. It is your responsibility, pursuant to Article R. 226-2 of the French Commercial Code *(Code de commerce),* to assess the interest of entering into these agreements and commitments with a view to approving them.

Where applicable, it is our responsibility to communicate to you the information pursuant to Article R. 226-2 of the French Commercial Code *(Code de commerce)* relating to carrying out the agreements and commitments already approved by the shareholders' meeting during the year.

We conducted the procedures we deemed necessary in accordance with professional standards applicable in France.

/ Agreements and commitments to be submitted for the approval of the Shareholders' Meeting

We were not informed of any agreement or commitment to be submitted for approval at the Shareholders' Meeting pursuant to the provision of Article L. 226-10 of the French Commercial Code.

/ Agreements and commitments authorized in prior years by the Shareholders' Meeting

We inform you that we have not been advised of any agreements and commitments, approved by the Shareholders' Meeting in prior years, having continuing effect during the year.

Neuilly-sur-Seine, February 13, 2017

PricewaterhouseCoopers Audit
Éric Bulle

Deloitte & Associés
Pascale Chastaing-Doblin

The Statutory Auditors
Members of the "Compagnie régionale de Versailles"

8.5 STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY

(in € thousand and € per share)	2016	2015
Net income		
Accounting profit		
Total: Net income/(loss)	1,415,894	589,684
Per share: Net income/(loss)	7.86	3.24
Recommended dividend		
Total	585,215	518,421
Per share[1]	3.25	2.85

(1) Subject to approval by shareholders at the Annual Meeting on May 19, 2017.

Statement of changes in equity *(in € thousand)*	2016	2015
A) 1 – Equity at December 31, 2015 before dividends	**6,294,453**	**6,559,529**
2 – Dividend approved by the Annual Shareholders Meeting	(525,402)	(469,316)
B) Equity at January 1, 2016 after dividends	**5,769,051**	**6,090,213**
C) Movements for the year:		
1 – Par value of shares issued during the year	(3,672)	(7,648)
2 – Increase in paid-in capital in excess of par	(198,125)	(378,772)
3 – Change in reserves and retained earnings[1]	3,414	976
4 – Net income for the year	1,415,894	589,684
D) Equity at December 31, 2016 before dividends	**6,986,562**	**6,294,453**
E) TOTAL CHANGES IN EQUITY DURING THE YEAR	**1,217,510**	**204,240**
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	**1,217,510**	**204,240**
Notes:		
C3 – Amounts transferred to the revaluation reserve during the year	*0*	*0*
C6 – Dividends on treasury shares credited to retained earnings	*3,660*	*1,431*
(1) Excluding appropriation of 2015 net income.		

8.6 APPROPRIATION OF 2016 NET INCOME

(in € thousand)		
Amount to be appropriated		
Retained earnings brought forward from prior year		215,837
Net income for the year		1,415,894
Recommended appropriations		
Dividend	585,215[1]	
Statutory share of income attributed to the General Partners	10,000[1]	
Retained earnings	1,036,516	
TOTAL	**1,631,731**	**1,631,731**

(1) Subject to approval by shareholders at the Annual Meeting on May 19, 2017.

8.7 FIVE-YEAR FINANCIAL SUMMARY

(in € thousand and in € per share, unless otherwise specified)		2012	2013	2014	2015	2016
I –	**Capital at December 31**					
a)	Share capital	365,113	371,579	371,452	363,804	360,132
b)	Number of common shares outstanding	182,556,713	185,789,643	185,726,200	181,902,182	180,066,121
II –	**Results of operations**					
a)	Net revenue	566,610	545,071	503,954	564,550	537,617
b)	Earnings before tax, depreciation, amortization and provisions (EBTDA)	477,181	331,917	598,149	653,701	1,430,254
c)	Income tax	(7,993)	12,741	22,365	40,511	24,284
d)	Net income	465,119	302,985	555,428	589,684	1,415,894
III –	**Per share data**					
a)	Earnings per share after tax, before depreciation, amortization and provision expenses (EBDA)	2.66	1.72	3.10	3.37	7.80
b)	Basic earnings per share	2.55	1.63	2.99	3.24	7.86
c)	Dividend per share	2.40	2.50	2.50	2.80	3.25(1)
IV –	**Employee data**					
a)	Average number of employees	10	8	8	7	0(2)
b)	Total payroll	1,434	485	318	670	34
c)	Total benefits	648	(119)	139	199	(4)

(1) Subject to approval by shareholders at the Annual Meeting on May 19, 2017.
(2) All of the employees were transferred to a Company subsidiary on January 1, 2016. The above amounts mainly correspond to expenses relating to long-term incentive bonuses awarded to the Chief Executive Officer.

9/ ADDITIONAL INFORMATION

9.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT 296

9.2 STATUTORY AUDITORS 296

9.2.1 Statutory Auditors 296

9.2.2 Fees Paid to the Statutory Auditors of Compagnie Générale des Établissements Michelin (CGEM) 297

9.3 2014 AND 2015 FINANCIAL STATEMENTS INCORPORATED BY REFERENCE 297

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.

The consolidated financial statements for the year ended December 31, 2016 have been audited by the Statutory Auditors. Their report is provided in section 7.2 of this Registration Document.

The consolidated financial statements for the year ended December 31, 2015, incorporated by reference in section 9.3 of this Registration Document, have been audited by the Statutory Auditors.

The consolidated financial statements for the year ended December 31, 2014, incorporated by reference in section 9.3 of this Registration Document, have been audited by the Statutory Auditors.

Clermont-Ferrand, March 6, 2017.

Jean-Dominique Senard,
Managing Chairman

9.2 STATUTORY AUDITORS

9.2.1 STATUTORY AUDITORS

Under French law, the accounts of listed companies are required to be audited by two independent Statutory Auditors. The purpose of this requirement is to provide assurance that the financial statements have been properly prepared and comply with the true and fair view principle.

The Statutory Auditors are appointed by the Annual Shareholders Meeting for a six-year term, based on a recommendation made by the Supervisory Board following a selection process overseen by the Audit Committee. They may be re-appointed for successive terms. They test the fairness of financial statements and carry out all of the statutory audit work required by law. Michelin does not ask them to perform any other engagements that might impair their independence.

The Statutory Auditors of Compagnie Générale des Établissements Michelin, Michelin's holding Company are:

PricewaterhouseCoopers Audit

Registered member of the *Compagnie régionale des Commissaires aux Comptes de Versailles*

63, rue de Villiers
92208 Neuilly-sur-Seine

Represented by Éric Bulle, Partner
Substitute Statutory Auditor, Jean-Baptiste Deschryver, Partner, PricewaterhouseCoopers Audit

Deloitte & Associés

Registered member of the *Compagnie régionale des Commissaires aux Comptes de Versailles*

185, avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine

Represented by Pascale Chastaing-Doblin, Partner
Substitute Statutory Auditor, BEAS

195, avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine Cedex

There are no legal or financial ties of any sort between the two accounting firms or the lead partners.

The Statutory Auditors' term of office will expire at the end of the Annual Shareholders Meeting to be held in 2022 to approve the 2021 accounts.

9.2.2 FEES PAID TO THE STATUTORY AUDITORS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (CGEM)

The following table sets out the details of the fees charged in 2015 and 2016 by the Michelin Group auditors:

	PricewaterhouseCoopers		Deloitte		Total	
(in € thousand)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Audit fees	4,828	4,223	2,602	2,966	7,430	7,189
Non Audit fees	867	1,348	982	847	1,849	2,195
TOTAL	**5,695**	**5,571**	**3,584**	**3,813**	**9,279**	**9,384**

9.3 2014 AND 2015 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, 2014 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with the AMF on March 2, 2015 (D.15-0093), respectively on pages 196 to 260 and 261.
- Consolidated financial statements for the period ended December 31, 2015 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with the AMF on March 7, 2016 (D.16-0114), respectively on pages 192 to 256 and 257.

10/ ANNUAL SHAREHOLDERS MEETING OF MAY 19, 2017

10.1 REPORT OF THE CHIEF EXECUTIVE OFFICER AND PROPOSED RESOLUTIONS **300**

10.1.1 Ordinary Resolutions 300

10.1.2 Extraordinary Resolutions 309

10.1.3 Summary of Financial Authorizations Submitted for Shareholder Approval 309

10.2 REPORT OF THE SUPERVISORY BOARD **310**

10.2.1 Compensation Policies Applicable to the Chief Executive Officer and the Chairman of the Supervisory Board 310

10.2.2 Recommendations Concerning the Votes on the Proposed Resolutions 314

10.3 STATUTORY AUDITOR'S REPORTS **317**

10.3.1 Statutory Auditors' Report on the Capital Reduction 317

10.3.2 Other Statutory Auditors' Reports 318

10.1 REPORT OF THE CHIEF EXECUTIVE OFFICER AND PROPOSED RESOLUTIONS

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 addition to the explanations contained in this report and the report of the Supervisory Board (see section 10.2), for the financial authorizations sought in the 5th and 10th resolutions, this report includes the references of the corresponding information sheets in the guide to voting at shareholders meetings prepared by the French employers' federation MEDEF ("the MEDEF Guide") pursuant to the recommendations of the working group set up by the French securities regulator (AMF)(1).

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

First and second resolutions

/ Approval of the Company financial statements for the year ended December 31, 2016

/ Appropriation of net income for the year ended December 31, 2016 and approval of the recommended dividend

The 1st and 2nd resolutions concern approval of the Company's 2016 financial statements and appropriation of net income for the year.

Shareholders are invited to approve the transactions reflected in the Company's income statement and balance sheet, as presented, and to appropriate net income for the year which amounts to €1,415,893,797.25.

After deducting €10,003,512.44 attributable to the General Partners in accordance with the bylaws, the balance of €1,405,890,284.81 plus €215,837,538.93 in retained earnings brought forward from prior years represents a total of €1,621,727,823.74 available for distribution to shareholders.

We are recommending paying a 2016 dividend of €3.25 per share.

In order to qualify for the dividend payment, beneficiaries must be shareholders of record at midnight (CET) on May 25, 2017 (the record date).

The ex-dividend date will be May 24, 2017.

The dividend will be paid as from May 26, 2017.

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, 2016)

Having considered the reports of the Chief Executive Officer, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the Company financial statements for the year ended December 31, 2016, which show net income for the period of €1,415,893,797.25.

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, 2016 and approval of the recommended dividend)

On the recommendation of the Chief Executive Officer (as approved by the Supervisory Board), the Ordinary Shareholders Meeting notes that the total amount available for distribution is as follows:

- Net income for the year: €1,415,893,797.25.
- Share of profits attributed to the General Partners in accordance with the bylaws: €10,003,512.44
- Balance: €1,405,890,284.81
- Plus retained earnings brought forward from prior years: €215,837,538.93
- Total amount available for distribution: €1,621,727,823.74

And resolves:

- To pay an aggregate dividend of: €585,214,893.25
  Representing €3.25 per share.
- To appropriate the balance of: €1,036,512,930.49
  to retained earnings.

The dividend will be paid as from May 26, 2017.

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 total dividend will be subject to:

- The graduated tax rate applied to personal income tax, after the application of the 40% allowance provided for under Article 158-3-2° of the French General Tax Code *(Code général des impôts)*.
- A 21% compulsory withholding tax. This tax, which is withheld at source by the paying agent, corresponds to a prepayment of personal income tax and will be deducted from the shareholders' final income tax payment for the year or refunded in the case

(1) Guide entitled "Projets de résolution soumis au vote des actionnaires de sociétés cotées" (January 2016), available (in French only) on the MEDEF's website at www.medef.com/.

of an excess payment. (However, shareholders filing a single tax return whose personal taxable income for 2015 was less than €50,000 [less than €75,000 for shareholders filing a joint tax return] may apply for an exemption from this withholding tax. In order to make such an application, eligible shareholders should have lodged a declaration of honor with the bank holding their shares, by November 30, 2016, stating that their personal taxable income is below the applicable threshold).

- The applicable social security and additional contributions withheld at source by the paying agent at a rate of 15.5%, of which 5.1% is deductible for tax purposes.

In accordance with Article 119 *bis* of the French General Tax Code, dividends paid to shareholders not domiciled in France for tax purposes are subject to withholding tax at a rate based on the local tax rates and laws applicable in 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 €)*
2013	464,474,107.50	2.50
2014	464,315,500.00	2.50
2015	518,421,218.70	2.85

* *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.*

Third resolution

/ Approval of the consolidated financial statements for the year ended December 31, 2016

The purpose of the 3rd resolution is to approve the consolidated financial statements for the year ended December 31, 2016, which show net income for the period of €1,667,752 thousand.

The Registration Document, the Annual and Sustainable Development Report and the Shareholders' Guide, which can be downloaded from the Finance/Individual Shareholders/Documents section of Michelin's website (www.michelin.com), contain an analysis of the consolidated financial statements and year-on-year changes. These documents can also be sent to shareholders on request.

Third resolution
(Approval of the consolidated financial statements for the year ended December 31, 2016)

Having considered the reports of the Chief Executive Officer, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the consolidated financial statements for the year ended December 31, 2016, which show net income for the period of €1,667,252 thousand.

Fourth resolution

/ Related-party agreements

As no related-party agreements were entered into during 2016, 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 2016.

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 2016.

Fifth resolution

/ Authorization for the Chief Executive Officer to put in place a share buyback program, except during a public offer period, based on a maximum purchase price per share of €160

In the 5th 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 €160 and the maximum number of shares purchased would represent less than 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 held on May 13, 2016.

During 2016, the Company used the previous authorization to buy back and cancel approximately 3.3 million shares, resulting in a corresponding capital reduction. For details of the buybacks, see section 5.5.7 of the 2016 Registration Document.

The proposed authorization would not be able to be used while a takeover bid is in progress.

This type of proposed resolution is explained in detail in Information Sheet 4 (Share Buybacks), on page 37 of the MEDEF Guide, available on the MEDEF's website at www.medef.com.

Fifth resolution
(Authorization for the Chief Executive Officer to put in place a share buyback program, except during a public offer period, based on a maximum purchase price per share of 160 euros)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, as well as the description of the share buyback program drawn up in accordance with the requirements of the General Regulations of the AMF, the Ordinary Shareholders Meeting authorizes the Chief Executive Officer, 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 160 (one hundred and sixty) 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, 2016, the maximum amount invested in the program would not exceed 2,881,057,920 (two billion, eight hundred and eighty-one million, fifty-seven thousand, nine hundred and twenty) euros, corresponding to a

number of shares representing 10% (ten percent) of the Company's share capital, or 18,006,612 (eighteen million, six thousand, six hundred and twelve) shares purchased at the maximum purchase price of 160 (one hundred and sixty) 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 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. The maximum number of shares purchased for the purpose of being held and subsequently sold or exchanged in connection with a merger, de-merger or asset contribution shall not exceed 5% of the Company's share capital.
- To implement any other market practices that may be authorized in the future by the applicable laws and the AMF.
- 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 Chief Executive Officer 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 13, 2016.

Sixth resolution

/ Advisory vote on the components of the compensation due or awarded for 2016 to Jean-Dominique Senard, Chief Executive Officer

As prescribed in Article L. 225-37 of the French Commercial Code, the Company bases its corporate governance framework on the Corporate Governance Code for listed companies published by the AFEP and MEDEF (November 2016 version of the AFEP/MEDEF Code) and on the Code's implementation guidance (December 2016 version).

Companies that elect to apply the recommendations in Article 26 of the AFEP/MEDEF Code are required to provide their shareholders with an advisory "say-on-pay" vote relating to the components of compensation due or awarded for the previous year to each executive officer. Said components may include:

- The fixed portion of the executive officer's compensation.
- 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.

Michelin's Supervisory Board and Management have elected to apply this recommendation since it came into effect and, since 2017, based on the updated version published in November 2016.

Consequently, based on the recommendation and favorable opinion of the Supervisory Board and with the approval of the Non-Managing General Partner (SAGES), in the 6th resolution the Chief Executive Officer is asking shareholders to issue a positive advisory vote on the components of the compensation due or awarded for 2016 to Jean-Dominique Senard, who is the Company's Chief Executive Officer and sole executive officer.

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 4.3.1 and 4.3.2 of the 2016 Registration Document).

Compensation due or awarded for 2016	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	1,100,000	**Unchanged from the previous year.** This corresponds to the gross annual fixed compensation due by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, as consideration for the duties performed by Mr. Senard in his capacity as Non-General Managing Partner of that company. Its amount was set by MFPM's General Partner in 2014 and has not been changed since then. For more information, see sections 4.3.2 a) Fixed compensation and 10.2.2.1 Compensation policy of the 2016 Registration Document (pages 112 and 310 respectively).
Annual variable compensation	1,700,597	**Details of the Annual Variable Components of Mr. Senard's compensation were announced by the Supervisory Board in a press release posted on the Company's website on May 27, 2016.** **Shared features** The basis used to calculate the Annual Variable Components (the Consolidated Calculation Base) corresponds to 0.6% of the Group's consolidated net income. The Annual Variable Components of Mr. Senard's compensation are paid out of the share of profit (Profit Shares) allocated to the two General Partners of CGEM – JeanDominique Senard and SAGES – that is now split between them on a mutually agreed basis. The consolidated net income to be presented at the Annual Shareholders Meeting on May 19, 2017 amounts to €1,667,552 thousand. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2016 is €10,003,512.44. Given the mutually agreed allocation of the Profit Share between the General Partners, and the performance achieved in 2016 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Senard represents €1,700,597, as follows (before applicable withholding tax): **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 €800,281 for 2016. **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 2016 variable compensation of the Executive Committee members and Group managers) was 50.71/150ths, compared to a maximum rate of 100/150ths. Concerning the two qualitative criteria, the Committee concluded that: ▶ Concerning the Chief Executive Officer succession plan, having observed that Mr. Senard had examined this issue in detail with continuous input from the members of the Compensation and Appointments Committee, the Committee rated his performance in relation to the objective as very good. ▶ Concerning deployment of the Group's four progress initiatives (Customer Service, Simplification of Operating Procedures, Empowerment, Digitalization), the indicators defined by the Committee showed that significant progress had been achieved. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 48/150ths compared with a maximum rate of 50/150ths. 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 100 out of 150. Based on the Consolidated Calculation Base of €1,415,893,797.25, the application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board results in a Multi-Criteria Annual Variable Component of €900,316 for 2016. For more information, see sections 4.3.2 b) Variable compensation and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 113 and 310 respectively).

(1) For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of these performance targets.

Compensation due or awarded for 2016	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2016	No cash-settled deferred variable compensation was due for 2016	**This long-term incentive bonus was announced by the Supervisory Board in a press release posted on the Company's website on May 27, 2016.** The long-term incentive bonus is calculated on a base amount of €1,800,000, as increased or reduced to reflect the percentage gain or loss in Michelin's share price over three years (2015-2017 period). The amount obtained by applying the adjustment clause will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the above three-year period: ▶ Share performance ▶ Environmental and corporate social responsibility performance: employee engagement and environmental performance of manufacturing operations (as measured by the MEF) ▶ Growth in operating income[(1)] These criteria are the same as the ones applicable to the 2016 performance share plan for Group employees, which is not open to Mr. Senard. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full. The long-term incentive bonus is not due by Michelin but would be deducted from the General Partners' allocated Profit Shares. The final amount receivable under the long-term incentive plan will be: ▶ Capped at 150% of the average of the Annual Variable Components paid to Mr. Senard for 2016, 2017 and 2018. ▶ Paid out of the Profit Shares allocated to the General Partners in respect of 2018 and payable in 2019 after the 2018 financial statements have been approved: – Subject to the availability of Profit Shares payable in 2019 out of 2018 profit; and – Up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2018. The Supervisory Board noted that no amount was due in respect of 2016 because this is a long-term incentive plan. In the same way as for the long-term incentive bonuses awarded in 2014 and 2015: ▶ If the Chief Executive Officer were to cease to be a General Partner (for reasons other than death or disability) 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. ▶ Mr. Senard will be required to invest 20% of the long-term incentive bonus in Michelin shares at the end of the three-year period and to retain these shares for as long as he remains in office, after which the shares may be sold on a phased basis over four years. For more information, see sections 4.3.2 b) Variable compensation, 4.3.2 c) Cash-settled long-term incentive bonus (Table 1.3) and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 113 and 310 respectively).
Cash-settled deferred incentive bonus awarded in 2014 and due in 2017 in respect of 2016	495,116	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). 2016 was the last calculation year for this bonus and the Compensation and Appointments Committee therefore noted the achievement rates for each of the performance criteria, as follows: ▶ Growth in the Michelin share price compared with that of the CAC 40 index: 22% achievement rate. ▶ Average annual growth in Group net sales: 0% achievement rate. ▶ Average annual return on capital employed (ROCE): 0% achievement rate. Based on the Calculation Base increased by 25.20%, the Supervisory Board noted that the gross amount due for the long-term incentive bonus is €495,116 (before applicable withholding tax). For more information, see Table 1.1 in section 4.3.2 c) of the 2016 Registration Document (pages 114). 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.
Stock options, performance shares and other long-term compensation	N/A	No stock options granted No performance shares awarded No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	N/A	Mr. Senard does not receive any attendance fees
Value of fringe benefits	8,076	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 2016 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments*	Amounts submitted for shareholder approval *(in €)*	Presentation
Compensation for loss of office	No compensation for loss of office was due for 2016	**The detailed information in this section is unchanged from 2015.** 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 sections 4.3.2 f) Compensation for loss of office and 10.2.1.1 e) Compensation policy of the 2016 Registration Document (pages 118 and 312 respectively).
Non-compete indemnity	No indemnity was due under a non-compete clause in 2016	**The detailed information in this section is unchanged from 2015.** 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 sections 4.3.2 g) Non-compete indemnity and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 118 and 313 respectively).

* *Unlike for joint stock companies (sociétés anonymes, or S.A.s) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or S.C.A.) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).*
The fact that the specific system applicable to S.A.s concerning related-party commitments does not apply to S.C.A.s is corroborated by Article L. 226-10-1 of the 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 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 2016 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments*	**Amounts submitted for shareholder approval** *(in €)*	**Presentation**
Supplementary pension benefits	No supplementary pension benefits were due for 2016	**The pension plan structure and rules are unchanged from 2015.** This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard participates in the supplementary pension plan set up for MFPM senior executives (the Michelin Executive Supplementary Pension Plan). This plan, which is governed by Article L. 137-11 of the French Social Security Code and Article 39 of the French General Tax Code and is not restricted to Non-General Managing Partners (executive officers), has the following main features: ▶ Participants must have served for at least five years as a senior executive. ▶ 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the best three years of compensation out of the last five years preceding the beneficiary's retirement). ▶ The replacement rate including benefit entitlements under compulsory plans is capped at 35%. ▶ An evaluation is carried out in accordance with Group accounting policies. ▶ Benefit entitlement is conditional on participants ending their career at MFPM as an executive employee or executive officer, in accordance with Article L. 137-11 of the French Social Security Code. ▶ 70% of the prior year's benefit obligation funded through a contribution to an insured plan. Mr. Senard's reference compensation is made up solely of the fixed compensation paid by MFPM and amounts to €1,100,000 for 2016. 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 €132,000. The pension benefits will be taxed at the rate of 32%. As the reference compensation represents less than half of the aggregate amount received by Mr. Senard for 2016 (fixed compensation and variable Profit Shares), the actual gross replacement rate represented by benefits paid under the plan would be well below the 45% ceiling recommended in the AFEP/MEDEF Code.

* *Unlike for joint stock companies (sociétés anonymes, or S.A.s) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or S.C.A.) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).*
The fact that the specific system applicable to S.A.s concerning related-party commitments does not apply to S.C.A.s is corroborated by Article L. 226-10-1 of the 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 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 2016 to Jean-Dominique Senard, Chief Executive Officer)

Having noted the agreement of both of the General Partners on the allocation of Profit Shares and considered the report of the Supervisory Board, the Ordinary Shareholders Meeting issues a positive advisory vote on the components of the compensation due or awarded for 2016 to Jean-Dominique Senard, Chief Executive Officer, as presented in sections 4.3.1, 4.3.2 and 4.3.3 of the Company's 2016 Registration Document.

Seventh resolution

/ Advisory vote on the components of the compensation due or awarded for 2016 to Michel Rollier, Chairman of the Supervisory Board

As prescribed in Article L. 225-37 of the French Commercial Code, the Company bases its corporate governance framework on the Corporate Governance Code for listed companies published by the AFEP and MEDEF (November 2016 version of the AFEP/MEDEF Code) and on the Code's implementation guidance (December 2016 version).

Companies that elect to apply the recommendations in Article 26 of the AFEP/MEDEF Code are required to provide their shareholders with an advisory "say-on-pay" vote relating to the components of compensation due or awarded for the previous year to each executive officer. Said components may include:

- The fixed portion of the executive officer's compensation.
- 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.

Michelin's Supervisory Board has chosen to apply this recommendation, as extended in the November 2016 version of the AFEP/MEDEF Code to non-independent, non-executive directors.

Consequently, based on the recommendation of the Supervisory Board, in the 7th resolution the Chief Executive Officer is asking shareholders to issue a positive advisory vote on the components of the compensation due or awarded for 2016 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 4.3.1 and 4.3.5 of the 2016 Registration Document).

Compensation due or awarded for 2016	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	N/A	No fixed compensation
Annual variable compensation	N/A	No annual variable compensation
Cash-settled deferred variable compensation	N/A	No cash-settled deferred variable compensation
Stock options, performance shares and other share-based payments	N/A	No stock options granted No performance shares awarded No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	90,000	Total amount allocated in respect of his duties as Chairman of the Supervisory Board and member of the Compensation and Appointments Committee. For more information, see sections 4.3.4 and 10.2.1.2 Compensation policy of the 2016 Registration Document (pages 122 and 313 respectively). Mr. Rollier's attendance rate at meetings of the Board of Directors and the Committee of which he is a member was 100% in 2016.
Value of fringe benefits	N/A	No fringe benefits

Components of compensation due or awarded for 2016 which have been or are being submitted for shareholder approval under the procedure applicable to related-party agreements and commitments	Amounts submitted for shareholder approval *(in €)*	Presentation
Compensation for loss of office	N/A	No commitment for the payment of compensation for loss of office
Non-compete indemnity	N/A	No commitment for the payment of a non-compete indemnity
Supplementary pension benefits	N/A	No commitment for the payment of supplementary pension benefits

Seventh resolution
(Advisory vote on the components of the compensation due or awarded for 2016 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 2016 to Michel Rollier, Chairman of the Supervisory Board, as presented in sections 4.3.1, 4.3.4 and 4.3.5 of the Company's 2016 Registration Document.

Eighth and ninth resolutions: election and re-election of Supervisory Board members

/ Michelin's Supervisory Board plays a vital role for the Group

The current members of Michelin's Supervisory Board are Barbara Dalibard, Anne-Sophie de La Bigne, Aruna Jayanthi, Monique Leroux, Olivier Bazil, Pat Cox, Jean-Pierre Duprieu, Cyrille Poughon and Michel Rollier.

All of them have very solid business experience acquired through working with leading corporations as well as a good knowledge of the Michelin Group. They actively participate in the work of both the Board and its Committees, as illustrated by the attendance rates for meetings held in 2016 (97.7% for Board meetings, 100% for meetings of the Audit Committee and 91.7% for meetings of the Compensation and Appointments Committee).

The Supervisory Board members perform their duties independently and have total freedom of judgment.

A summary of the work carried out by the Supervisory Board in 2016 is included in the report of the Chairman of the Supervisory Board on the Board's membership structure and practices, set out in section 4.5 of the 2016 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 (78% of whom are independent) who represent the shareholders. Only the Supervisory Board itself may put forward proposals for the election or re-election of its members at Annual Shareholders Meetings.

With a view to clearly segregating management and supervisory powers, no General Partner may play a role in the nomination process – neither the General Managing Partner (the Chief Executive Officer), nor the Non-Managing General Partner (SAGES), which is responsible for ensuring the Company's continuity of leadership.

The General Partners may not be involved in decisions to recommend candidates for election to the Supervisory Board at Shareholders Meetings.

Likewise, in accordance with the law and the Company's bylaws the General Partners may not take part in any votes cast at Shareholders Meetings concerning the election or re-election of Supervisory Board members and their shares are not included in the quorum for the related resolutions.

For further information on Michelin's corporate governance principles, see sections 4.1 and 4.2 of the 2016 Registration Document ("Administrative, Management and Supervisory Bodies, and Executive Management" and "Practices of the Administrative, Management and Supervisory Bodies").

/ The Supervisory Board is recommending that shareholders re-elect two Supervisory Board members

The terms of office of Olivier Bazil and Michel Rollier are due to expire at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ended December 31, 2016.

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 2017 Annual Shareholders Meeting and section 10.2.2.1 of the 2016 Registration Document).

Following this process the Supervisory Board unanimously decided to ask the Chief Executive Officer to recommend at the Annual Meeting that the shareholders re-elect to the Board Olivier Bazil and Michel Rollier, neither of whom took part in the Board's vote.

Olivier Bazil and Michel Rollier would be re-elected for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2020.

Eighth resolution
(Re-election of Michel Rollier as a member of the Supervisory Board)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting re-elects Michel Rollier 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, 2020.

Ninth resolution
(Re-election of Olivier Bazil as a member of the Supervisory Board)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting re-elects Olivier Bazil 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, 2020.

10.1.2 EXTRAORDINARY RESOLUTIONS

Tenth resolution

/ Authorization for the Chief Executive Officer to reduce the Company's capital by canceling shares

In the 10th resolution, shareholders are invited to authorize the Chief Executive Officer 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 13, 2016 (24th resolution).

Approximately 3.3 million shares acquired under buyback programs were canceled in 2016 (for more details, refer to section 5.5.7 b) of the 2016 Registration Document).

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.9, on page 60 of the MEDEF Guide (Authorizations to carry out capital reductions), available on the website www.medef.com.

Tenth resolution
(Authorization for the Chief Executive Officer to reduce the Company's capital by canceling shares)

Having considered the report of the Chief Executive Officer, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

To authorize the Chief Executive Officer to:

- Cancel, at his 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 total shares outstanding.
- Charge the difference between the cost of the canceled shares and their par value against any available premium or reserve account.

To grant the Chief Executive Officer 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.

Eleventh resolution

/ Powers to carry out formalities

The purpose of the 11th resolution is to give powers to carry out the formalities related to the Annual Shareholders Meeting.

Eleventh resolution
(Powers to carry out formalities)

The shareholders give full powers to the bearer of an original, copy or extract of the minutes of this Ordinary and Extraordinary Shareholders Meeting to carry out all legal and administrative formalities and to make all filings and publish all notices required by the applicable laws.

10.1.3 SUMMARY OF FINANCIAL AUTHORIZATIONS SUBMITTED FOR SHAREHOLDER APPROVAL

Corporate action	Applicable ceilings (nominal amount)	Duration (expiration date)
Share buyback program *(5th resolution)*	18 million shares at a maximum purchase price of €160 per share	18 months (November 2018)
Capital reduction by canceling shares *(10th resolution)*	10% of the current capital	18 months (November 2018)

10.2 REPORT OF THE SUPERVISORY BOARD

10.2.1 COMPENSATION POLICIES APPLICABLE TO THE CHIEF EXECUTIVE OFFICER AND THE CHAIRMAN OF THE SUPERVISORY BOARD

10.2.1.1 Compensation policy: Chief Executive Officer

In his capacity as a General Partner of CGEM, Mr 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.

Since 2014, shareholders have been asked to issue an advisory vote on the compensation due or awarded to the Chief Executive Officer for the prior year. Positive advisory votes were issued with a majority of 94.74% in 2014, 95.72% in 2015 and 97.39% in 2016.

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act No. 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply best corporate governance practices, fulfill shareholders' expectations and comply with the explicit new recommendation in the AFEP/MEDEF Code to apply "the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner" (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2017:

- To explain the principles and criteria for determining, allocating and awarding the components of the compensation and benefits of the Chief Executive Officer.
- To give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation paid and awarded to the Chief Executive Officer, in line with the new AFEP/MEDEF Code recommendation which provides for a mandatory vote of shareholders (See the information and resolutions contained in section 10.1.1 of the 2016 Registration Document and in the Notice of Meeting for the 2017 Annual Shareholders Meeting).

/ 10.2.1.1 a) Fixed compensation

Since 2014, the Supervisory Board's policy has been to maintain the Chief Executive Officer's fixed compensation at a stable level that is consistent with the fixed compensation paid to the top executives of other CAC 40 companies and in harmony with the other components of his compensation.

The Chief Executive Officer's fixed compensation amounts to €1,100,000[3].

/ 10.2.1.1 b) Annual and long-term variable compensation

In accordance with Article 30, paragraph 3, of CGEM's bylaws (see section 5.1.2 e) of this Registration Document) the Profit Shares allocated to the two General Partners of CGEM – Jean-Dominique Senard and SAGES – out of profit for the year are based on reported net income.

The Profit Shares are:

- Set at 12% of the Company's net income for the year, net of dividend income corresponding to distributions of profits or reserves by MFPM and Compagnie Financière Michelin SCmA (CFM).
- Capped at 0.6% of the Group's consolidated net income.

Taking into account the legal provisions specifically applicable to partnerships limited by shares and the provisions of the bylaws, as described above, the Compensation and Appointments Committee makes proposals to the Supervisory Board about the various components of the Chief Executive Officer's variable compensation made up of Profit Shares that depend on one or several performance criteria and are paid by the Company and by a subsidiary of which he is an executive officer.

The Committee's proposals are discussed by the Supervisory Board, which then makes recommendations to the Non-Managing General Partner (SAGES) about the different criteria to be applied to the Profit Share payable to the Chief Executive Officer.

When formulating its proposals, the Committee ensures that the principles used to determine the amounts paid or awarded or the benefits due, awarded or to be awarded to the Chief Executive Officer by Group companies result in the said amounts or benefits being reasonable and consistent with (i) the Group's performance and (ii) industry and market practice.

The Committee also ensures that the components of the Chief Executive Officer's compensation are balanced, by (i) assessing the annual and long-term components of his variable compensation (corresponding to his Profit Share), and (ii) ensuring that his Profit Share never exceeds a reasonable percentage of his fixed compensation.

(1) At December 31, 2016, the Company had two General Partners: Jean-Dominique Senard, Chief Executive Officer, and SAGES, Non-Managing General Partner (see presentation in section 4.1.4).
(2) See Article 30 of the bylaws, reproduced in section 5.1.2 e) below.
(3) This compensation is payable to Jean-Dominique Senard by Manufacture Française des Pneumatiques Michelin (MFPM), for his role as the Company's Non-General Managing Partner.

In assessing the level of his Profit Share, 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.

To link his variable compensation, fully taken from the Profit Share, even more closely to the Company's performance, since 2014 this component comprises three parts: two annual variable components and one long-term variable component.

This structure means that Mr. Senard's 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.

10.2.1.1 b) 1 Annual variable compensation

Shared features

The annual variable components of Mr. Senard's compensation depend above all on the level of net income for the year and are paid out of the Profit Shares allocated to the two General Partners on a mutually agreed basis.

Since 2015, as decided by the General Partners on the recommendation of the Supervisory Board, the basis used to calculate the Annual Variable Components (the Consolidated Calculation Base) has been set at 0.6% of the Group's consolidated net income.

Single-Criterion Annual Variable Component

This component is determined based on an initial performance criterion – net income for the year – and is equal to 8% of the Consolidated Calculation Base.

Multi-Criteria Annual Variable Component

This component is determined based on the criterion of net income for the year and various other annual performance criteria, such as business growth, the level of overheads and growth in free cash flow.

It corresponds to between 0% and 14% of the Consolidated Calculation Base.

The performance criteria set by the Supervisory Board include:

- Quantitative criteria – the same as those applied to determine the annual variable compensation of the Executive Committee members and Group managers – which together account for up to 100/150ths.

  For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of these performance targets.
- Qualitative criteria, together accounting for up to 50/150ths.

In addition:

- A specific trigger point is applied to each criterion, together with a second general trigger point corresponding to a cumulative achievement rate of at least 50/150ths across all criteria.
- Jean-Dominique Senard will be awarded the maximum 14% of the Consolidated Calculation Base for this component only if the cumulative achievement rate for all the criteria is 150/150ths.

10.2.1.1 b) 2 Cash-settled deferred variable component: long-term incentive bonus

This long-term incentive bonus awarded each year is not due by Michelin but would be deducted from the General Partners' allocated Profit Shares.

It is calculated on a base amount of €1,800,000, as increased or reduced to reflect the percentage gain or loss in Michelin's share price over the three years following the award date.

The amount obtained by applying the adjustment clause is modulated by the application of additional performance criteria set by the Supervisory Board and applicable over the same three-year period.

Since 2016, in response to shareholder expectations and the changing tire market environment, the Supervisory Board's policy 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 the 2016 Registration Document).

The first criterion, which accounts for 35% of the bonus, concerns growth in the Michelin share price compared with that of the CAC 40 index over a trailing three-year period.

It falls under the third objective ("Secure robust financial performance") of the Ambitions for 2020.

The CAC 40 index has been chosen due to the breakdown of the Group's operations into the various product families (truck tires, passenger car and light truck tires, specialty tires). These operations expose the Group to changes in consumer goods markets (around 40% of the Group's business), economic growth and industrial markets (around 30%), and raw materials prices (around 15%). In this regard, the automotive stocks alone (around 15% of the Group's business) – and especially automotive equipment stocks – would be a less appropriate benchmark for measuring Michelin's performance.

The second criterion, accounting for 30% of the bonus, concerns Michelin's CSR performance as reflected in two indicators: the main impact of the Group's industrial operations (for 15%) and the degree of employee engagement (for 15%) over a trailing three-year period.

It is part of the second objective ("Demonstrate our commitment to the well-being and development of our employees") and the fifth objective ("Set the industry standard for responsible manufacturing") of the Ambitions for 2020.

Employee engagement is an important driver of operational excellence and the Group's ability to meet its performance objectives. Michelin has set the particularly ambitious objective of becoming a world-class leader in this area by reaching and maintaining an 85% employee engagement rate by 2020. Since 2013, the annual "Moving Forward Together: Your Voice for Action" survey has measured the engagement rate and employee opinions about their work.

The action taken, gains made to date and the detailed employee engagement calculation method are presented in section 6.1.5 c) of the 2016 Registration Document.

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 goal for 2020 is to reduce the MEF by 50% compared with 2005.

The action taken, gains made to date and the detailed MEF calculation method are presented in section 6.3.1 of the 2016 Registration Document.

The third criterion, accounting for 35% of the bonus, concerns growth in consolidated operating income[1] over a trailing three-year period.

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.

Details of these criteria were published in the 2015 Registration Document (pages 299 to 301). This information is also provided in section 4.3.2 b) 3 – Table 1.3 of the 2016 Registration Document, together with the related intermediate achievement rates.

The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full.

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

- Capped at 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for the reference three-year period.
- Deducted from his Profit Share for the last year of the reference three-year period to be paid after the financial statements for that year have been approved:
  - Subject to the availability of Profit Shares payable out of net income for that year; and
  - Up to the amount of said available Profit Shares after deducting the single-criterion and multi-criteria annual variable components due for that year.

If the Chief Executive Officer were to cease to be a General Partner (for reasons other than death or disability) before the end of the performance assessment period, notably due to his resignation or removal from office, he would forfeit his rights to the long-term incentive bonus.

For long-term incentive bonuses awarded in 2017 and subsequent years, the Supervisory Board and the Non-Managing General Partner have decided that if the Chief Executive Officer's term expires or he ceases to hold this position due to his death or disability before the end of the reference three-year period for determining the achievement rate for the performance criteria, the three-year period will continue to run and the incentive bonus will be paid at the end of said period, for an amount prorated to the actual time served as Chief Executive Officer during the period.

/ 10.2.1.1 c) Fringe benefits, stock options, performance shares, attendance fees

No stock options or performance shares are granted to Mr. Senard by the Company or any controlled entities.

He does not receive any attendance fees from any Group companies.

Mr. Senard has a fringe benefit in the form of a Company car.

/ 10.2.1.1 d) Supplementary pension benefits[2]

Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard participates in the supplementary pension plan set up for MFPM senior executives (the Michelin Executive Supplementary Pension Plan).

This plan, which is governed by Article L. 137-11 of the French Social Security Code and Article 39 of the French General Tax Code and is not restricted to Non-General Managing Partners (executive officers), has the following main features:

- Participants must have served for at least five years as a senior executive.
- 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the best three years of compensation out of the last five years preceding the beneficiary's retirement).
- The replacement rate including benefit entitlements under compulsory plans is capped at 35%.
- An evaluation is carried out in accordance with Group accounting policies.
- Benefit entitlement is conditional on participants ending their career at MFPM as an executive employee or executive officer, in accordance with Article L. 137-11 of the French Social Security Code.
- 70% of the prior year's benefit obligation 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.

/ 10.2.1.1 e) 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 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, according to which the final compensation would depend on the average achievement rate for the targets set for the Multi-Criteria Annual Variable Component of his compensation for the three years preceding his loss of office (Three-Year Average), as follows:

- Three-Year Average of less than 40%: no compensation for loss of office.
- Three-Year Average of between 40% and 60%: compensation for loss of office equal to 50% of the Reference Base.
- Three-Year Average of between 60% and 100%: compensation for loss of office equal to 100% of the Reference Base,

where the Reference Base is equal to the aggregate compensation paid for the two years preceding the year of his removal from office.

(1) Consolidated operating income, before non-recurring income and expenses (on a like-for-like basis and excluding changes in exchange rates).
(2) The information in this section and in section 4.3.2.d) of the 2016 Registration Document complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016.

The compensation for loss of office 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.

/ 10.2.1.1 f) Non-compete

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 that replaces the one contained in his terminated employment contract. The new clause was signed on July 26, 2011 after prior approval by the Supervisory Board.

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 Company is, however, entitled to waive the application of this clause.

If Mr. Senard were to be awarded compensation for loss of office as provided for above (see "Compensation for loss of office"), the non-compete indemnity would be reduced or withheld entirely if necessary so that his aggregate severance package, including the non-compete indemnity referred to above, did not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP/MEDEF Code.

10.2.1.2 Compensation policy: Chairman of the Supervisory Board

Michelin's Executive Management and Supervisory Board have decided to apply the new recommendation of the AFEP/MEDEF Code concerning an advisory "say-on-pay" shareholder vote on the individual compensation awarded to non-executive officers. For this reason, in addition to the figures presented in section 4.3.1 above and the information provided below, section 4.3.5 of the 2016 Registration Document sets out information required for shareholders' advisory vote on the components of the compensation due, awarded or to be awarded to Michel Rollier, Chairman of the Supervisory Board, for 2016, as provided for in the AFEP/MEDEF Code and its implementation guidance.

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act No. 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply best corporate governance practices, fulfill shareholders' expectations and comply with the explicit new recommendation in the AFEP/MEDEF Code to apply "the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner" (Article 24.1.3), the Supervisory Board has decided for 2017:

- To explain the principles and criteria for determining, allocating and awarding the components of the compensation of the Chairman of the Supervisory Board.
- To give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation paid and awarded to the Chairman of the Supervisory Board, in line with the new AFEP/MEDEF Code recommendation which provides for a mandatory vote of shareholders (See the information and resolutions contained in section 10.1.1 of the 2016 Registration Document and in the Notice of Meeting for the 2017 Annual Shareholders Meeting).

/ 10.2.1.2 a) Attendance fees

Based on a benchmarking review carried out by an independent firm of consultants, the Compensation and Appointments Committee recommended that the Supervisory Board ask the Annual Shareholders Meeting to approve an increase in the Supervisory Board's total attendance fees.

The benchmarking review showed that the attendance fee budget was among the lowest in the market, and the Supervisory Board therefore asked the Annual Shareholders Meeting of May 13, 2016 to approve an increase in the total amount by approximately 32% to €555,000 (10th resolution).

The proposed increase was approved by a 99.54% majority of the votes cast.

Pursuant to this resolution and applying the same uplift, in 2016 the Supervisory Board decided to allocate total attendance fees of €90,000 to Michel Rollier as from 2016, representing compensation for his responsibilities and tasks as Chairman of the Supervisory Board and member of the Compensation and Appointments Committee.

In the same way as for the other Supervisory Board members and as in prior years:

- Attendance fees are paid in the first quarter of the year following the one to which they relate.
- Most of the fee (60%) is contingent on Michel Rollier's attendance rate at meetings of the Supervisory Board and the Compensation and Appointments Committee, as provided for in the Board's internal rules.

The amounts paid to Mr. Rollier in the last two years and his meeting attendance rate are presented, respectively, in sections 4.3.6 and 4.5.1 b) of the 2016 Registration Document.

/ 10.2.1.2 b) Other components of compensation

As Mr. Rollier does not hold any other positions within the Company or the Michelin Group, he does not receive any other compensation from the Company or its subsidiaries.

10.2.2 RECOMMENDATIONS CONCERNING THE VOTES ON THE PROPOSED RESOLUTIONS

10.2.2.1 Re-election of Supervisory Board members (8th and 9th resolutions)

The terms of office of Olivier Bazil and Michel Rollier are due to expire at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ended December 31, 2016.

Note that the General Partners do not take part in the election or re-election of Supervisory Board members or the appointment or re-appointment of the Statutory Auditors (refer to the detailed information in the report of the Chief Executive Officer on the proposed resolutions).

Olivier Bazil and Michel Rollier have informed the other Supervisory Board members that they wish to stand for re-election.

In reviewing their proposed re-election, the Compensation and Appointments Committee took into account the main candidate assessment criteria, covering their skills, experience, independence and availability (i.e. that they do not hold too many other directorships) and the commitment to promoting Board diversity in terms of both culture and background.

When examining the individual situations of Olivier Bazil and Michel Rollier, the Board notably considered:

- The pros and cons of re-electing them.
- The skills and experience they bring to the Board.
- Their availability and involvement in the work of the Board and its Committees.
- Their independence and the absence of any conflicts of interest.
- Their contribution to the complementary nature of the Board's membership.

/ Olivier Bazil

Legrand – 128, avenue de Lattre de Tassigny – 87000 Limoges – France

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.

He has spent his entire career with Legrand[1], which he joined in 1973 as Deputy Company Secretary before going on to become Chief Financial Officer (1979), a Director (1989), Deputy Chief Executive Officer and a Member of the Executive Committee (1994), and then Vice Chairman of the Board of Directors and Chief Operating Officer.

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

Other positions currently held by Olivier Bazil:

- Member of the Supervisory Board of Société Civile du Château Palmer
- Chairman of Fritz S.A.S.
- Director of Vallourec[1], Chairman of its Audit Committee and member of its Strategy Committee

Other positions held by Olivier Bazil in the past five years:

- Director of Firmenich International S.A. and Chairman of its Audit Committee

Olivier Bazil owns 1,010 Michelin shares.

He has been a member of the Supervisory Board and its Audit Committee since 2013 and is considered by the Supervisory Board as being an independent member[2] because:

- He does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- He is not currently and never has been an employee of Michelin or any of its subsidiaries.
- He has not been a member of the Supervisory Board for more than 12 years.
- He is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- He is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.
- He has not been an auditor of Michelin in any of the past five years.
- He is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.

The Board examined Mr. Bazil's candidature for re-election for a four-year term based on the above-mentioned criteria, taking into account:

- His contribution to the work of the Board, as reflected in his availability and attendance rate.
- His experience in the areas of accounting, finance and internal control.
- The efficient organization of the Audit Committee.
- His excellent understanding of the challenges facing the Group.
- His executive management experience and familiarity with French and international industrial strategies.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Olivier Bazil be re-elected for a further four-year term. Mr. Bazil did not take part in the Board's discussion or vote.

/ Michel Rollier

Michelin – 27, cours de l'Île-Seguin – 92100 Boulogne-Billancourt – France

Michel Rollier was born in 1944 and is a French national. He is Chairman of *Plateforme de la Filière Automobile* and a member of the AFEP/MEDEF High Committee on Corporate Governance.

He began his career at Aussedat-Rey (part of the International Paper group) in 1971, initially occupying the post of Financial Controller before going on to head up a business unit. He then held the position of Chief Financial Officer between 1987 and 1994 and subsequently Deputy Chief Executive Officer from 1994 to 1996.

He joined Michelin in 1996 as Vice President, Financial & Legal Affairs and then served as Chief Financial Officer and a member of the Executive Council from 1999 to 2005. He was elected General Managing Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as General Managing Partner in May 2012.

Michel Rollier is a graduate of the *Institut d'études politiques de Paris* (IEP) and holds an MA in Law.

(1) Listed company.

(2) See the detailed review of Supervisory Board members' independence in the report of the Chairman of the Supervisory Board on the membership of the Supervisory Board (section 4.5.1 b) of the 2016 Registration Document).

Other positions currently held by Michel Rollier:

- Chairman and Chief Executive Officer of Siparex Associés
- Chairman of the Supervisory Board and of the Remunerations Committee of Somfy SA[1]
- 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*
- Director of Lafarge

Other positions held by Michel Rollier in the past five years:

- General Managing Partner of Compagnie Générale des Établissements Michelin[1]
- Director of Moria SA

Michel Rollier owns 24,392 Michelin shares.

He is member and Chairman of the Supervisory Board, and member of the Compensation and Appointments Committee of the Board since 2013.

- He does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- He is not currently and never has been an employee of Michelin or any of its subsidiaries.
- He has not been a member of the Supervisory Board for more than 12 years.
- He is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- He has not been an auditor of Michelin in any of the past five years.
- He is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.
- He is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.

As of May 11, 2017, a period of five years will have elapsed since he held an executive position at Michelin and he will therefore qualify as an independent member of the Supervisory Board as from that date based on the AFEP/MEDEF Code.

The Supervisory Board has temporarily decided to continue qualifying him as a non-independent director and to ask the Chair of the Compensation and Appointments Committee to review his situation at the next meeting of the Committee subsequent to the Shareholders Meeting.

The Board examined Mr. Rollier's candidature for re-election for a four-year term based on the above-mentioned criteria, taking into account:

- The continuous improvements in Michelin's governance achieved jointly with the Chief Executive Officer and the General Partners.
- The efficient organization and effectiveness of the Supervisory Board, whose good practices were recognized in the results of the assessment performed in 2016 by an independent firm of consultants.
- His availability and attendance rate at Board and Compensation and Appointments Committee meetings.
- His excellent understanding of the challenges facing the Group.
- His experience in finance.
- His executive management experience.
- His knowledge of Michelin's markets and the automotive industry.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Michel Rollier be re-elected for a further four-year term. Mr. Rollier did not take part in the Board's discussion or vote.

If Olivier Bazil and Michel Rollier are re-elected after the Annual Shareholders Meeting, the expiration dates of the Supervisory Board members' terms of office will be effectively staggered, as follows:

EXPIRATION DATES OF SUPERVISORY BOARD MEMBERS' TERMS OF OFFICE

	2018 AGM	2019 AGM	2020 AGM	2021 AGM
Olivier Bazil				X
Pat Cox	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
NUMBER OF EXPIRATIONS BY YEAR	**3**	**2**	**2**	**2**

(1) Listed company.

10.2.2.2 "Say-on-pay" advisory vote on the Chief Executive Officer's compensation for 2016 (6th resolution)

As prescribed in Article L. 225-37 of the French Commercial Code, the Company bases its corporate governance framework on the Corporate Governance Code for listed companies published by the AFEP and MEDEF (November 2016 version of the AFEP/MEDEF Code) and on the Code's implementation guidance (December 2016 version).

Companies that elect to apply the recommendations in Article 26 of the AFEP/MEDEF Code are required to provide their shareholders with an advisory "say-on-pay" vote relating to the components of compensation due or awarded for the previous year to each executive officer. Said components may include:

- The fixed portion of the executive officer's compensation.
- 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.

Michelin's Supervisory Board and Management have elected to apply this recommendation since it came into effect and, since 2017, based on the updated version published in November 2016.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee and the Supervisory Board as part of the compensation policy described in section 10.2.1.1, are described in the presentation of the 6th resolution in the Chief Executive Officer's report and in section 10.1.1 of the 2016 Registration Document.

Consequently, with the approval of the Non-Managing General Partner (SAGES), the Supervisory Board recommends that shareholders issue a positive advisory vote on the components of the compensation due or awarded for 2016 to Jean-Dominique Senard, Chief Executive Officer and the Company's sole executive officer.

10.2.2.3 "Say-on-pay" advisory vote on the compensation of the Chairman of the Supervisory Board for 2016 (7th resolution)

As prescribed in Article L. 225-37 of the French Commercial Code, the Company bases its corporate governance framework on the Corporate Governance Code for listed companies published by the AFEP and MEDEF (November 2016 version of the AFEP/MEDEF Code and on the Code's implementation guidance (December 2016 version).

Companies that elect to apply the recommendations in Article 26 of the AFEP/MEDEF Code are required to provide their shareholders with an advisory "say-on-pay" vote relating to the components of compensation due or awarded for the previous year to each executive officer. Said components may include:

- The fixed portion of the executive officer's compensation.
- 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.

Michelin's Supervisory Board has chosen to apply this recommendation, as extended in the November 2016 version of the AFEP/MEDEF Code to non-independent, non-executive directors.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee and the Supervisory Board as part of the compensation policy described in section 10.2.1.2, are described in the presentation of the 7th resolution in the Chief Executive Officer's report and in section 10.1.1 of the 2016 Registration Document.

Consequently, the Supervisory Board recommends that shareholders issue a positive advisory vote on the components of the compensation due or awarded for 2016 to Michel Rollier, Chairman of the Supervisory Board and sole non-independent non-executive director.

10.2.2.4 Approval of the financial statements and financial authorizations (1st to 5th resolutions and 10th resolution)

Concerning the other ordinary resolutions, the accounting and financial information communicated to shareholders and the Chief Executive Officer's report present the Group's operations and results for 2016 (for the purposes of the 1st and 2nd 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 2016, you are asked to place on record that there are no such agreements to approve (in the 4th ordinary resolution).

Before asking you to approve the financial statements of the Company, the consolidated financial statements and the appropriation of net income, we would like to emphasize that our performance in 2016, which built on the advances made in 2015 in line with the Group's major objectives, reflects the quality of the work achieved by Michelin's teams under the Chief Executive Officer's leadership.

These good performances lead us to reaffirm our confidence in the Chief Executive Officer.

They also lead us to support the Chief Executive Officer's recommendation to set the dividend at €3.25 per share (3rd ordinary resolution).

The Company wishes to renew its share buyback program on the same terms as for the previous program (5th ordinary resolution).

An authorization to cancel shares bought back under the program is also being sought to replace the authorization granted at the 2016 Meeting which was used by the Company during the year (10th extraordinary resolution).

We recommend that shareholders adopt the proposals submitted by the Chief Executive Officer for their approval by voting in favor of the corresponding ordinary and extraordinary resolutions.

February 9, 2017

Michel Rollier
Chairman of the Supervisory Board

10.3 STATUTORY AUDITOR'S REPORTS

10.3.1 STATUTORY AUDITORS' REPORT ON THE CAPITAL REDUCTION

Combined Shareholders' Meeting of May 19, 2017 (10th resolution)

This is a free translation into English of the Statutory Auditors' report issued in the French language 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 auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin and pursuant to Article L.225-209 of the French Commercial Code (*Code de commerce*) concerning capital reductions carried out by cancelling bought-back shares, we hereby present our report on our assessment of the reasons for and terms of the proposed capital reduction.

Your Managing Chairman has proposed that you delegate to him, for a period of 18 months as of the date of this meeting, the authority to cancel, for up to 10% of its share capital, the bought-back shares, as authorized by your company 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 whether the reasons for and the terms of the proposed capital reduction were reasonable.

We have nothing to report concerning the reasons for and the terms of the proposed capital reduction.

Neuilly-sur-Seine, February 13, 2017

The Statutory Auditors

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Pascale Chastaing-Doblin

10.3.2 OTHER STATUTORY AUDITORS' REPORTS

The Statutory Auditors' reports to the Annual Shareholders Meeting of May 19, 2016 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 on the Chairman of the Supervisory Board's report on the Company's internal control and risk management procedures: in section 4.6;
- 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 6.4.

11 / TABLES OF CONCORDANCE

11.1 TABLE OF CONCORDANCE WITH THE FRENCH COMMERCIAL CODE 320

11.2 CROSS-REFERENCE TABLE FOR EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION 321

11.3 TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT 323

11.1 TABLE OF CONCORDANCE WITH THE FRENCH COMMERCIAL CODE

		Sections
I.	**REVIEW OF THE FINANCIAL STATEMENTS FOR THE YEAR**	
1.	Consolidated financial statements	7
2.	Company financial statements	8
3.	Dividends	5.2
II.	**SUBSEQUENT EVENTS, TRENDS AND OUTLOOK**	
1.	Significant subsequent events	7.1 - (note 35); 2.13; 2.7.3
2.	Trend information	2.7
3.	Group markets: seasonal fluctuations in business	2.1
III.	**RISK FACTORS**	
1.	Operating risks	2.9.3
2.	Financial risks	2.9.3 e)
3.	Legal risks	2.9.3 k)
4.	Environmental, industrial and technological risks	2.9.3 c); 2 9.3 f); 2.9.3 i)
5.	Risk coverage – Insurance	1.7; 2.9.1
IV.	**MANAGING PARTNERS AND SENIOR EXECUTIVES**	
1.	Terms of office and functions of the Managing Partners	4.1
2.	Shares held by the Managing Partners	4.1
3.	Managing Partners' compensation and interests	4.3
4.	Stock options and performance shares	4.3
V.	**CORPORATE SOCIAL RESPONSIBILITY DATA**	
1.	Social responsibility	1.3.2; 2.15; 6.1; 6.2
2.	Environment	1.3.2; 2.15; 6.3
3.	Customer and supplier relations	6.2
	Report on social and environmental reporting methods	6.1; 6.3.1
VI.	**COMPANY IDENTITY**	
1.	Company identity	5.1.1
2.	Relations between the Company and its subsidiaries	1.4
3.	Information on the Company's capital	5.5
4.	Information that may have a bearing in the event of a takeover bid	2.11
5.	Other information about the Company that is an integral part of the management report	None

11.2 CROSS-REFERENCE TABLE FOR EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION

		Sections	GRI
EMPLOYEE INFORMATION			
a) Employment	Total workforce and distribution by gender, age and geographical area	6.1.1.a	G4-9
	New hires and dismissals	6.1.1.b	G4-LA1
	Compensation and changes to compensation	6.1.1.c	G4-51
b) Work schedules	Work schedules	6.1.2.a/6.1.2.b/6.1.2.c/ 6.1.2.d/6.1.2.e	
	Absenteeism	6.1.2.e (North America and Europe, excluding Russia)	
c) Employee relations	Organizing the social dialogue process, and in particular information and employee consultation procedures, as well as collective bargaining with employees	6.1.5.a/6.1.5.b/6.1.5.c	G4-11
	Overview of collective bargaining agreements	6.1.5.a (presentation of key agreements in 2016)	G4-LA4
d) Health and safety	Workplace health and safety	6.1.3	G4-LA5, G4-LA6
	Overview of agreements signed with unions or employee representatives related to workplace health and safety	6.1.5.a (presentation of key agreements in 2016)	
	Workplace accidents, and more specifically frequency and severity rates, and occupational illnesses	6.1.3.c	
e) Training	Implemented training policies	6.1.4.a/6.1.4.b	G4-LA9, G4-LA10
	Total amount of training hours	6.1.4.a	
f) Equal treatment	Measures taken to promote gender equality	6.1.6.c	G4-LA3
	Measures taken to promote the employment and integration of people with disabilities	6.1.6.d	G4-10
	Anti-discrimination policy	6.1.6.a/6.1.6.b/6.1.6.e	
g) Promoting and encouraging compliance with the ILO's conventions in relation to	Freedom of association and protection of the right to organize	6.1.5	
	The elimination of discrimination in employment and occupation	6.1.6	
	The abolition of forced labor	6.2.4	
	The effective abolition of child labor	6.2.4	
SOCIETAL INFORMATION			
a) Territorial, economic and social impact of the company's activities	Regarding employment and local development	6.2.1	G4-EC7
	Local and neighboring communities	6.2.2.b	
b) Relationships with people and organizations interested in the company's activities, in particular job-assistance organizations, educational institutions, environmental protection organizations, consumer associations and neighboring communities	Dialogue processes with these people and organizations	6.2.2.a/6.2.2.d	
	Partnership and philanthropic initiatives	6.2.2.c	

c) Subcontractors and suppliers	Addressing social and environmental issues in purchasing policy	6.2.4.a/6.2.4.b	
	The importance of subcontracting and the consideration of suppliers' and subcontractors' corporate social responsibility	6.2.4.c	HR9
d) Fair, honest business practices	Anti-bribery actions	6.2.3.b	
	Measures taken to support consumers' health and safety	6.2.3.c	
e) Other initiatives under way to promote human rights	Other initiatives under way to promote human rights	6.1 Introduction	
ENVIRONMENTAL INFORMATION			
a) General environmental policy	How the company addresses environmental issues and, if applicable, environmental audit and certification procedures	6.3.1	
	Training and informing employees about environmental stewardship	6.3.1	
	Resources allocated to preventing environmental risks and pollution	6.3.1	G4-EN31
	Provisions and guarantees for environmental risks, unless such information could seriously harm the company in any pending litigation	6.3.1	
b) Pollution	Deploying measures to prevent, abate or remediate air, water and soil pollution severely affecting the environment	6.3.1, 6.3.2	G4-EN21
	Managing noise and other types of pollution caused by operations	6.3.2	
c) Circular economy	**i) Avoiding and managing waste**		
	Measures implemented for waste prevention, recyling, reuse and other types of waste recovery and disposal solutions	6.3.1, 6.3.3	G4-EN23
	Initiatives to reduce food waste	NA*	
	ii) Using resources sustainably		
	Water consumption and water supply with respect to local hydric stress	6.3.1, 6.3.3	G4-EN8
	Raw materials consumption and measures taken to use them more efficiently	6.3.3	
	Energy consumption and measures taken to improve energy efficiency and the use of renewable energies	6.3.1, 6.3.3, 6.3.4	G4-EN3, G4-EN5, G4-EN6
	Land use	6.3.3	
d) Climate change	Greenhouse gas emissions produced by the company's operations, particularly those emitted from the use of its goods and services	6.3.1, 6.3.2, 6.3.4	G4-EN15, G4-EN16, G4-EN18, G4-EN19
	Adapting to the impact of climate change	6.3.4	
e) Protecting biodiversity	Measures taken to preserve biodiversity	6.3.1, 6.3.5	G4-EN11

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 TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT

In order to facilitate reading of the Registration Document, please consult the following contents table to identify the disclosures required under European Commission Regulation No. 809/2004 dated April 29, 2004.

			Sections	Pages
1.	**Person responsible for the Registration Document**		9.1	296
2.	**Statutory Auditors**		9.2	296
3.	**Selected financial information**		3	73
4.	**Risk factors**		2.9	61
5.	**Information about the issuer**			
	5.1	History and development of the Company	1.5	22
	5.1.1	Legal and trade name of the issuer	5.1	142
	5.1.2	Place of registration of the issuer and registration number	5.1	142
	5.1.3	Date of incorporation and the length of life of the issuer	5.1	142
	5.1.4	The domicile and legal form of the issuer, the legislation under which the issuer operates	5.1	142
	5.2	Investments	2.5.2	54
6.	**Business overview**			
	6.1	Principal activities	1; 2.8	5; 58
	6.2	Principal markets	2.1; 2.2	30; 37
	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	30
7.	**Organizational structure**			
	7.1	Summary organizational chart	1.4	21
	7.2	List of subsidiaries and affiliates	7.1 - (note 36); 8.2 - (note 22)	270; 289
8.	**Property, plant and equipment**			
	8.1	Existing or planned material tangible fixed assets	1.6; 7.1 - (note 14)	23; 236
	8.2	Environmental issues that may affect the issuer's utilization of tangible fixed assets	6.3	186
9.	**Operating and financial review**			
	9.1	Financial situation	2.2; 2.3; 2.4; 2.5; 2.6	37; 41; 49; 54; 56
	9.2	Operating result	2.3	41
	9.2.1	Factors materially affecting the issuer's income from operations	2.2	37
	9.2.2	Reasons for material changes in net sales or revenues	2.1; 2.2; 2.3	30; 37; 41
	9.2.3	Governmental, economic, fiscal, monetary or political factors that have materially affected the issuer's operations	2.1; 2.2	30; 37
10.	**Liquidity and capital resources**			
	10.1	Capital resources	2.4; 2.6; 5.5.1; 7.1	49; 56; 146; 206
	10.2	Cash flows	2.4; 2.5; 7.1	49; 54; 206
	10.3	Borrowing requirements and funding structure	2.4; 7.1 - (note 26)	49; 246
	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
11.	**Research and development, patents and licenses**		1.1; 2.3.3 f); 3.5; 7.1	6; 47; 83; 206
12.	**Trend information**		2.7	57
13.	**Profit forecasts or estimates**		2.7.2	57
14.	**Administrative, management and supervisory bodies and senior management**			
	14.1	Management and supervisory bodies	4.1; 4.2	96; 104
	14.2	Conflicts of interest	4.1.5	103

			Sections	Pages
15.	**Remuneration and benefits**			
	15.1	Remuneration and benefits in kind	4.3	109
	15.2	Total amounts set aside or accrued to provide pension, retirement or similar benefits	4.3	109
16.	**Board practices**			
	16.1	Date of expiration of current terms of office	4.1.2 b)	102
	16.2	Service contracts	4.1.5	103
	16.3	Audit and Compensation Committees	4.2.2; 4.5.1	104; 125
	16.4	Statement of compliance with France's corporate governance regime	4.5	125
17	**Employees**			
	17.1	Number of employees	2.3.3 b); 3.5; 6.1.1 a)	45; 83; 161
	17.2	Shareholdings and stock options	5.5.4; 6.1.1 c)	151; 164
	17.3	Arrangements for involving the employees in the capital of the issuer	5.5.6; 6.1.1 c)	157; 164
18.	**Major shareholders**			
	18.1	Provisions governing the ownership threshold above which shareholder ownership must be disclosed	2.14	72
	18.2	Voting rights	2.14; 5.2.4	72; 145
	18.3	Control	2.14	72
	18.4	Change in control	2.11	71
19.	**Related party transactions**		7.1 - (note 34)	268
20.	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**			
	20.1	Historical financial information	7.1; 8.2	206; 277
	20.2	Pro forma financial information	7.1; 8.2	206; 277
	20.3	Financial statements	7.1; 8.2	206; 277
	20.4	Auditing of the historical annual financial statements	7.2; 8.3	274; 290
	20.5	Age of latest financial information	December 31, 2016	
	20.6	Interim and other financial information	None	None
	20.7	Dividend policy	5.2.3	145
	20.8	Legal and arbitration proceedings	2.9.3 k)	70
	20.9	Significant change in the issuer's financial or trading position	2.13	71
21.	**Additional information**			
	21.1	Share capital	5.5.1; 5.5.2; 5.5.3	146; 147; 150
	21.1.1	Issued capital and share classes	2.14	72
	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	5.5.7	157
	21.1.4	Convertible securities, exchangeable securities or securities with warrants	5.5.3	150
	21.1.5	Authorized but unissued capital	None	None
	21.1.6	Stock options	5.5.4	151
	21.1.7	A history of share capital	5.5.1	146
	21.2	Articles of incorporation and bylaws	5.1.2	142
	21.2.1	Issuer's objects and purposes	5.1.2	142
	21.2.2	Provisions with respect to the members of the administrative, management and supervisory bodies	4.2	104
	21.2.3	Rights, preferences and restrictions attaching to each class of existing shares	5.1.2	142
	21.2.4	Change in the rights of shareholders	5.1.2	142
	21.2.5	Shareholders Meetings	5.1.2 f)	143
	21.2.6	Provisions that would have an effect of delaying, deferring or preventing a change in control	None	None
	21.2.7	Statutory disclosure thresholds	None	None
	21.2.8	Changes in the capital	5.5.1	146
22.	**Material contracts**		2.10	71
23.	**Third party information and statements by experts and declarations of interests**		6.4	203
24.	**Documents on display**		5.4	146
25.	**Information on holdings**		7.1 - (note 36); 8.2 - (note 22)	270; 289

Design and production: côtécorp.
Tel.: +33 (0)1 55 32 29 74

Interview picture: ©Michelin / Ludovic Combe. Tire pictures: ©Michelin

MICHELIN
+33 (0) 4 73 32 20 00 – 23, place des Carmes-Déchaux
63040 Clermont-Ferrand Cedex 9 – France
www.michelin.com

INVESTOR RELATIONS
VALÉRIE MAGLOIRE, MATTHIEU DEWAVRIN,
HUMBERT DE FEYDEAU
+33 (0) 1 78 76 45 36 – 27, cours de l'Île Seguin
92100 Boulogne-Billancourt – France
investor-relations@michelin.com

INDIVIDUAL SHAREHOLDER RELATIONS
JACQUES ENGASSER
+33 (0) 4 73 98 59 08 – 12, cours Sablon
63040 Clermont-Ferrand Cedex 9 – France
Toll-free calls in France: 0 800 000 222
actionnaires-individuels@michelin.com

COMMUNICATION
AND BRANDS DEPARTMENT
MEDIA RELATIONS: CORINNE MEUTEY
+33 (0) 1 45 66 22 22 – 27 cours de l'Ile Seguin
92100 – Boulogne-Billancourt -France