2012

REGISTRATION DOCUMENT

MICHELIN

A better way forward

CONTENTS

RFA

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

2012

REGISTRATION DOCUMENT

The original French version of this Registration Document was filed with the Autorité des marchés financiers (AMF) on March 1, 2013, 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 WITH JEAN-DOMINIQUE SENARD

"To make Michelin the undisputed leader in sustainable mobility and one of the world's most innovative, responsible and top-performing companies"

You took over for Michel Rollier in May 2012, which represented the beginning of a critical new phase in Michelin's history. How did the transition go?

It went very well because Michel Rollier had thoroughly prepared his succession. I worked with him closely for eight years, including five as Managing Partner. Michel Rollier announced he was stepping down in February 2011 and we managed the Group together for a year, so the transition went smoothly. Thanks to the outstanding accomplishments made since the crisis in 2008-2009 and the successful share issue in 2010, Michel Rollier built a solid foundation on which Michelin launched a New Era of Dynamic Growth, with major spending projects in Brazil, China and India. Today, we are stronger than ever before and I am proud to have shared this adventure with him.

Long-term vision is one of Michelin's key strengths. Will you be able to deploy such a strategy with a four-year term?

Yes, I firmly believe so. It's only natural for corporate executives to have their performance regularly monitored and assessed. It's the Supervisory Board's responsibility to evaluate the quality of corporate governance, to decide whether or not my term will be renewed, and to ensure that my decisions are in the Group's lasting interest. I think this approach is solid, balanced and focused on responsibility over the long term.

How would you sum up 2012?

Michelin teams once again demonstrated their ability to honor commitments. Despite an unstable international environment that saw a clear decline in demand in Europe and considerable volatility in most regions, we deployed the road map for our New Phase of Dynamic Growth in line with expectations.

Our revenue rose with lower sales volumes. Our operating income rose by 25% to €2.4 billion, which represents more than 11% of sales, and our net income surpassed €1.5 billion.

We invested a record total of €2 billion, of which two-thirds were growth investments. This required a considerable effort, but Michelin generated substantial free cash flow in 2012. As a result, our balance sheet is more robust than ever, with debt-to-equity at a record-low 12%. In today's environment, this represents a precious asset.

Backed by these very solid results, we will recommend that shareholders approve the payment of a dividend of €2.40 per share, an increase of 14% over last year.

How do you explain these very good results?

We are reaping the rewards of our strategic focus on innovation, international growth, competitiveness and continuous improvement in corporate management that we deployed consistently and successfully thanks to the expertise, professionalism and commitment of our teams.

Our diversified product portfolio allows us to smooth over the ups and downs of the business cycle while our international presence, with sales evenly divided between Western Europe, North America and the rest of the world, enabled us to withstand declining demand in Europe.

We introduced new tires whose superior technical performance sets them apart from the competition. Their remarkable success in new markets is due in large part to their robustness and outstanding longevity.

Thanks to our premium positioning and effective pricing policy, we stabilized operating margin for our car tires at a high level despite a decline in unit sales. Our priority focus on turning around the truck tire business led to a sharp improvement in operating margin even though sales volumes have dropped by more than 10%. This represents an outstanding performance on the part of our teams, who have made a truly remarkable effort. We also benefited from the substantial contribution of our specialty tire businesses, which generate structurally high margins. Lastly, we continued to enhance our productivity and competitiveness through the 2012-2016 Efficiency plan.

You're pursuing major investment programs in Brazil, China, India and the United States. How are they coming along?

2013 will open an important new era in our global development. The ramp-up of our new car and light truck tire in Itatiaia, Brazil is proceeding very nicely. In China, the Shenyang 2 plant launched production of truck tires in late January and will begin manufacturing car tires in May. The truck tire plant in Chennai, India will be brought on stream in the second half. In the United States, the new earthmover tire plant in Anderson and the new line to increase capacity at the Lexington plant will be operational at the end of the year.

At the same time, we're investing in our European plants to make them more competitive and increase their production capacity for large-size tires. We're developing our networks of franchised dealers around the world to provide our customers with high-quality service and advice that enables them to get the most out of our products. We expect to increase the number of sales outlets from 2,000 to 5,000 in five years. And we're of course investing in innovative technologies, Michelin's number one growth driver, as well as in management tools to improve our agility and efficiency.

Overall, we will invest an average of €2 billion a year over the 2013-2015 period.

Does the auto industry situation in France and elsewhere in Europe constitute a threat?

If we want to maintain a solid, sustainable industry, we need to ensure that manufacturing resources in France and the rest of Europe are competitive, and this means they must be flexible. We should view the necessary adjustments as both normal and natural. The key is to be able to anticipate these adjustments and to implement them in the best conditions with regard to employee issues.

Our German plants are among the most efficient in Europe because mutual understanding is inherent in the country's employee relations and endows the industry with a remarkable ability to change.

In this respect, the agreement recently signed in France with employee representatives represents an improvement. If it becomes law and is applied pragmatically by all parties, it could give us peace of mind regarding the future, both for companies and for their employees, for whom it delivers real benefits.

I am convinced that de-industrialization in mature countries is not inevitable provided that decisions are made to ensure long-term competitiveness and stability in the regulatory and tax environment. One good example is the United States. Following a period of deep-seated, difficult adjustments, the automobile industry there has rebounded superbly.

Too often competitiveness is analyzed solely from the point of view of labor costs. While we mustn't neglect this aspect, it's more important to create an environment of trust, stability and calm, constructive employee relations.

Like my predecessors, I deeply believe that the Company's performance is directly linked to the well-being and development of its people. We must do everything possible to ensure that the mutual contract that binds Michelin and its employees is understood by all to be the expression of reciprocal rights and responsibilities. That's why we are deploying our Moving Forward Together program. It's also why I'm committed to developing high-quality social dialogue throughout the organization, especially in France.

What is your outlook for 2013 and beyond?

In an environment shaped by growth in new markets but uncertainty in mature markets, we're aiming for stable sales volumes in 2013 and operating income on a par with 2012.

Growth should pick up again in 2014 and we're confirming our objective of approximately €2.9 billion (1) in operating income in 2015, while generating positive free cash flow every year.

Our objectives are ambitious in today's demanding environment but I have full confidence in our assets and in our ability to innovate and improve.

Michelin is the world leader in premium tires, for which demand is growing faster than for the market as a whole, everywhere. The increase in mobility is being accompanied by heightened demand for tires that are safe, robust, long-lasting, environmentally friendly and energy efficient. The solutions to these challenges are first and foremost technological. We have a greater capacity for innovation than any other tire company in the world. We're going to increase and accelerate this powerful ability to innovate by setting up new organizational structures.

More broadly, we will encourage our employees even more to express their creativity and to ensure that all good ideas are shared and deployed. We already gather nearly 50,000 innovation and progress ideas each year. They have led to very significant improvements in workplace safety, workstation ergonomics, environmental protection, energy and raw material savings, quality and productivity. We're aiming for 100,000 ideas a year in 2020.

We will continue to reduce our cost base while becoming more agile and efficient. To achieve these goals, we're extending the continuous improvement process developed in our plants to our support functions and research activities. We're deploying our OPE management program to develop shared solutions for reducing inventory, preventing supply disruptions, improving customer satisfaction, making our support functions more efficient, lowering production costs and more effectively managing our margins. China will be the first country to fully deploy all components of this new program, in second-half 2013.

2012 was the tenth anniversary of the sustainable development approach introduced by Édouard Michelin. What is the role of sustainable development in your strategy?

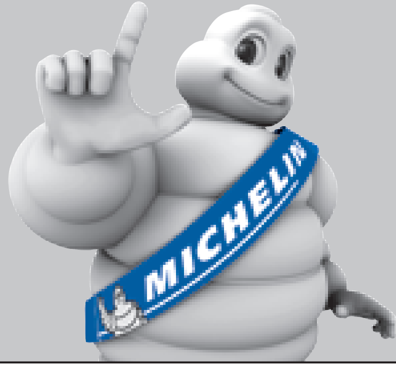
The *Michelin Performance and Responsibility* approach plays a key role because it gives meaning to our action. The strength of our strategy is that it is channeled by a mission that has always guided us and that commits us to improving mobility while responding to the challenges of lasting economic, environmental and social development. Every passing year provides additional proof of the power and relevance of our *Michelin Performance and Responsibility* approach. Throughout 2012, we pursued a major project to update our priorities and set our objectives for 2020, which were finalized in February 2013.

My ambition now is to go even further and make Michelin the undisputed leader in sustainable mobility and one of the world's most innovative, responsible and top-performing companies.

(1) Before non-recurring items, with market growth of 4-4.5% a year after 2013 and raw material prices in line with market growth.

1

Michelin at a Glance



1.1. COMPANY PROFILE

Since 1889, Michelin has constantly innovated to enhance the mobility of people and goods.

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

In 2012, Michelin committed a record amount of capital expenditure, reported historically high operating income and, along with its 113,400 employees, celebrated the tenth anniversary of Michelin Performance and Responsibility, its sustainable development approach.

- 113,400 employees (107,300 full-time equivalents).
- Net sales: €21.5 billion; operating income : €2.4 billion.
- 69 production facilities in 18 countries.
- Marketing operations in 170 countries, 14.6% of the global tire market. (1)

1.1.1. 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

1.1.2. PRODUCTS AND SERVICES YOU CAN TRUST

- **Tires** for cars, vans, trucks, farm machinery, earthmovers, motorcycles, scooters, bicycles, aircraft, subway trains and tramways, with innovative solutions tailored to widely varying expectations and conditions of use.
  166 million tires produced in 2012.
- **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. All of these networks set the market standard for expert advice and quality service.
  More than 3,400 centers 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.
  – 10 million maps and guides published in 2012.
  – 970 million itineraries calculated by ViaMichelin.
- **Michelin Lifestyle products** developed in partnership with licensees: car and bike accessories, work, sport and leisure gear, and collectibles.

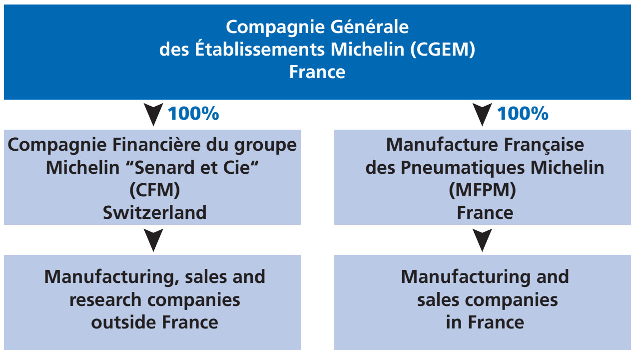
1.1.3. AN EFFICIENT ORGANIZATION

- **8 Product Lines,** each with its own marketing, development, production and sales resources: Passenger Car and Light Truck, Truck, Specialty product lines (Agricultural, Aircraft, Two-Wheel, Earthmover), Materials and Other Businesses with Michelin Travel Partner and Michelin Lifestyle.
- **A Technology Center** in charge of research, development and process engineering, with operations in Europe, North America and Asia.
- **8 Regions** 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, Eastern Europe, ASEAN/Australia, China, Japan/South Korea and Africa/India/Middle East.
- **2 integrated tire dealership networks:** Euromaster and TCI.
- **13 Corporate Departments** that support the Product Lines and the Technology Center and impel general corporate policies.
- **4 Performance Divisions:** Research-Development-Process Engineering; Manufacturing; Sales and Marketing; Supply Chain and Logistics.

(1) Source: 2011 sales in US dollars published by Tire Business in August 2012.

1.2. SUMMARY ORGANIZATION CHART

(At December 31, 2012)



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 du groupe Michelin "Senard et Cie" (CFM) (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 Manufacture Française des Pneumatiques Michelin (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.

1.3. 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 machinery 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 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 du groupe Michelin "Senard et Cie" (CFM) (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	Launching of the "New Phase of Dynamic Growth".
2012	First Passenger Car and Light truck tire produced at Pau-Brasil plant. First Truck tire at the new Shenyang 2 plant in China.

1.4. FACILITIES

Property, plant and equipment are described in Note 14 to the Consolidated Financial Statements.

1.4.1. 69 PRODUCTION FACILITIES IN 18 COUNTRIES

1.4.1.a) 58 Tire Production Facilities in 18 countries

Europe

Country	Location	Products	Number of employees (1) (At December 31, 2012)	Maximum available capacity (in tons/year)
France	Avallon	Truck tires*	560	7,100
	Bourges	Aviation tires	480	3,100
	Cataroux (2)	Passenger car – Light truck tires	2,430	3,800
	Cholet	Passenger car – Light truck tires	1,328	63,700
	Combaude (2)	Truck tires*	1,056	12,800
	Gravanches (2)	Passenger car – Light truck tires	678	18,800
	La Roche-sur-Yon	Truck tires	596	69,700
	Le Puy-en-Velay	Earthmover tires	653	45,300
	Montceau-les-Mines	Earthmover tires	1,033	20,900
	Roanne	Passenger car – Light truck tires	891	40,300
	Tours	Truck tires	920	73,100
	Troyes	Agricultural tires	831	46,600
Germany	Bad-Kreuznach	Passenger car – Light truck tires	1,373	76,100
	Bamberg	Passenger car – Light truck tires	861	68,300
	Homburg	Truck tires	1,249	89,800
	Karlsruhe	Truck tires	686	52,500
	Oranienburg	Truck tires*	215	3,400
Spain	Aranda	Truck tires	1,149	145,400
	Lasarte	Two-wheel tires	579	9,000
	Valladolid	Passenger car – Light truck tires – Truck tires* – Agricultural tires	1,482	83,900
	Vitoria	Passenger car – Light truck tires – Earthmover tires	3,042	195,800
Italy	Alessandria	Truck tires	874	83,700
	Cuneo	Passenger car – Light truck tires	2,069	112,700
United Kingdom	Ballymena	Truck tires	883	79,200
	Dundee	Passenger car – Light truck tires	775	57,700
	Stoke on Trent	Truck tires*	363	5,100
Hungary	Budapest	Truck tires	465	37,900
	Nyiregyhaza	Passenger car – Light truck tires	934	13,200
Poland	Olsztyn	Passenger car – Light truck tires – Truck tires – Agricultural tires	3,900	181,700
Romania	Victoria	Passenger car – Light truck tires	1,055	32,700
	Zalau	Truck tires	1,178	34,400
Serbia	Pirot	Passenger car – Light truck tires – Two-wheel tires	2,096	65,000
Russia	Davydovo	Passenger car – Light truck tires – Truck tires*	720	12,800

(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, 2012)	Maximum available capacity (in tons/year)
United States	Ardmore	Passenger car – Light truck tires	1,820	137,000
	Asheboro	Truck tires*	240	24,500
	Columbia-Lexington	Passenger car – Light truck tires – Earthmover tires	2,123	207,300
	Covington	Truck tires*	153	29,200
	Dothan	Passenger car – Light truck tires	536	45,400
	Fort Wayne	Passenger car – Light truck tires	1,597	117,100
	Greenville 1	Passenger car – Light truck tires	1,048	120,200
	Greenville 2	Passenger car – Light truck tires	482	17,900
	Norwood	Aviation tires	486	8,000
	Spartanburg	Truck tires	1,010	143,400
	Tuscaloosa	Passenger car – Light truck tires	1,380	89,400
Canada	Bridgewater	Passenger car – Light truck tires	1,130	58,200
	Pictou	Passenger car – Light truck tires	986	39,900
	Waterville	Truck tires	1,207	137,400
Mexico	Queretaro	Passenger car – Light truck tires	444	20,300

South America

Country	Location	Products	Number of employees (1) (At December 31, 2012)	Maximum available capacity (in tons/year)
Brazil	Campo Grande	Truck tires – Earthmover tires	2,872	130,500
	Resende – Itatiaia	Passenger car – Light truck tires – Truck tires*	984	18,400
Colombia	Bogota	Truck tires	256	12,700
	Cali	Passenger car – Light truck tires	280	14,300

Asia (excluding India)

Country	Location	Products	Number of employees (1) (At December 31, 2012)	Maximum available capacity (in tons/year)
China	Shenyang	Passenger car – Light truck tires – Truck tires	2,333	77,000
	Shanghai	Passenger car – Light truck tires	2,382	53,900
Thailand	Laem Chabang	Passenger car – Light truck tires	1,834	82,500
	Nongkae	Truck tires – Aviation tires	1,739	63,900
	Phrapadaeng	Passenger car – Light truck tires – Truck tires – Two-wheel tires	1,369	43,000

Africa India Middle-East

Country	Location	Products	Number of employees (1) (At December 31, 2012)	Maximum available capacity (in tons/year)
Algeria	Hussein-Dey	Truck tires	654	9,400

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

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

1.4.1.b) 11 Semi-Finished Product and Component Plants in 7 countries

Country	Location	Products	Number of employees (At December 31, 2012) (1)
France	Bassens	Synthetic rubber	368
	Golbey	Metal cables	493
	Vannes	Metal cables	503
Germany	Treves	Metal cables	88
Italy	Fossano	Metal cables	513
	Torino	Compounds	365
Romania	Zalau	Metal cables	300
United States	Anderson	Metal cables	821
	Louisville	Synthetic rubber	344
China	Shanghai	Metal cables	219
Thailand	Rayong	Metal cables	389

(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.

1.4.2. OTHER MATERIAL PROPERTY ASSETS

1.4.2.a) Headquarters – Offices – Research Center

Country	Location	Type
France	Carmes (1)	Headquarter
	Ladoux (1)	Research Center
Japan	Ota	Research Center
Spain	Almeria	Testing plant
United States	Greenville – HNA	Offices
	Greenville – MARC	Research Center

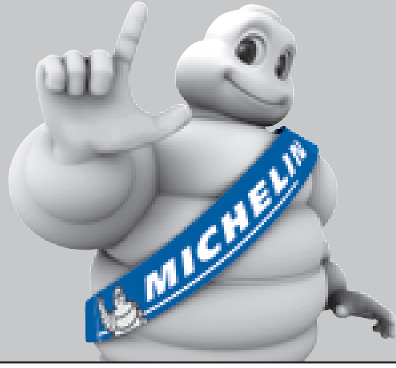
(1) Facilities located in Clermont-Ferrand.

1.4.2.b) Other material property assets costs

Please refer to Note 14 to the consolidated financial statements.

2

Report of the Managing Partners


MICHELIN

2.1. CHALLENGES AND STRATEGIC VISION

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. Combining performance and responsibility, the Group is embarking on a new phase of dynamic growth by helping to foster sustainable road mobility.

2.1.1. THE FUTURE SHAPE OF MOBILITY

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 automobile 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 road mobility solutions that make the most of information and communication technologies.

2.1.1.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.

2.1.1.b) Cleaner mobility

Road transport accounts for 18% of all fossil-based CO_2 emissions caused by human activity, with tires representing 4% from the fuel used 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 in 2100 [(1)], carbon 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. What's more, around the world, quality of life in big cities is under attack from the closely inter-related threats of congestion, noise and pollution.

2.1.1.c) More fuel-efficient mobility

More than 60% of the world's oil output is used in transportation. Increasingly rare and costly, oil is a major geo-strategic challenge, as are energy and non-renewable raw materials. In 2012, the cost of raw materials used in production represented 30% of Michelin's net sales. Optimizing their use is essential if tires are to remain affordably priced and if these resources are to be conserved over the long term. The challenge is to meet these goals without sacrificing tire performance.

2.1.1.d) Connected mobility

The time it takes to travel from one point to another mainly depends on traffic, the itinerary, waiting times, the availability of a parking space and the speed of inter-modal connections. With a cell phone or onboard computer, travelers can access information to help them select the best options.

Information and communication technologies can also be used to transmit technical data that allow motorists to schedule servicing, drive more safely and use less fuel.

2.1.2. 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.

2.1.2.a) The MICHELIN brand

With its promise of balanced performance and extraordinary capital of trust and affinity, the MICHELIN brand 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, even in the depths of the recession.

The MICHELIN brand has already demonstrated its power in Europe and North America, where we hold forefront positions, and its influence is growing in emerging markets, especially China. In the world, it accounted for 75% of the net sales in the Passenger Car and Light Truck Tire segment in 2012, 85% in Truck Tires and 95% in Specialty Tires.

(1) Compared with the pre-industrial era
(2) Compared with 2008.

2.1.2.b) Solid technological leadership

Throughout its history, Michelin's development has been fueled by technical innovation. With such technological breakthroughs as the radial tire and the fuel-efficient tire, we have been a key driver of progress in our industry and enjoy a recognized lead in the most demanding technical segments.

What makes Michelin innovation different is its ability to deliver a balance of performance, that at once shortens braking distances, improves fuel efficiency (thereby shrinking the environmental impact) and increases tread-life. Maintaining this performance balance over time and simultaneously improving each aspect to offer the market's most competitive total cost of ownership represents the unique strength of MICHELIN tires, whose full value the Group intends to capture.

Thanks to its technical lead, its ability to develop the technologies carmakers want and the performance of its tires, which is widely recognized by specifiers around the world, Michelin acts as the benchmark in the global premium tire market, with in particular strong positions in high performance car and light truck tires.

2.1.2.c) A truly global player

Very early on, Michelin developed an exceptionally broad geographical presence, to the extent that today, we manufacture tires in 18 countries and sell them in 170.

As one of the few global tire manufacturers, we enjoy critical mass and synergies that help to foster innovation, productivity and fair, balanced relations with tire dealers. The geographical 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 underway to standardize processes and share best practices across the global organization.

2.1.2.d) A comprehensive range of tire solutions

Michelin is organized around 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 equipment, earthmovers and handling equipment, mining, bicycles, motorcycles and aircraft. Because we partner original equipment manufacturers, pay close attention to every user, and operate in a wide array of distribution channels, we are particularly well positioned to understand customer expectations. This broad segment diversity means that we can pursue every market growth opportunity as it arises.

2.1.2.e) A solid balance sheet

After delivering strong earnings in sluggish markets in 2012, Michelin enjoys a robust balance sheet, with a net debt-to-equity ratio of 12% at December 31, 2012.This solid underpinning is crucial for the future, in order to guarantee our independence and to support our ambitious capital expenditure program.

2.1.3. OUR GROWTH STRATEGY

Built on a foundation of growth, competitiveness and commitment, Michelin's strategic vision is designed to deliver strong, diversified growth by capturing the full value of its products and services in mature markets and expanding more quickly in new markets. As we continue to make our organization more competitive and cost-effective, the mutual commitment of the Company and its employees will enable us to successfully move forward together.

Objectives for 2015

Provided that volumes grow by 4 to 4.5% in 2014 and 2015:

- operating income of around €2.9 billion in 2015 with normative operating margins before non-recurring items of 10% to 12% in the Passenger Car and Light Truck tire segment, 7% to 9% in the Truck tire segment and 20% to 24% in the Specialty Businesses;
- a more than 10% return on capital employed each year;
- annual capital expenditure of around €2 billion;
- positive free cash flow over the 2011-2015 period;
- a dividend payout rate of around 30% of consolidated net income, before exceptional items.

2.1.3.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 twenty years, our innovation programs have focused on delivering sustainable mobility solutions. Today, we are the world's leading manufacturer of fuel-efficient tires and are spearheading the move towards a product-service system, which consists of 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. We are committed to maintaining our solid lead in this new services-based economy by delivering targeted solutions combining innovative products and services.

With an annual R&D budget of nearly €600 million, 6,000 employees and a patent portfolio that has tripled in ten years, Michelin's innovation priorities are to:

- bring new tire ranges to market more quickly;
- continuously improve performance so that each new range outperforms the previous generation;
- develop breakthrough innovations to develop totally new solutions to mobility challenges.

2.1.3.b) Driving faster growth

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

MICHELIN brand sales are driving the growth strategy across every product line (Passenger Car and Light Truck tires, Truck tires and Specialty tires) and in every market. The benchmark premium brand, MICHELIN, is widely recognized for the quality of its products and services, and will be enhanced by a multi-brand portfolio. Multiple brands enable us to serve retail networks that want to offer each customer just the right tire without leaving the Michelin Group brand universe.

Because these brands are also designed to help us reach our profitability targets, they will be initially focused on the fast growing segment of competitively priced tires for high-performance vehicles. The BFGoodrich®, KLEBER, UNIROYAL, TIGAR, KORMORAN, RIKEN, TAURUS or WARRIOR brands will be used in their respective markets.

Another growth driver is the steady improvement in market access. We are strengthening our integrated dealer networks through acquisitions and stepping up our franchising operations in every market. We are committed to increasing our network of franchised dealers to 5,000 outlets in 2017 from 2,000 in 2012.

2.1.3.c) Stepping up capital expenditure

With €2 billion invested in 2012, Michelin is pursuing a sustained investment policy, led by three objectives:

- sharply increase production capacity in fast-growing markets;
- continue aligning plants in mature markets to keep pace with product developments and make them more competitive;
- develop the information systems needed to meet our operational excellence and quality of service targets.

Three new high-capacity plants are currently under construction, to serve booming markets in India, with the Chennai truck and earthmover tire plant, in China, where car and truck tire capacity will be significantly boosted by the new Shenyang 2 plant, and in the United States, where the new Anderson, SC unit will produce tires for the mining industry.

2.1.4. IMPROVED COMPETITIVENESS

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

2.1.4.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, the commitment of capital expenditure to increase productivity and the consolidation of manufacturing operations at larger, more specialized facilities, we have assertively improved our ability to manage abrupt changes in market conditions and will have plants in Europe and North America that are highly competitive.

2.1.4.b) The OPE business management system: to make us more agile and competitive

Michelin is introducing new standard, horizontal operating procedures and information systems in a commitment to 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 an annual cost of around €100 million over the next five years, this program will, by 2017, drive at least a €250-million reduction in inventory and at least a €200-million reduction in annual costs.

2.1.4.c) Improving competitiveness to drive growth

As the key source of improved competitiveness, operational excellence concerns every Michelin unit. A new plan has been deployed to deliver competitiveness gains of around €1 billion by 2016, before inflation and including avoided costs.

To lower production and transportation costs, and thereby drive each year an around €110-million reduction in the cost structure, productivity improvement plans are being pursued and the production plants are being more quickly aligned with the best practices deployed as part of the Michelin Manufacturing Way. At the same time, the quality and efficiency of the corporate support services are being closely tracked with the goal of reducing overheads by around €50 million each year over the 2012-2016 period, thanks to the *"Efficience"* program.

Lastly, the cost of raw materials used in production is expected to decline each year by around €30 million over the same period thanks to the ongoing optimization of raw material content and reduction in tire weight as part of the Design-to-Cost program.

2.1.4.d) An efficient manufacturing base

In spring 2012, a new Passenger car & Light truck tire plant came on stream in Pau Brasil, in South America.

Europe	North America	Asia (excluding India)
15 for car and light truck tires 16 for truck tires 9 for specialty tires 7 for components and semi-finished products	10 for car and light truck tires 4 for truck tires 2 for specialty tires and 1 under construction 2 for components and semi-finished products	4 for car and light truck tires and 1 under construction 3 for truck tires and 1 under construction 2 for specialty tires 2 for components and semi-finished products
	South America	**Africa-India-Middle East**
	3 for car and light truck tires 3 for truck tires 1 for specialty tires	1 for truck tires and 1 under construction

2.1.5. "MOVING FORWARD TOGETHER"

The Michelin corporate community is made up of more than 110,000 people, representing 120 nationalities. In a Group whose employee relationships are rooted in dialogue and mutual respect, their diversity is a valuable asset and source of creativity, while their professionalism and commitment are instrumental in driving our performance and growth.

2.1.5.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 us every day and expresses the mutual commitments that the Group 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. As the same time, career management focuses on promoting from within and offering mobility opportunities.

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

A broad range 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.

2.1.5.b) Respect for people, the foundation of social cohesion

By making workplace safety a priority, we have made Michelin 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 inplacement opportunities and individual support if external solutions were preferred or inevitable.

2.1.5.c) Michelin Performance and Responsibility, a motivating process

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. The Michelin Performance and Responsibility process structures this corporate culture and coordinates our commitment to the principles of sustainable, balanced, responsible growth.

Integrated into every project and demonstrated in every aspect of the business by trained, highly involved teams, the process expresses our commitment to building growth on the long term and helping to address societal challenges by putting our values into practice.

The process is supported by the Michelin Performance and Responsibility Charter, a set of guidelines that is widely circulated within the organization. Following an internal diagnostic audit, twelve major challenges were identified for priority action. Improvement targets were set for each one, managers were appointed and action plans were launched, backed by indicators to measure progress and performance. To maintain the improvement dynamic, the key areas for improvement and their indicators are constantly being adjusted and upgraded, depending on outcomes.

This structured, global approach has made it possible to deploy the Michelin Performance and Responsibility process in internal improvement initiatives and in our relations with partners and society as a whole. The commitment of 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.

2.2. TIRE MARKETS

2.2.1. A GLOBAL MARKET WORTH SOME $190 BILLION (1)

The global tire market totaled $187 billion (1) in 2011, with light-vehicle tires accounting for 60% and truck tires 30% (2). In 2012, the total radial and bias-ply market declined by just over 1% (2) during the year, representing more than 1.3 billion car and light truck tires and nearly 180 million truck and bus tires. Three out of four tires were sold in the replacement market.

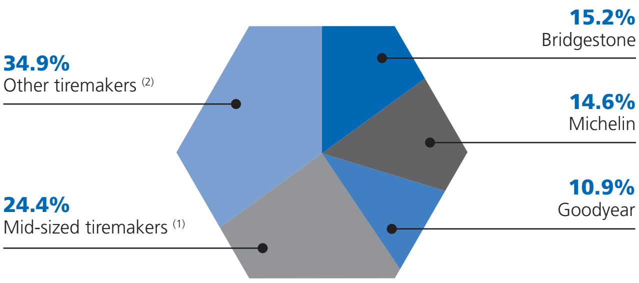
Over the long term, Michelin expects demand for tires to grow by 1-2% a year in mature markets and by 5-10% a year in the new markets.

New standards

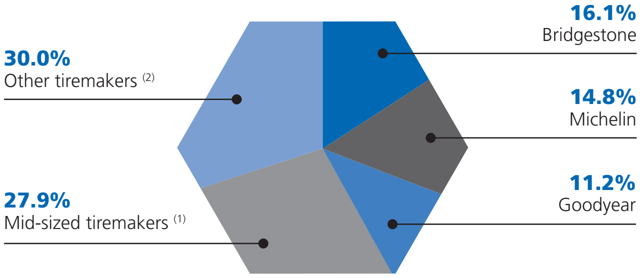
Since November 2012, mandatory tire performance ratings, displayed on standardized labels, have been gradually introduced across the European Union. Similar legislation came into effect in South Korea on December 1, while the standardized labeling introduced in Japan in 2010 is being more broadly applied (noise, etc.). Regulated tire labeling systems are also under consideration in the United States, 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 200 million units between 2010 and 2020 to a total of 500 million.

THE GLOBAL TIRE MARKET BY MANUFACTURER



Source: 2011 sales in US dollars published by Tire Business in August 2012.
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with a less than 2% market share according to the Tire Business ranking.



Source: 2010 sales in US dollars published by Tire Business in August 2011.
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with a less than 2% market share according to the Tire Business ranking.

In 2012, global tire demand was shaped by the uncertainty weighing on the world economy, particularly in Europe and to a lesser extent in North America. In addition, prior-year comparatives were high due to the steep run-up in dealer inventories in every region ahead of price increases announced by all of the leading tiremakers.

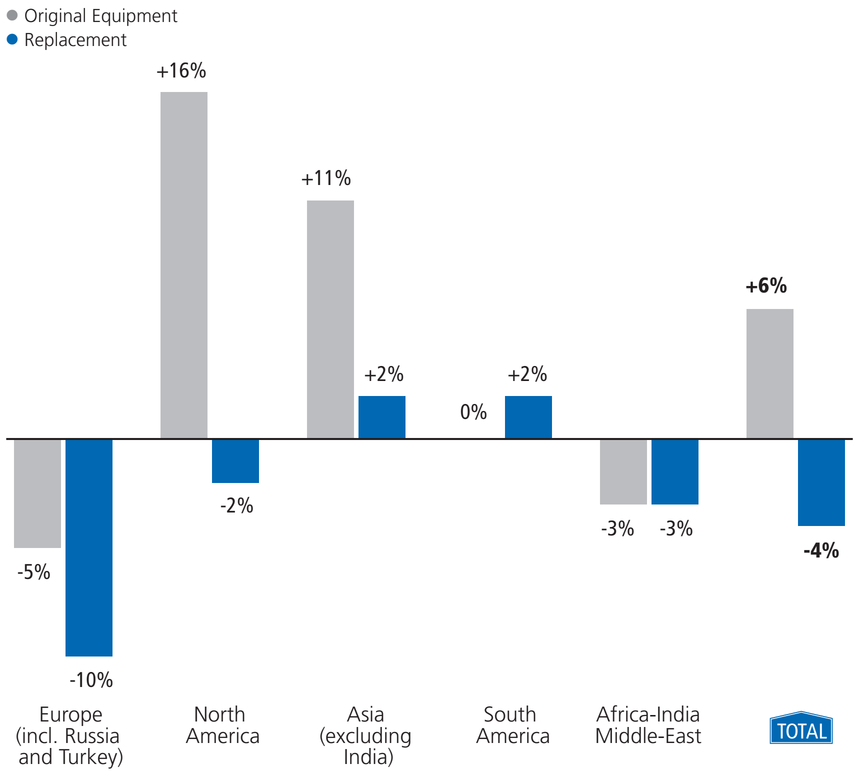
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and expressed in the number of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

(1) Source: Tire Business, August 2012.
(2) Michelin estimates.

2.2.2. PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS

Volumes in the **Passenger car and light truck** tire markets were nearly flat over the year, easing back by just 1%, reflecting a 6% increase in original equipment and a 4% decrease in replacement.

THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2012 VS. 2011



Michelin estimates.

2.2.2.a) Original equipment

Original equipment demand ended the year up 6% overall, led by gains in every region with the exception of Europe.

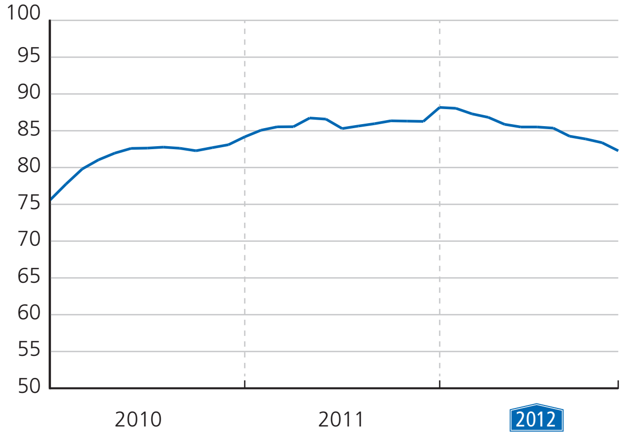
Passenger car and Light truck markets Original equipment (in millions of tires)	2012	2011	2012/2011	2nd-Half 2012/2011	4th-Quarter 2012/2011	3th-Quarter 2012/2011	1st-Half 2012/2011	2nd-Quarter 2012/2011	1st-Quarter 2012/2011
Europe (1)	92.5	97.3	-5%	-6%	-8%	-5%	-4%	-6%	-1%
North America (2)	75.7	65.1	+16%	+12%	+10%	+14%	+21%	+26%	+16%
Asia (excluding India)	178.6	161.0	+11%	+5%	+5%	+6%	+17%	+23%	+11%
South America	21.5	21.4	+0%	+7%	+12%	+3%	-7%	-9%	-5%
Africa India Middle-East	27.9	28.8	-3%	-14%	-12%	-16%	+7%	+5%	+10%
TOTAL	**396.2**	**373.6**	**+6%**	**+2%**	**+2%**	**+3%**	**+10%**	**+12%**	**+8%**

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

In Europe, tire demand contracted by 5% in 2012. The collapse in new car registrations, which fell to a 17-year low in the European Union, masked a contrast between the decline in broadline carmaker sales and the firmer resistance of specialty and export-driven brands. Markets in Eastern Europe continued to expand, increasing by 11% over the year.

THE EUROPEAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET

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

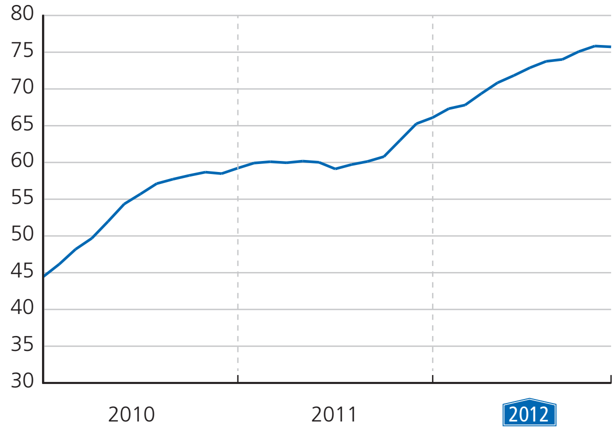


Michelin estimates.

The **North American** tire market grew by 16% in 2012, returning to 2007 levels thanks to strong new car sales as buyers replaced aging models.

THE NORTH AMERICAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET

(in millions of tires – moving 12 months)



Michelin estimates.

In Asia (excluding India), demand rose by 11% overall. While still buoyant, the Chinese market cooled somewhat, ending the year up 6%, even as new car sales fluctuated on news of the territorial dispute with Japan. Demand in Japan moved back in line with historic trends with an 18% rebound off of a 2011 impacted by the tsunami. The Southeast Asian market soared 38%, again off of low prior-year comparatives due to the autumn 2011 floods in Thailand.

The **South American** market was stable overall, with a brisk 7% gain in the second half offsetting the 7% decline in the first. Demand in Brazil was lifted by the reduction in the IPI federal excise tax and other government measures introduced in the autumn.

In Africa-India-Middle East, geopolitical conditions pushed original equipment sales down 3% over the year.

2.2.2.b) Replacement

The global replacement market contracted by 4% over the year, with a backdrop of rising economic uncertainty.

Passenger car and Light truck markets Replacement (in millions of tires)	2012	2011	2012/2011	2nd-Half 2012/2011	4th-Quarter 2012/2011	3th-Quarter 2012/2011	1st-Half 2012/2011	2nd-Quarter 2012/2011	1st-Quarter 2012/2011
Europe (1)	311.0	344.3	-10%	-9%	-9%	-8%	-11%	-11%	-11%
North America (2)	253.7	259.3	-2%	-3%	-1%	-5%	-2%	+2%	-5%
Asia (excluding India)	222.7	218.7	+2%	+4%	+4%	+3%	-0%	+1%	-1%
South America	63.1	62.1	+2%	+3%	+4%	+1%	+1%	-0%	+2%
Africa India Middle-East	88.2	90.7	-3%	-8%	-5%	-10%	+3%	-1%	+7%
TOTAL	**938.7**	**975.1**	**-4%**	**-3%**	**-2%**	**-5%**	**-4%**	**-3%**	**-5%**

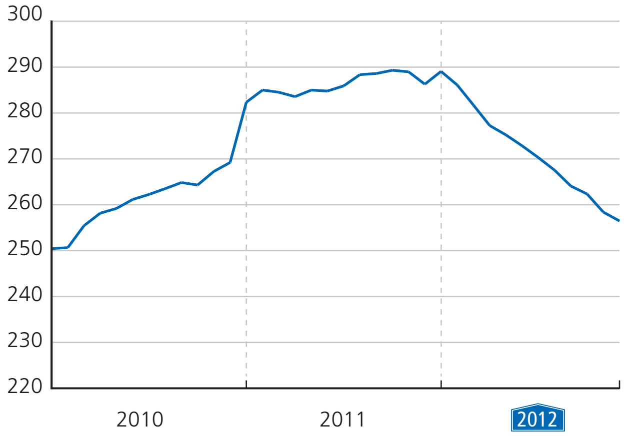
(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

In Europe, replacement demand dropped 10% year-on-year in a highly uncertain economic environment. Western Europe saw a record decline, steeper even than in 2008, that was accentuated by the year-on-year comparison with first-half 2011, which saw major dealer buying ahead of significant price increases. However, by the end of 2012, dealer days sales in inventory had moved back in line with demand. Lastly, the winter tire market dropped 16%, as expected, and the high-performance tire segment (17" and bigger) slowed to a lesser extent than the European market average, reflecting the sustained improvement in the mix.

By country, demand fell sharply as expected in Southern Europe (by 26% in Italy and 12% in Spain), as well as in Germany (down 15%), the United Kingdom (down 10%) and, to a lesser extent, France (down 7%) and Eastern Europe (by 9% in Poland). On the upside, demand rose by 8% in Turkey and by 7% in Russia, where the economic environment is being buoyed by high oil prices and domestic consumer spending.

THE EUROPEAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET

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

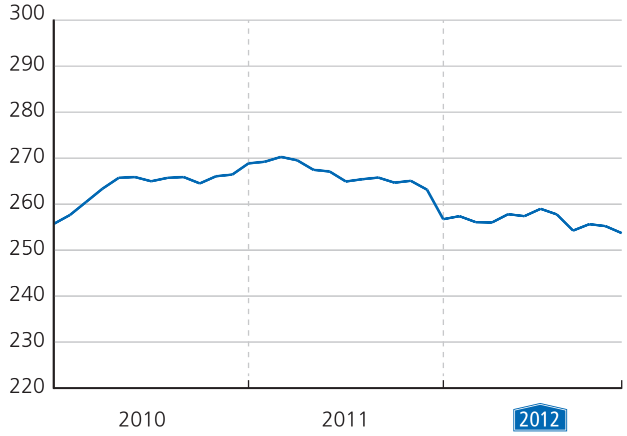


Michelin estimates.

Demand **in North America** retreated 2% as consumer confidence weakened, despite the relative stability of average miles traveled and fuel prices. After an upturn in 2010, the market has returned to 2009 levels, with volumes sold noticeably lower than in 2007. Impacted by the significant increase in Chinese imports after customs duties were lifted, the US market declined by 3%, while demand fell 6% in Canada and rose 9% in Mexico.

THE NORTH AMERICAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET

(in millions of tires – moving 12 months)



Michelin estimates.

In Asia (excluding India), markets ended the year up 2% overall. Demand rose 4% in China despite slowing economic growth, but eased back 1% in Japan, where winter tire sales were stable and volumes moved back in line with recurring trends after the run-up in replacement buying in 2011 following the natural disasters. In South Korea, the market fell 6% in an export-driven economy hit hard by global economic uncertainty.

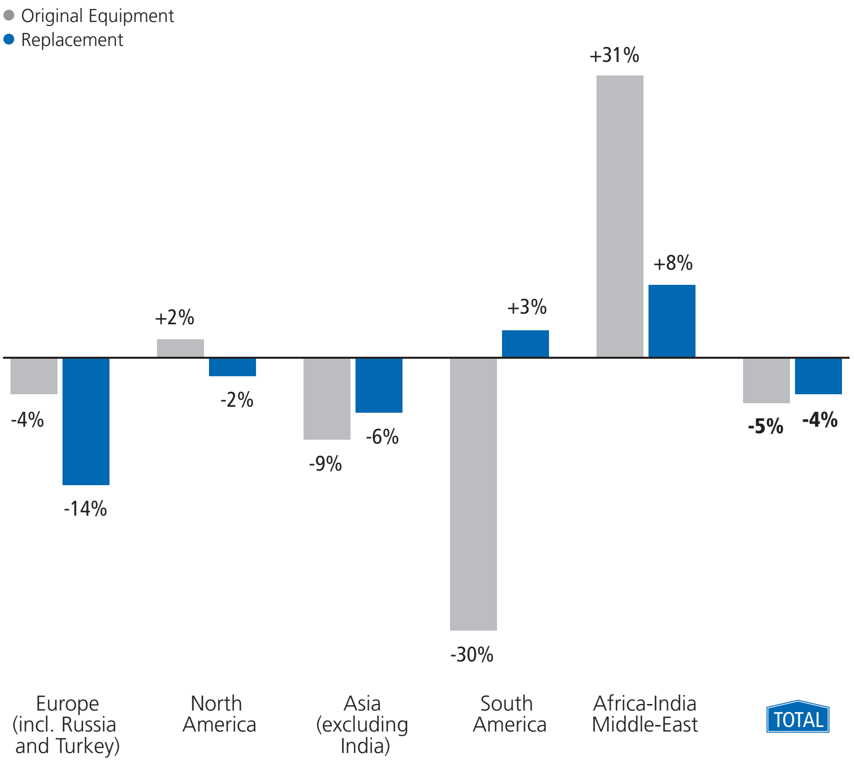
The **South American** market gained a slight 2% overall, but with wide variations among countries. Demand expanded by 3% in Brazil as sell-out held firm at 2011 levels, fell a steep 9% in Colombia following the massive importer inventory buildup in 2011, and was unchanged in Argentina despite the customs barriers.

In Africa-India-Middle East, markets declined by 3% overall in an unfavorable geopolitical environment, although demand surged by 9% in India.

2.2.3. TRUCK TIRE MARKETS

In the **Truck tire** markets, the demand for radials declined in both original equipment (by 5%) and in the replacement segment (by 4%), reflecting the economic slowdown felt around the world in 2012.

THE GLOBAL TRUCK TIRE MARKET, 2012 *VS.* 2011



Michelin estimates – Radial market only.

2.2.3.a) Original equipment

The **global original equipment market** contracted by 5%. It trended steadily downward all year, with a steeper decline in the second half, to the extent that December fell below 2010 levels.

Truck markets* Original Equipment (in millions of tires)	2012	2011	2012/2011	2nd-Half 2012/2011	4th-Quarter 2012/2011	3th-Quarter 2012/2011	1st-Half 2012/2011	2nd-Quarter 2012/2011	1st-Quarter 2012/2011
Europe (1)	5.6	5.8	-4%	-5%	-7%	-4%	-2%	-2%	-1%
North America (2)	5.4	5.3	+2%	-11%	-15%	-8%	+17%	+14%	+21%
Asia (excluding India)	11.2	12.2	-9%	-10%	-10%	-10%	-8%	-6%	-9%
South America	2.0	2.9	-30%	-30%	-27%	-33%	-31%	-36%	-25%
Africa India Middle-East	2.6	2.0	+31%	+30%	+31%	+28%	+32%	+29%	+35%
TOTAL	**26.8**	**28.2**	**-5%**	**-9%**	**-9%**	**-8%**	**-2%**	**-2%**	**-1%**

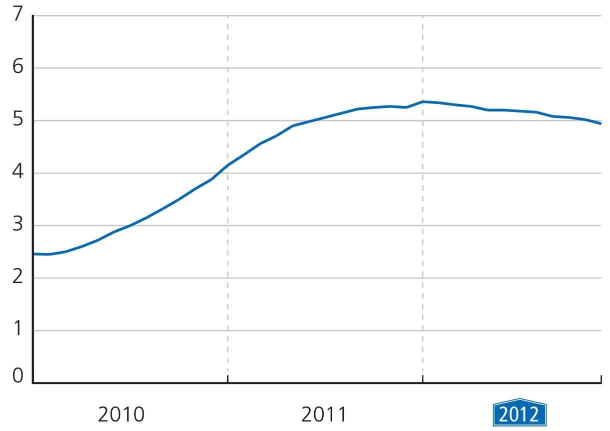
* *Radial only.*
(1) *Including Russia and Turkey.*
(2) *United States, Canada and Mexico.*
Michelin estimates.

Demand **in Europe** declined by 4%, to below 2007 and 2008 levels. Although the fall-off was a relatively limited 2% in the first half, it gained momentum in the second, to 5%, under the impact of the worsening economic situation in the region.

After surging 17% in the first half, the **North American** market slowed precipitously in the second half, to end the year with just a 2% gain. Economic uncertainty caused by tax issues in the United States weighed on new truck orders during the year.

THE EUROPEAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET

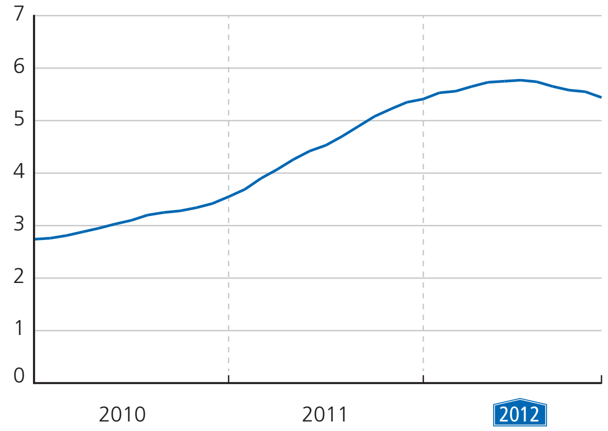
(in millions of radial tires – moving 12 months – excluding Russia)



Michelin estimates.

THE NORTH AMERICAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET

(in millions of radial tires – moving 12 months)



Michelin estimates.

In Asia (excluding India), demand retreated by 9% overall, with a fairly steep 15% drop in China as growth in the economy (particularly exports) cooled over the year. The Southeast Asian original equipment market, which continues to shift to radials, was highly active, gaining 42% thanks in part to favorable prior-year fourth-quarter comparatives due to the flooding in Thailand in late 2011. In Japan, original equipment demand rebounded 12% off of fairly low prior-year comparatives, impacted by the tsunami, while the South Korean market was hurt by the decline in exports in the wake of the global economic slowdown.

The **South American** original equipment market plunged 30% after Brazil introduced Euro V emissions standards during the year. However, the Brazilian government's introduction of more favorable financing terms helped the market to turn around, with an upturn in the final quarter.

In Africa-India-Middle East, the radial original equipment market remained very brisk, gaining 31%.

2.2.3.b) Replacement

At a time of economic uncertainty, the **global replacement market** drifted steadily downwards over the first three quarters before starting to level off in the fourth thanks to lower prior-year comparatives.

Truck markets* Replacement (in millions of tires)	2012	2011	2012/2011	2nd-Half 2012/2011	4th-Quarter 2012/2011	3th-Quarter 2012/2011	1st-Half 2012/2011	2nd-Quarter 2012/2011	1st-Quarter 2012/2011
Europe (1)	14.6	17.0	-14%	-2%	+2%	-6%	-25%	-22%	-28%
North America (2)	20.1	20.5	-2%	+1%	+2%	+1%	-5%	-2%	-7%
Asia (excluding India)	44.2	47.0	-6%	-5%	+2%	-12%	-7%	-11%	-3%
South America	10.0	9.7	+3%	+5%	+6%	+3%	+1%	+2%	+0%
Africa India Middle-East	12.4	11.4	+8%	+7%	+6%	+7%	+10%	+9%	+11%
TOTAL	**101.3**	**105.6**	**-4%**	**-1%**	**+3%**	**-5%**	**-7%**	**-7%**	**-7%**

* *Radial only.*
(1) *Including Russia and Turkey.*
(2) *United States, Canada and Mexico.*

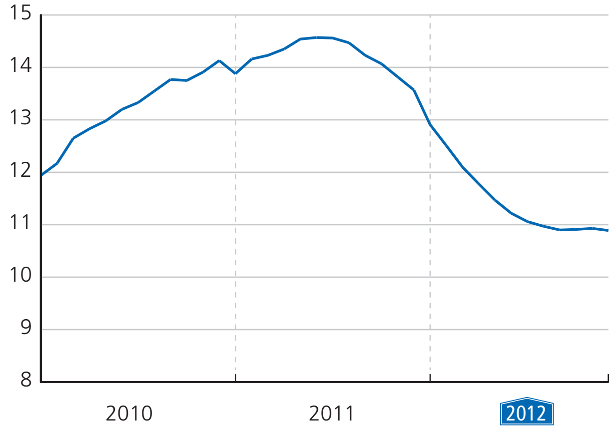
Michelin estimates.

Demand **in Europe** dropped 14%, with a 25% plunge in the first half due to inventory drawdowns and high bases of comparison. Although prior-year comparatives became more favorable in the second half, the market continued to shrink on weak transportation activity and the lackluster economic outlook. Demand was also down in the retread market, but the trend-line is more positive.

In Eastern Europe, the market declined by a fairly significant 3%, primarily due to dealer destocking.

THE EUROPEAN REPLACEMENT TRUCK TIRE MARKET

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

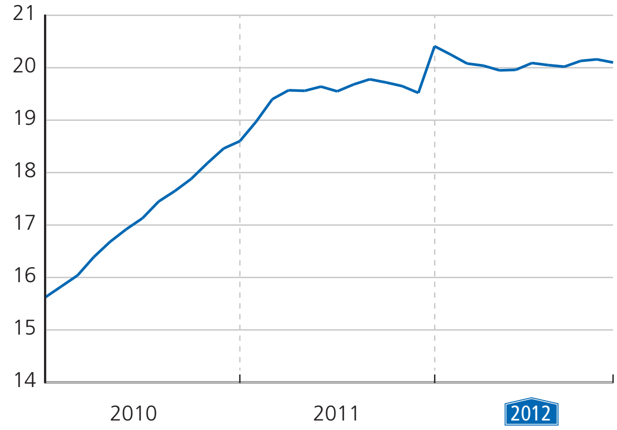


Michelin estimates.

The **North American** market ended the year down just 2%, reflecting fleet manager caution in the face of economic uncertainty, despite relative robust freight demand. The contraction may also be explained by the sharp growth in original equipment sales and the availability of retreadable casings.

THE NORTH AMERICAN REPLACEMENT TRUCK TIRE MARKET

(in millions of radial tires – moving 12 months)



Michelin estimates.

In Asia (excluding India), markets declined by 6% overall during the year.

Although the Chinese market seems to have leveled off in the fourth quarter (YoY), it ended 2012 down by 7%, reflecting the slower growth in the economy and in exports. Markets in Southeast Asia, where the shift to radials is gaining speed, rose by 2% over the year. The Japanese market was down 6% off of a high prior-year comparative, which was lifted by last year's price increases and inventory rebuilding after the tsunami. Demand in South Korea also declined as the global economic slowdown weighed on exports and transportation demand.

The **South American** market gained 3% during the year. In Brazil, the stricter application of customs inspections reduced imports and weighed on demand in general, although the first signs of a recovery appeared in the final quarter. In the rest of the region, the continued shift to radials helped to drive sustained market growth, with demand rebounding 6% in the fourth quarter, lifted by the Brazilian government's FINAME subsidized financing program.

Markets **in Africa-India-Middle East** continued to expand, rising 8% overall despite slower growth at the end of the year. Demand was dampened by the geopolitical instability afflicting parts of the region. The Indian market was impacted by economic uncertainty.

2.2.4. SPECIALTY TIRE MARKETS

Earthmover tires: The mining sector is continuing to expand, led by sustained demand for ore, oil and gas, and the market for large tires remains buoyant. After rising in the first half, the original equipment market contracted in the final quarter, with a particularly steep fall-off in Europe. Demand for tires used in infrastructure and quarries is shrinking in Western Europe and, after increasing in the first half, turned downwards in the final quarter in North America.

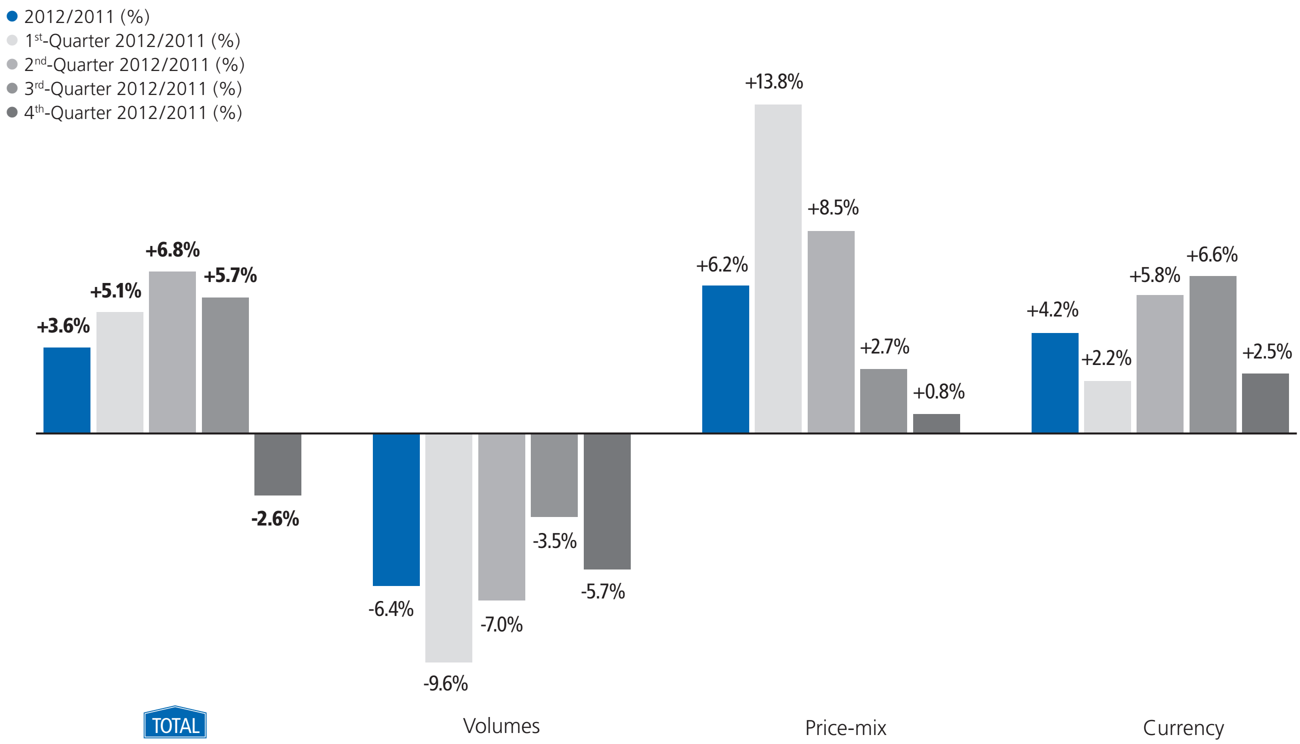
Agricultural tires: After climbing in the first half, worldwide original equipment demand declined in the fourth quarter, particularly in Europe. The replacement market dropped significantly in mature markets during the year, dragged down by the prevailing economic uncertainty.

Two-Wheel tires: Impacted by the lackluster economy, the motorized segments declined in mature geographies, except North America, but continued to expand in emerging markets.

Aviation tires: Passenger load factors are continuing to improve in the commercial aviation segment, on both domestic and intercontinental routes, but the cargo market was down for the year.

2.3. NET SALES

2.3.1. ANALYSIS OF NET SALES



Consolidated **net sales** amounted to €21,474 million in 2012, up 3.6% at current exchange rates compared with €20,719 million in 2011.

The increase reflected the combined impact of the following main factors:

- The unfavorable €1,329-million impact from the 6.4% decline in volumes due to weak demand, particularly in European markets.
- The positive price mix, which added €1,209 million to net sales and 6.2% to growth. Of the total, €1,052 million corresponded to the net impact of the price increases introduced in 2011 and the contractual price reductions due to the raw materials indexation clauses applicable on nearly 30% of consolidated net sales. It also includes the €157 million impact of a further improvement in the sales mix, led by the premium strategy and the growing contribution from the specialty businesses.
- The positive 4.2% currency effect, primarily resulting from gains in the euro against other currencies.

(in € million and %)	2012	2nd-Half 2012	4th-Quarter 2012	3rd-Quarter 2012	1st-Half 2012	2nd-Quarter 2012	1st-Quarter 2012
NET SALES	**21,474**	**10,768**	**5,332**	**5,436**	**10,706**	**5,402**	**5,304**
***vs.* the same period in 2011**	**+755**	**+154**	**-141**	**+295**	**+601**	**+344**	**+257**
Volumes	-1,329	-489	-310	-179	-840	-355	-485
Price-mix	+1,209	+176	+40	+136	+1,033	+404	+629
Currency	+875	+467	+129	+338	+408	+295	+113
***vs.* the same period in 2011**	**+3.6%**	**+1.5%**	**-2.6%**	**+5.7%**	**+6.0%**	**+6.8%**	**+5.1%**
Volumes	-6.4%	-4.6%	-5.7%	-3.5%	-8.3%	-7.0%	-9.6%
Price-mix	+6.2%	+1.7%	+0.8%	+2.7%	+11.1%	+8.5%	+13.8%
Currency	+4.2%	+4.5%	+2.5%	+6.6%	+4.0%	+5.8%	+2.2%

2.3.2. NET SALES BY REPORTING SEGMENT

(in € million and %)	2012	2nd-Half 2012	4th-Quarter 2012	3rd-Quarter 2012	1st-Half 2012	2nd-Quarter 2012	1st-Quarter 2012
GROUP	**21,474**	**10,768**	**5,332**	**5,436**	**10,706**	**5,402**	**5,304**
Passenger car/Light truck and related distribution	11,098	5,597	2,800	2,797	5,501	2,741	2,760
Truck and related distribution	6,736	3,467	1,692	1,775	3,269	1,665	1,604
Specialty businesses (1)	3,640	1,704	840	864	1,936	996	940
***vs.* the same period in 2011**	**+3.6%**	**+1.5%**	**-2.6%**	**+5.7%**	**+6.0%**	**+6.8%**	**+5.1%**
Passenger car/Light truck and related distribution	+2.9%	+1.2%	-2.2%	+5.0%	+4.7%	+6.7%	+2.9%
Truck and related distribution	+0.3%	+0.4%	-1.8%	+2.7%	+0.1%	+0.3%	-0.1%
Specialty businesses (1)	+13.0%	+4.3%	-5.2%	+15.5%	+22.0%	+20.3%	+23.8%

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

2.3.2.a) Passenger car and light truck tires and related distribution – Analysis of net sales

In Europe, overall net sales were impacted by contracting demand. Although the original equipment customer mix was unfavorable, the success of the MICHELIN Pilot Super Sport, MICHELIN Alpin 4, MICHELIN Energy Saver + and MICHELIN Primacy 3 lines enabled the Group to strengthen its positions in the replacement segment, despite the weakness of demand in Southern Europe.

In North America, Michelin sought to control its growth in a sharply rebounding original equipment market. In the replacement segment, MICHELIN brand sales were lifted by the favorable customer response to the new MICHELIN Defender and BFGoodrich COMP-2 lines.

Net sales **in South America** were dampened by the tighter customs rules that weighed on import tire supply.

In Asia (excluding India), original equipment net sales were lifted by the brand's appeal to local carmakers, while replacement sales reflected buoyant demand, except in Japan and South Korea, as well as the positions held by the MICHELIN brand.

Group sales **in Africa-India-Middle East** tracked market trends and suffered from adverse geopolitical factors.

In all, net sales in the Passenger Car and Light Truck Tires and Related Distribution segment stood at €11,098 million, up 2.9% on 2011. The improvement was led by the Group's firm pricing policy over the period, but partially offset by the 5.5% decline in volumes. In addition, the sustained improvement in the segment/speed rating mix helped to enhance the sales mix somewhat, despite the impact of the relative growth in original equipment and replacement sales and a less favorable geographical mix.

2.3.2.b) Truck tires and related distribution – Analysis of net sales

In Europe, Group brands delivered a good performance despite the market decline. In original equipment, the year was shaped by negotiations designed to improve the operating segment's profitability. The Group continued to expand in Central Europe, where its product quality, brand identity and dealership network offer robust support in driving growth in the region.

Consolidated net sales **in North America** benefitted from the priority focus on margins, despite a slight slippage in tonnages sold and the unfavorable original equipment/replacement sales mix.

In the **South American** original equipment market, Michelin primarily sought to preserve its margins in the face of declining new truck sales and the sometimes aggressive promotional campaigns deployed by the competition. In the replacement segment, the Group capitalized throughout the region on its local operations in Brazil, even though the import barriers introduced in other countries held back sales, particularly in Argentina.

Operations **in Africa-India-Middle East** are being confronted with a tighter regulatory and customs environment.

In all, net sales in the Truck Tires and Related Distribution segment amounted to €6,736 million for the year, virtually unchanged from 2011 thanks to the price increases, which offset the impact of depressed demand and high prior-year comparatives.

2.3.2.c) Specialty businesses – Analysis of net sales

Earthmover tires: Net sales were significantly higher than in 2011, with a slight increase in sales volumes. In the mining and original equipment segments, the application of contractual indexation clauses based on raw materials prices had a generally positive effect over the year, even though the impact turned negative in the second half. Sales rose in every segment and every geography except Western Europe.

Agricultural tires: Despite a slight decline in volumes, net sales rose over the year, led by an improvement in the sales mix and firm price integrity. New inroads were made in the original equipment segment, where Michelin is capturing demand from manufacturers, particularly of powerful tractors and other farm machinery. On the replacement side, Michelin is maintaining its positions in declining markets.

Two-Wheel tires: Net sales edged up over the year. In mature markets, they were stable at a time of declining demand, reflecting market share gains driven by the refreshed product line-up, while in emerging markets, positions were strengthened in the ASEAN countries.

Aviation tires: Net sales increased during the year, lifted by the application of contractual clauses indexed to raw materials prices in both the commercial and defense segments.

During the year, **Michelin Travel Partner** brought the new Michelin Restaurants website onstream in France and Germany. Its results were eroded by the steep fall in demand for maps and travel guides, particularly in print format and in Southern Europe.

In all, net sales by the Specialty businesses climbed 13.0% to €3,640 million in 2012, primarily due to the still favorable impact of contractual indexation clauses based on raw materials prices, the 1.7% increase in volumes and the highly positive currency effect.

2.3.3. CURRENCY RATES AND THE CURRENCY EFFECT

At current exchange rates, consolidated net sales rose by 3.6% in 2012.

This growth included an €875-million positive currency effect, primarily stemming from the euro's decline against the US dollar and, to a lesser extent, the Canadian dollar, the British pound and the Australian dollar, tempered by its gains against the Brazilian real.

Average exchange rate	2012	2011	% Change
Euro/USD	1.286	1.393	-7.7%
Euro/CAD	1.285	1.377	-6.7%
Euro/MXN	16.905	17.253	-2.0%
Euro/BRL	2.501	2.323	+7.7%
Euro/GBP	0.811	0.868	-6.6%
Euro/JPY	102.524	110.926	-7.6%
Euro/CNY	8.113	8.998	-9.8%
Euro/THB	39.964	42.451	-5.9%

2.3.4. NET SALES BY REGION

(in € million)	2012	2012/2011	2nd-Half 2012	1st-Half 2012
GROUP	**21,474**	**+3.6%**	**10,768**	**10,706**
Europe	8,499	-3.8%	4,280	4,219
Of which France	*2,048*	*-2.8%*	*1 014*	*1 034*
North America (incl. Mexico)	7,745	+11.6%	3,894	3,851
Other	5,230	+5.8%	2,594	2,636

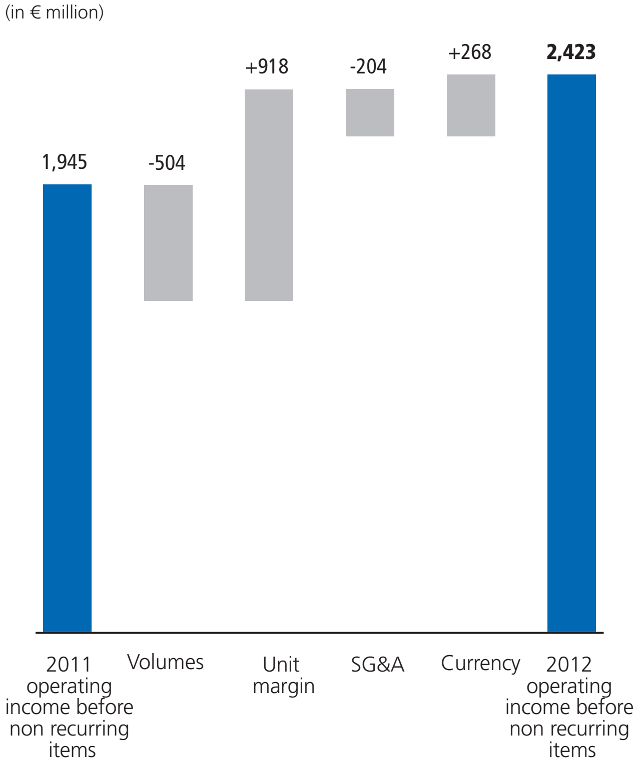
(in € million)	2012	% Of total	2011	% Of total
GROUP	**21,474**		**20,719**	
Europe	8,499	39.6%	8,832	42.6%
Of which France	*2,048*	*9.5%*	*2,107*	*10.2%*
North America (incl. Mexico)	7,745	36.1%	6,942	33.5%
Other	5,230	24.3%	4,945	23.9%

Consolidated net sales rose in every geography except Europe, where the economic environment was difficult. Over 60% of net sales are generated outside Europe and more than 90% outside France.

2.4. CONSOLIDATED INCOME STATEMENT REVIEW

(in € million, except per share data)	2012	2011	2012/2011	2012 (% of net sales)	2011 (% of net sales)
Net sales	**21,474**	**20,719**	**+3.6%**		
Cost of sales	(14,764)	(14,821)	-0.4%	68.8%	71.5%
Gross income	**6,710**	**5,898**	**+13.8%**	**31.2%**	**28.5%**
Sales and marketing expenses	(2,068)	(1,942)	+6.5%	9.6%	9.4%
Research and development expenses	(622)	(592)	+5.1%	2.9%	2.9%
General and administrative expenses	(1,468)	(1,385)	+6.0%	6.8%	6.7%
Other operating income and expenses	(129)	(34)	+279.4%	0.6%	0.2%
Operating income before non-recurring income and expenses	**2,423**	**1,945**	**+24.6%**	**11.3%**	**9.4%**
Non-recurring income and expenses	46	-	NM	-	-
Operating income	**2,469**	**1,945**	**+26.9%**	**11.5%**	**9.4%**
Cost of net debt	(155)	(206)	-24.8%	0.7%	1.0%
Other financial income and expenses	(22)	236	-109.3%	0.1%	1.1%
Share of profit from associates	15	21	-28.6%	0.1%	0.1%
Income before taxes	**2,307**	**1,996**	**+15.6%**	**10.7%**	**9.6%**
Income tax	(736)	(534)	+37.8%	3.4%	2.6%
Net income	**1,571**	**1,462**	**+7.5%**	**7.3%**	**7.1%**
• Attributable to shareholders of the Company	1,570	1,462	+7.4%	7.3%	7.1%
• Attributable to non-controlling interests	1	-			
Earnings per share (in €)					
• Basic	8.62	8.14	+5.9%		
• Diluted	8.41	7.97	+5.5%		

2.4.1. ANALYSIS OF CONSOLIDATED OPERATING INCOME BEFORE NON-RECURRING ITEMS



Consolidated operating income before non-recurring items amounted to €2,423 million or 11.3% of net sales in the year ended December 31, 2012, compared with €1,945 million and 9.4% in 2011.

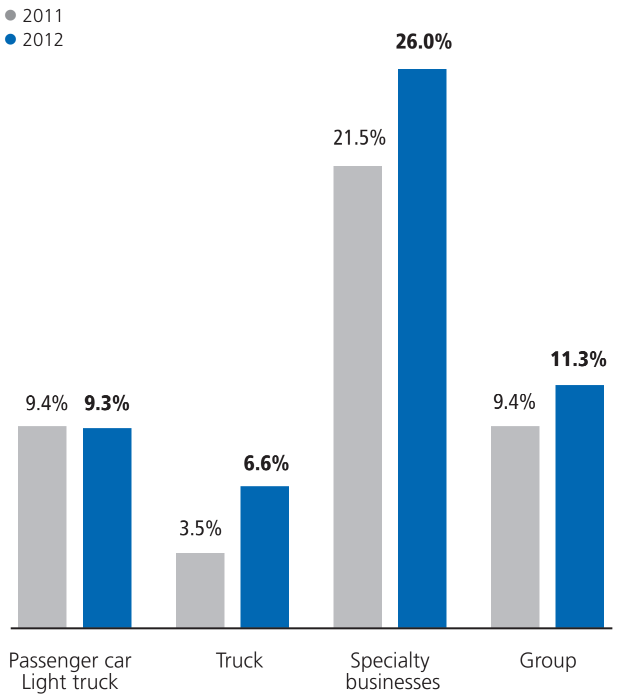
This €478-million improvement may be analyzed as follows:

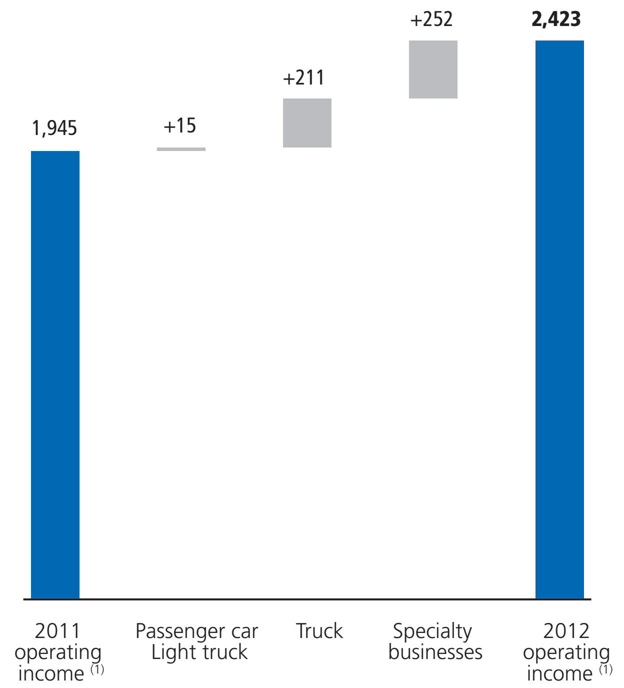
- a €504-million decrease from the 6.4% decline in sales volumes;
- a €918-million increase from the improvement in unit margins that reflected:
  - the €1,209-million positive impact of the price mix (including €1,052 million from price increases),
  - the limited €76-million negative impact of higher raw materials costs,
  - the €35-million gain on materials costs, thanks to the competitiveness plan,
  - the €3-million favorable impact of productivity despite production slowdowns,
  - the negative €168-million impact of higher labor, energy and other production costs,
  - the negative €77-million impact of start-up costs,
  - other unfavorable factors, in an aggregate amount of €8-million;
- a €204-million decrease related to costs that included:
  - the negative €143-million impact of inflation,
  - the negative €99-million impact of research, development and process engineering, advertising and other expenditures to drive growth in new markets,
  - the €152-million gain on general and administrative expenses, thanks to the competitiveness plan,
  - the €37-million cost of deploying the new business management system (OPE),
  - other unfavorable factors, in an aggregate amount of €77 million;
- a €268-million increase from the positive currency effect.

2.4.2. OPERATING INCOME BEFORE NON-RECURRING ITEMS BY REPORTING SEGMENT

(in € million)	2012	2011	2nd-Half 2012	1st-Half 2012
Passenger car/Light truck and related distribution				
Net sales	11,098	10,780	5,597	5,501
Operating income before non-recurring items	1,033	1,018	452	581
Operating margin before non-recurring items	**9.3%**	**9.4%**	**8.1%**	**10.6%**
Truck and related distribution				
Net sales	6,736	6,718	3,467	3,269
Operating income before non-recurring items	444	233	235	209
Operating margin before non-recurring items	**6.6%**	**3.5%**	**6.8%**	**6.4%**
Specialty businesses				
Net sales	3,640	3,221	1,704	1,936
Operating income before non-recurring items	946	694	416	530
Operating margin before non-recurring items	**26.0%**	**21.5%**	**24.4%**	**27.4%**
Group				
Net sales	21,474	20,719	10,768	10,706
Operating income before non-recurring items	2,423	1,945	1,103	1,320
Operating margin before non-recurring items	**11.3%**	**9.4%**	**10.2%**	**12.3%**

2.4.2.a) Operating margin before non-recurring items by reporting segment





(1) Before non recurring items.

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

2.4.2.b) Passenger car and light truck tires and related distribution – Analysis of operating income before non-recurring items

Passenger car/Light truck and related distribution (in € million)	2012	2011	2012/2011	2012 (% of Group total)	2011 (% of Group total)
Net sales	11,098	10,780	+2.9%	52%	52%
Change in volume	*-5.5%*				
Operating income before non-recurring items	1,033	1,018	+1.5%	43%	52%
Operating margin before non-recurring items	9.3%	9.4%	-0.1 pt		

Operating income before non-recurring items from the Passenger car and light truck tires and related distribution business amounted to €1,033 million or 9.3% of net sales, *versus* €1,018 million and 9.4% in 2011.

The sustained firm pricing policy and ongoing improvement in the product mix, led by the MICHELIN brand's premium positioning, helped to offset the 5.5% decline in volumes and a less favorable geographical mix.

2.4.2.c) Truck tires and related distribution – Analysis of operating income before non-recurring items

Truck and related distribution (in € million)	2012	2011	2012/2011	2012 (% of Group total)	2011 (% of Group total)
Net sales	6,736	6,718	+0.3%	31%	32%
Change in volume	*-10.8%*				
Operating income before non-recurring items	444	233	+90.6%	18%	12%
Operating margin before non-recurring items	6.6%	3.5%	+3.1 pt		

Operating income before non-recurring items from the Truck tires and related distribution business amounted to €444 million or 6.6% of net sales, compared with €233 million and 3.5% in 2011. This year-on-year improvement, particularly in North America, was led by:

- the following favorable factors:
  - the price increases introduced throughout 2011, which delivered their full impact in 2012,
  - the current decline in raw materials costs over the period,
  - the favorable currency effect;
- these factors more than offset:
  - the 10.8% decline in volumes and the impact of production slowdowns, which in particular increased manufacturing costs,
  - the unfavorable impact on the sales mix of the sharper decline in replacement than original equipment sales.

2.4.2.d) Specialty businesses – Analysis of operating income before non-recurring items

Specialty businesses (in € million)	2012	2011	2012/2011	2012 (% of Group total)	2011 (% of Group total)
Net sales	3,640	3,221	+13.0%	17%	16%
Change in volume	*+1.7%*				
Operating income before non-recurring items	946	694	+36.3%	39%	36%
Operating margin before non-recurring items	26.0%	21.5%	+4.5pt		

At €946 million or 26.0% of net sales, **operating income** before non-recurring income and expenses from the Specialty Businesses confirmed their structurally high profitability. In a particularly favorable currency environment, they benefitted from the still positive impact of contractual indexation clauses based on raw materials prices, as well as from the 1.7% increase in volumes.

2.4.3. OTHER INCOME STATEMENT ITEMS

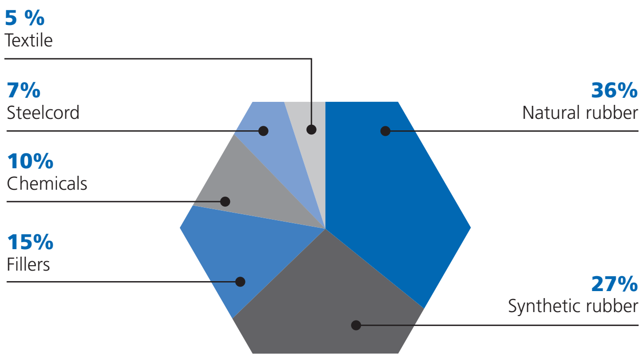
2.4.3.a) Raw materials

The cost of **raw materials** reported in the income statement under "cost of sales" (€6,479 million in 2012 *vs.* €7,019 million in 2011) is determined by valuing 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.

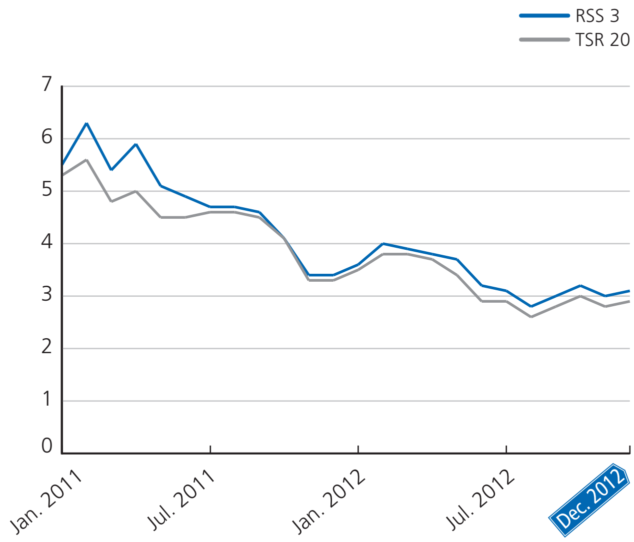
In 2012, the raw materials costs recognized in cost of sales included the €76 million impact of higher prices, as well as the volume and currency effects.

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

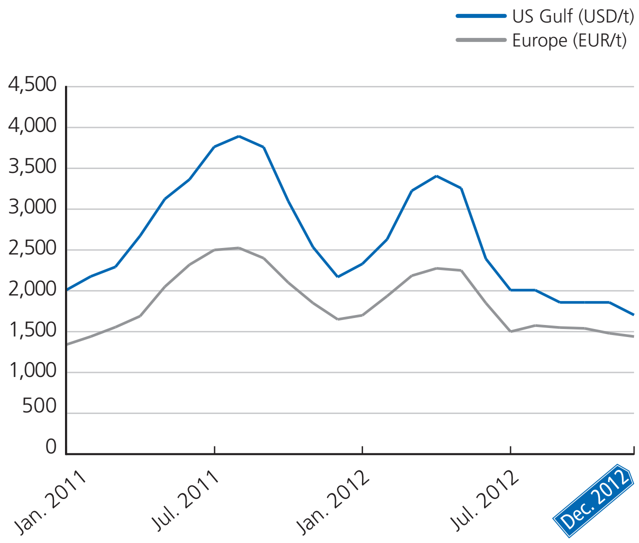
RAW MATERIALS RECOGNIZED IN 2012 COST OF SALES (€6,479 MILLION)



NATURAL RUBBER PRICES (SICOM)
(USD/kg)



BUTADIENE PRICES

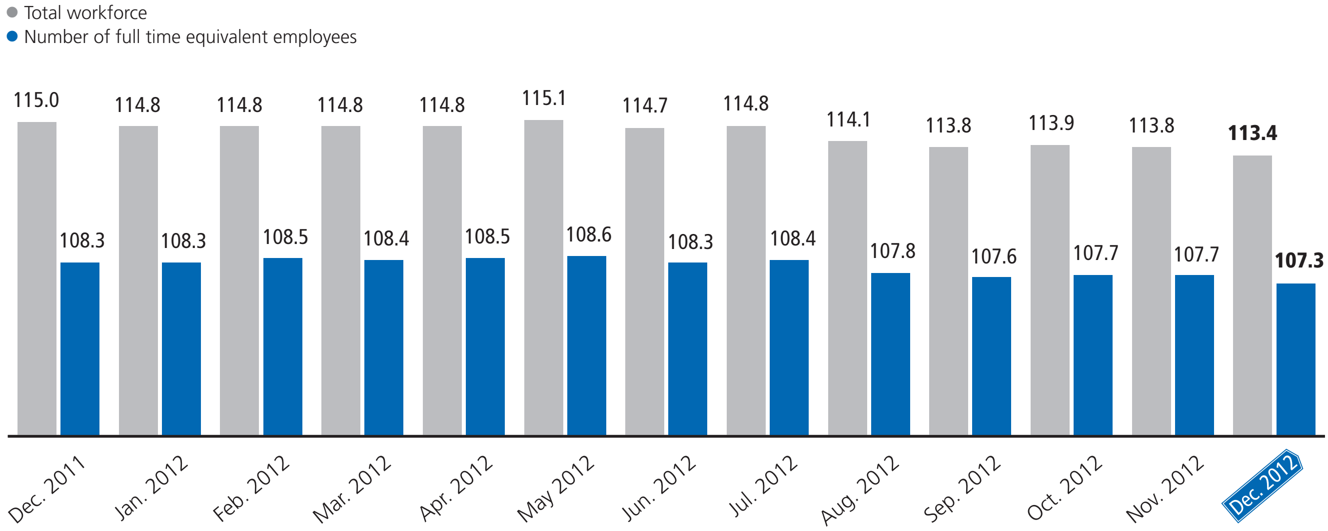


2.4.3.b) Employee benefit costs and number of employees

(in € million and number of people)	2012	2011	% Change
Employee benefit costs	5,377	5,021	+7.1%
As a % of net sales	*25.0%*	*24.2%*	*+0.8 pt*
Total number of employees at December 31	113,400	115,000	-1.4%
Number of full time equivalent employees at December 31	107,300	108,300	-1.0%
Average number of full time equivalent employees	108,100	107,700	+0.4%

At €5,377 million, **employee benefit costs** represented 25.0% of net sales in 2012, *versus* 24.2% the year before. This corresponded to a €356 million or 7.1% increase in absolute value, primarily led by the 4% increase in payroll expense and an unfavorable currency effect. Rates of wage inflation varied by geography, however, with wages going up much faster in new markets in South America, Africa-India-Middle East, China and Russia than in mature ones.

NUMBER OF EMPLOYEES
(in thousands)

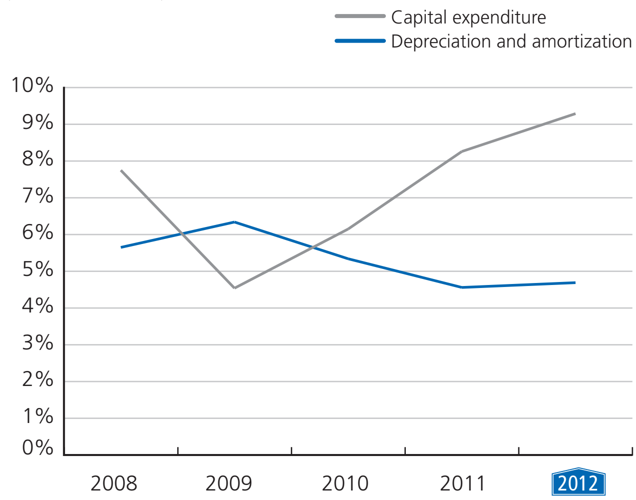


2.4.3.c) Depreciation and amortization

(in € million)	2012	2011	% Change
Depreciation and amortization	1,007	944	+6.7%
As a % of capital expenditure	*50%*	*55%*	

Depreciation and amortization charges rose by €63 million or 6.7% to €1,007 million, in line with the faster deployment of capital projects. Given the Group's ambitious projects, depreciation and amortization charges are expected to continue to increase in coming years, by around €100 million a year.

(as a % of net sales)



2.4.3.d) Transportation costs

(in € million)	2012	2011	% Change
Transportation of goods	1,058	1,076	-1.7%
As a % of sales	*4.9%*	*5.2%*	

Transportation costs declined by 1.7% over the year to €1,058 million or 4.9% of net sales, as the reduction in supply chain activity in phase with the contraction in sales volumes was partially offset by an increase in unit logistics costs.

2.4.3.e) Sales and marketing expenses

Sales and marketing expenses represented 9.6% of net sales in 2012, up slightly from 9.4% in 2011. In value, they rose by €126 million to €2,068 million, primarily due to the increase in costs committed to drive the Group's new phase of growth, particularly in new markets.

2.4.3.f) Research and development expenses

Research and development expenses stood at €622 million, a 5.1% year-on-year increase that reflected the Group's strategy of strengthening its technological leadership, particularly in the premium markets and the specialty businesses.

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

2.4.3.g) General and administrative expenses

At €1,468 million, **general and administrative expenses** represented 6.8% of net sales, *versus* 6.7% in 2011. The €83-million increase primarily reflected the unfavorable currency effect, and to a lesser extent higher expense for the OPE business management system and wage inflation, particularly in the new markets.

2.4.3.h) Other operating income and expenses

Other operating income and expenses represented a net expense of €129 million in 2012 versus a net expense of €34 million the previous year.

The increase was mainly due to:

- The shift from income of €25 million in 2011 to expense of €24 million in 2012 from real estate transactions and impairments, for a total negative impact of €49 million;
- Changes in payroll tax regulations in Spain and adjustments to discount rates, which together had a €28 million negative effect on employee benefit costs.

2.4.3.i) Non-recurring income and expenses

Non-recurring income for the year includes the €97-million capital gain on the sale of a property complex in Paris.

In China, the opening of the new Shenyang plant will be followed by the closure of the current Shenyang 1 facility. In 2012, this gave rise to a non-recurring €51-million impairment loss on Shenyang 1 assets, which was recognized in the second half.

2.4.3.j) Cost of net debt

(in € million)	2012	2011	Change
Cost of net debt	155	206	-51

The **cost of net debt** declined by €51 million over the year to €155 million, primarily as a result of the following factors:

- a €40 million decline in net interest expense, reflecting the combined impact of:
  - a €38 million decrease due to the reduction in average net debt to €1,466 million at December 31, 2012 from €2,113 million a year earlier,
  - a €1 million decrease with an almost stability of the average gross interest rate at 5.8%,
  - a €1 million net decrease from other factors, including the negative carry, corresponding to the effect of investing cash and cash equivalents at a rate below the Group's average borrowing cost. In 2012, average invested cash and cash equivalents was reduced to €1,726 million from €1,748 million in 2011;
- a €11 million net decrease from other factors.

2.4.3.k) Other financial income and expenses

(in € million)	2012	2011	Change
Other financial income and expenses	(22)	236	-258

Other financial income and expenses mainly include exchange gains and losses, dividends, interest income and proceeds from the sale of financial assets. In 2012, they represented a net expense of €22 million, of which the €15 million cost of retiring part of the bonds scheduled to mature in 2014 and 2033.

The sharp decrease in other financial income compared with 2011 was primarily due to the recognition that year of the €256 million gain on the sale of the Hankook Tire shares.

2.4.3.l) Income tax

(in € million)	2012	2011	Change
Income before taxes	2,307	1,996	+311
Income tax	**(736)**	**(534)**	**+202**
Current tax	(576)	(379)	+197
Withholding tax	(45)	(41)	+4
Deferred tax	(115)	(114)	+1

Income tax expense rose by €202 million to €736 million in 2012, corresponding to an effective tax rate of 31.9%, compared with 26.8% in 2011. The increase in the tax rate was primarily attributable to a less favorable geographic earnings mix.

2.4.3.m) Consolidated net income and earnings per share

(in € million)	2012	2011	Change
Net income	1,571	1,462	+109
As a % of net sales	*7.3%*	*7.1%*	*+0.2 pt*
• Attributable to shareholders of the Company	1,570	1,462	+108
• Attributable to non-controlling interests	1	-	-
Earnings per share (in €)			
• Basic	8.62	8.14	+0.48
• Diluted	8.41	7.97	+0.44

Net income came to €1,571 million, or 7.3% of net sales, compared with €1,462 million in 2011. The 7.5% increase reflected the following factors:

- favorable factors (€626 million):
  - the €478 million increase in operating income before non-recurring items,
  - the recognition of a €97 million non-recurring gain on the sale of a property complex in Paris,
  - the €51 million reduction in the cost of net debt;
- unfavorable factors (€517 million):
  - the €202 million increase in income tax expense,
  - the recognition of a €51-million non-recurring impairment loss on Shenyang 1 assets, as part of its planned closure in phase with start-up of the new Shenyang 2 plant,
  - the €258-million increase in financial expense primarily reflects the recognition in 2011 of the €256-million capital gain on the sale of the Hankook Tire shares,
  - the €6 million decrease in the Group's share of profit from associates.

2.5. CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

(in € million)	December 31, 2012	December 31, 2011	Total change	Currency effect	Movement
Goodwill	414	415	-1	-1	-
Other intangible assets	403	390	+13	-2	+15
Property, plant and equipment (PP&E)	8,579	7,889	+690	-157	+847
Non-current financial assets and other assets	298	404	-106	-2	-104
Investments in associates and joint ventures	204	120	+84	-2	+86
Deferred tax assets	1,530	1,352	+178	-29	+207
Non-current assets	**11,428**	**10,570**	**+858**	**-193**	**+1,051**
Inventories	4,417	4,602	-185	-45	-140
Trade receivables	2,802	3,075	-273	-19	-254
Current financial assets	371	366	+5	-1	+6
Other current assets	706	682	+24	+44	-20
Cash and cash equivalents	1,858	1,593	+265	-3	+268
Current assets	**10,154**	**10,318**	**-164**	**-24**	**-140**
TOTAL ASSETS	**21,582**	**20,888**	**+694**	**-217**	**+911**

LIABILITIES AND EQUITY

(in € million)	December 31, 2012	December 31, 2011	Total change	Currency effect	Movement
Share capital	365	360	+5	-	+5
Share premiums	3,508	3,396	+112	-	+112
Reserves	4,626	4,343	+283	-141	+424
Non-controlling interests	2	2	-	-	-
Equity	**8,501**	**8,101**	**+400**	**-141**	**+541**
Non-current financial liabilities	2,023	2,478	-455	-31	-424
Employee benefit obligations	4,679	3,825	+854	-38	+892
Provisions and other non-current liabilities	855	804	+51	-11	+62
Deferred tax liabilities	87	79	+8	-1	+9
Non-current liabilities	**7,644**	**7,186**	**+458**	**-81**	**+539**
Current financial liabilities	1,274	1,361	-87	+30	-117
Trade payables	1,991	2,024	-33	-13	-20
Other current liabilities	2,172	2,216	-44	-16	-28
Current liabilities	**5,437**	**5,601**	**-164**	**+1**	**-165**
TOTAL EQUITY AND LIABILITIES	**21,582**	**20,888**	**+694**	**-221**	**+915**

2.5.1. GOODWILL

Other than the impact of translation adjustments, there was no change in **goodwill** at December 31, 2012 compared with December 31, 2011.

2.5.2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stood at €8,579 million at December 31, 2012, a €690 million increase from a year earlier that was primarily led by the faster deployment of capacity investments in the new markets and product investments for the premium segments and specialty businesses. Over the year, purchases of new property, plant and equipment exceeded depreciation charges, with nearly one third of the outlays concerning the new plants in Brazil, China and India.

2.5.3. NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

Non-current financial assets and other non-current assets declined by €106 million, excluding the impact of translation adjustments, mainly due to:

- a €27-million decrease from fair value adjustments to available-for-sale financial assets;
- a €52-million decrease in loan guarantees, primarily due to their reclassification from long-term to short-term assets;
- a €10-million decrease in other loans.

2.5.4. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets rose by €178 million compared with December 31, 2011, mainly as a result of the actuarial gains or losses recognized during the year on employee benefit obligations.

2.5.5. WORKING CAPITAL REQUIREMENT

(in € million)	December 31, 2012	December 31, 2011	Change	2012 (as a % of net sales)	2011 (as a % of net sales)
Inventories	4,417	4,602	-185	20.6%	22.2%
Trade receivables	2,802	3,075	-273	13.0%	14.8%
Trade payables	(1,991)	(2,024)	+33	9.3%	9.8%
WORKING CAPITAL REQUIREMENT	**5,228**	**5,653**	**-425**	**24.3%**	**27.3%**

Working capital requirement declined by €425 million compared with December 31, 2011, chiefly due to the decrease in both inventories and trade receivables. It represented 24.3% of net sales for the year.

Inventories, which represented 20.6% of net sales at December 31, 2012, were down €185 million year-on-year, primarily on the favorable impact of raw materials costs and, to a lesser extent, the currency effect.

Finished product inventory volumes rose by 2% over the year.

Trade receivables declined by €273 million to €2,802 million at year-end 2012. This was mainly the result of the decrease in volumes sold, whereas in 2011 receivables rose following price increases, most of which were introduced that year.

Trade payables ended the year at €1,991 million, down €33 million despite the increase in payables due to suppliers of fixed assets.

2.5.6. CASH AND CASH EQUIVALENTS

At €1,858 million, **cash and cash equivalents** increased by €265 million compared with December 31, 2011, due to the following factors:

- increases from:
  - the €1,075 million in free cash flow,
  - the €41 million in proceeds from the sale of cash management instruments,
  - €39 million in other items;
- decreases from:
  - the payment of €300 million in cash dividends,
  - the net repayment of €587 million in debt, including in particular:
    - repayment of the 2012 bond (€438 million),
    - partial retirement of the 2014, 2017 and 2033 bonds (€272 million),
    - the 2019 bond issue (€400 million).

2.5.7. EQUITY

Consolidated equity increased by €400 million to €8,501 million at December 31, 2012 from €8,101 million at December 31, 2011, primarily as a result of the following factors:

- increases from:
  - the €665 million in comprehensive income for the year, including:
    - net income of €1,571 million,
    - €739 million in net actuarial losses on pension obligations, which since December 31, 2011 have been immediately recognized in equity, net of related deferred tax assets,
    - €27 million in unrealized losses on available-for-sale financial assets,
    - negative differences on translating foreign operations for €141 million,
  - the issue of €117 million in new shares, of which:
    - 1,883,606 new shares issued on the reinvestment of dividends (€89 million),
    - 654,210 shares issued on the exercise of stock options (€28 million);
- decreases from:
  - €389 million in dividends and other distributions.

At December 31, 2012, the **share capital** of Compagnie Générale des Établissements Michelin stood at €365,113,426, comprising 182,556,713 shares corresponding to 229,872,141 voting rights.

2.5.8. NET DEBT

Net debt stood at €1,053 million at December 31, 2012, down €761 million from December 31, 2011, primarily as a result of the following factors:

- €794 million in net cash flow, of which:
  - €1,075 million in free cash flow for the year,
  - €281 million in dividends and other distributions;
- €31 million in other factors increasing net debt, of which:
  - €35 million in interest expense on the zero-coupon convertible bonds.

NET DEBT

(in € million)	2012	2011
At January 1	**1,814**	**1,629**
Free cash flow (1)	-1,075	+19
Distributions and other	+281	+141
Commitments to purchase shares	-5	-7
New obligations under finance leases	+1	+7
Interest expense on the zero-coupon convertible bonds	+35	+34
Other change in equity	+0	-5
Translation adjustment	+2	-4
AT DECEMBER 31	**1,053**	**1,814**
CHANGE	**-761**	**+185**

(1) Free cash flow equals cash flows from operating activities less cash flows used in investing activities (excluding cash flows from cash management financial assets and borrowing collaterals).

2.5.8.a) Gearing

Gearing stood at 12% at December 31, 2012, *versus* 22% at year end 2011, attesting to the strength of the consolidated balance sheet in an uncertain economic environment.

2.5.8.b) Ratings

The solicited corporate credit ratings of Compagnie Générale des Établissements Michelin (CGEM) and Compagnie Financière du groupe Michelin "Senard et Cie" (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	BBB+	BBB+
	Moody's	Baa1	Baa1
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Stable	Stable

- On March 23, 2012, Standard & Poor's upgraded Michelin's long-term credit rating to BBB+ from BBB, while affirming its A-2 short-term rating and stable outlook.
- On April 24, 2012, Moody's upgraded Michelin's long-term credit rating to Baa1 from Baa2, with a stable outlook, while affirming its P-2 short-term rating.

2.5.9. PROVISIONS

Provisions and other non-current liabilities amounted to €855 million, *versus* €804 million at December 31, 2011.

2.5.10. EMPLOYEE BENEFITS

CHANGE IN FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in € million)	Pension plans	Other defined benefit plans	2012	2011
Net amount at January, 1	**1,851**	**1,974**	**3,825**	**3,030**
Translation adjustments	(12)	(25)	(37)	82
Expenses recognized in the operating income before non-recurring items	45	162	207	146
Contributions paid to the funds	(269)	-	(269)	(48)
Benefits paid directly to the beneficiaries	(27)	(73)	(100)	(107)
Actuarial (gains) or losses recognized in other comprehensive income	806	250	1,056	720
Unrecognized asset due to application of asset ceiling	(3)	-	(3)	2
Change in scope consolidation	(1)	1	-	-
NET AMOUNT AT DECEMBER, 31	**2,390**	**2,289**	**4,679**	**3,825**

In 2011, the Group decided to change the method of accounting for actuarial gains and losses on obligations under employee defined benefit plans and adjustments resulting from application of the asset ceiling.

It chose to use the option in IAS 19 – Employee Benefits, as currently in effect, that allows these gains and losses and adjustments to be recognized in equity.

The net obligation recognized in the balance sheet at December 31, 2012 amounted to €4,679 million, an increase of €854 million compared with January 1, 2012.

The net expense recognized in operating income in 2012 in respect of employee defined benefit plans amounted to €207 million, an increase of €61 million from the prior year that was mainly due to the impact on plan costs of:

- The use of lower discount rates;
- The decline in the expected return on plan assets;
- Changes in payroll tax rules governing a Spanish plan.

Total payments under defined benefit plans rose by €214 million in 2012 to €369 million, including:

- Contributions paid to fund management institutions: €269 million (2011: €48 million)
- Benefits paid directly to employees: €100 million (2011: €107 million)

The significant increase in contributions to fund management institutions in 2012 reflected prepayments of 2013 and 2014 contributions to funds in the United States for €124 million (USD 160 million), Canada for €26 million (CAD 33 million), and the United Kingdom for €60 million (GBP 49 million).

Contributions to defined contribution plans amounted to €127 million in 2012, versus €94 million the year before.

Actuarial losses recognized in equity rose to €1,056 million in 2012 from €720 million the year before, primarily due to the use of lower discount rates in the euro zone and in North America.

2.6. CONSOLIDATED CASH FLOW STATEMENT REVIEW

2.6.1. CASH FLOW FROM OPERATING ACTIVITIES

(in € million)	2012	2011	Change
EBITDA before non-recurring income and expenses	**3,445**	**2,878**	**+567**
Change in inventory	140	(806)	+946
Change in trade receivables	281	(258)	+539
Change in trade payables	(145)	152	-297
Restructuring cash costs	(93)	(145)	+52
Other changes in provisions	(124)	13	-137
Tax and interest paid	(849)	(632)	- 217
Other operating working capital	271	(6)	+277
CASH FLOWS FROM OPERATING ACTIVITIES	**2,926**	**1,196**	**+1,730**

Lifted by the growth in operating income before non-recurring items, **EBITDA** before non-recurring income and expenses rose by €567 million to €3,445 million for the year.

Cash flow from operating activities improved significantly, to €2,926 million from €1,196 million, primarily as a result of:

- the swing in working capital requirement to an increase of €276 million from a decrease of €912 million in 2011, under the impact of:
  - the €140-million decrease in inventories, *versus* an €806-million increase in 2011, primarily due to their decline in value,
  - the €281-million decrease in trade receivables, *versus* a €258 million increase in 2011, mainly as a result of the slowdown in sales in the fourth quarter,
  - the €145-million decrease in trade payables, *versus* a €152-million increase in 2011;
- the decline in restructuring cash costs, which fell to €93 million from €145 million in 2011;
- the increase in taxes and interests paid, to €849 million from €632 million.

2.6.2. CAPITAL EXPENDITURE

(in € million)	2012	2011	2012/2011	2012 (as a % of sales)	2011 (as a % of sales)
Gross purchases of intangible assets and PP&E	**1,996**	**1,711**	**+285**	**9.3%**	**8.3%**
Investment grants received and change in capital expenditure payables	(76)	(43)	-33	0.4%	(0.2%)
Proceeds from sale of intangible assets and PP&E	(149)	(49)	-100	0.7%	(0.2%)
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**1,771**	**1,619**	**+152**	**8.2%**	**7.8%**

Gross purchases of intangible assets and property, plant and equipment came to €1,996 million in 2012, compared to €1,711 million a year earlier, reflecting implementation of the Group's new phase of dynamic growth. Total capital expenditure therefore represented 9.3% of net sales *versus* 8.3% in 2011.

Growth investments amounted to €1,337 million, nearly half of which was related to the construction of new capacity in Brazil, China and India.

The main capital projects by Product Line were as follows:

Passenger car and light truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - Itatiaia, Brazil (new plant),
  - Fort Wayne, Indiana (USA),
  - Shenyang, China (construction of a new plant underway),
  - Olsztyn, Poland,
  - Cuneo, Italy,
  - Vitoria, Spain,
  - Laem Chabang, Thailand.

Truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - Shenyang, China (new plant),
  - Chennai, India (construction of a new plant underway),
  - Campo Grande, Brazil,
  - Thailand.

Specialty products:

- Projects to increase mining tire capacity at the Lexington, SC plant in the United States and the Vitoria plant in Spain, and to build a new plant in Anderson, SC (USA);
- Projects to increase agricultural equipment tire capacity at the Olsztyn plant in Poland.

In addition, the Group is continuing to invest in semi-finished product capacity.

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 investment projects.

2.6.3. AVAILABLE CASH FLOW AND FREE CASH FLOW

Available cash flow corresponds to cash flow from recurring operations, 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 (adjusted for net cash flows used in cash management instruments and loan guarantees).

(in € million)	2012	2011
Cash flows from operating activities	**2,926**	**1,196**
Routine capital expenditure (maintenance, IT, dealerships, etc.)	(659)	(671)
AVAILABLE CASH FLOW	**2,267**	**526**
Growth investments	(1,337)	(1,040)
Other cash flows from investing activities	145	495
FREE CASH FLOW	**1,075**	**(19)**

After subtracting €659 million in routine capital expenditure, available cash flow was strongly positive in 2012, at €2,267 million.

Free cash flow exceeded €1 billion, thanks to available cash flow and the sale of a property complex in Paris (€110 million), which offset the faster deployment of growth investments (€1,337 million) and the creation of the 40%-owned AWTC joint venture in China (€80 million).

2.7. RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving an annual return on capital employed (ROCE) of more than 10% is one of Michelin's strategic objectives. ROCE is measured as:

- net operating profit after tax (NOPAT), based on a normalized average tax rate of 31% applied to Group companies;
- divided by the average economic assets employed during the year, i.e. all of the Group's property, plant and equipment, intangible assets, 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, 2012 WACC remained below the 9% target the Group uses to assess its value creation.

(in € million)	2012	2011
Operating income before non-recurring income and expenses	2,423	1,945
Average standard income tax rate used for ROCE calculation	31%	31%
Net Operating Profit before non-recurring items After Tax (NOPAT)	**1,672**	**1,342**
Intangible assets and property, plant and equipment	9,396	8,694
Loans and deposits	78	152
Investments in associates and joint ventures	204	120
Non-current financial assets	9,679	8,966
Working capital requirement	3,487	3,962
Economic assets (end of period)	13,166	12,928
Average economic assets	**13,047**	**12,331**
Return on capital employed	**12.8%**	**10.9%**

2.8. OUTLOOK

2.8.1. OUTLOOK

Given its global footprint, Michelin expects to hold volumes steady in 2013, in a market environment that is uncertain in mature markets but still expanding in the new ones.

Raw materials prices are expected to remain stable in the first half, adding a further €350-400 million to operating income. This will be partly offset, however, by the impact of indexation clauses on the original equipment and earthmover businesses.

The capital expenditure program totaling around €2 billion will support Michelin's growth ambitions by bringing new production capacity on stream in the growth regions, whose start-up will weigh on costs. The program is also designed to improve competitiveness in mature markets and drive technological innovation.

Confident in its competitive strengths and thanks to the launch of an ambitious project to improve its management systems, Michelin confirms its 2015 objectives and for 2013 expects to report stable operating income before non-recurring items at constant exchange rates, a more than 10% return on capital employed and positive free cash flow.

2.8.2. PROFIT FORECASTS OR ESTIMATES

No precise earnings or operating margin forecasts or estimates were issued for 2013.

In light of trend information provided in section 2.8.1, any previously published targets for 2013 do not take into account the current economic environment and are not achievable this year.

2.8.3. RECENT EVENTS

No significant event has occurred since January 1, 2013.

2.9. OPERATING HIGHLIGHTS

A full description of 2012 highlights may be found on the Michelin website: www.michelin.com/corporate /EN/finance/facts-figures.

2.9.1. STRATEGY – PARTNERSHIPS – INVESTMENTS

■ Michelin Updated 2015 Guidance

(September 19, 2012) – As announced, over the summer, Michelin reviewed its capital expenditure program and 2015 financial outlook. The review followed on from the Group's robust interim 2012 earnings performance, which reflected its strategic vision, its competitive strengths and its management.

2015 Guidance

- 2015 operating income before non-recurring items: around €2.9 billion;
- Normalized segment performance:
  - Passenger Car and Light Truck Tires operating margin before non-recurring items: 10%-12%,
  - Truck Tires operating margin before non-recurring items: 7%-9%,
  - Specialty Businesses operating margin before non-recurring items: 20%-24%;
- 2013-2015 capital expenditure: €1.8 billion-€2.2 billion per year;
- Positive free cash flow every year;
- ROCE of more than 10% each year.

2015 Assumptions

- Market environment:
  - markets growing by 4% to 5% a year, after a year of transition in 2013,
  - raw materials prices tracking market growth,
  - no sudden sharp spike in raw materials prices;
- Michelin volumes:
  - growth in line with the market,
  - faster, sustained improvement in the mix,
  - higher growth in the specialty segments.

■ MICHELIN Total Performance – Michelin Explains the New European Tire Labeling Regulation

(September 29, 2012) – In every new tire, Michelin offers the market's most comprehensive blend of performance. That's what we call MICHELIN Total Performance – the ability to engineer tires that leverage advanced technologies to eliminate performance tradeoffs for users.

(December 3, 2012) – Michelin explains the new European tire labeling regulation, EU 1222/2009, after it came into effect on November 1.

■ (March 23, 2012) – Standard & Poor's Upgrades Michelin to BBB+

■ (April 24, 2012) – Moody's Upgrades Michelin to Baa1

■ Global Leadership in Earthmover Tires Strengthened with the Construction of a New Plant and the Extension of Another in North America

(April 10, 2012) – Michelin has announced that it will build a new Earthmover tire plant in Anderson, South Carolina, that will help to strengthen its world leadership in the radial Earthmover tire segment. The Group also announced that it is expanding its existing Earthmover tire facility in Lexington, South Carolina, to strengthen its competitiveness in mature markets.

The two projects represent a $750 million investment and will create up to 500 new jobs.

Pau-Brasil Passenger Car and Light Truck Tire Plant Officially Inaugurated

(September 18, 2012) – The new Michelin plant in Pau-Brasil is officially inaugurated, in a ceremony attended by close to 600 people, including local authorities, customers, suppliers and plant employees.

The plant's first tire rolled off the production line on February 9, 2012.

Michelin Opens a New Tire Plant in China

(January 26, 2013) – Michelin, the world leader in tire technology, has opened a new plant in the Economic and Technological Development Zone of Shenyang in Liaoning Province, China. The €1.2-billion investment makes it possible to increase production capacity for MICHELIN car, truck and bus tires destined for the Chinese market.

TYREPLUS Franchise Network Now Exceeds 900 Dealerships Worldwide

(December 14, 2012) – TYREPLUS, the chain of franchised auto repair and tire dealerships serving motorists in fast growing economies, has now expanded to a total of 950 sales outlets in the following countries: Saudi Arabia and other Gulf monarchies, China, India, Mexico and Taiwan.

2012 J.D. Power and Associates Awards for OE Tire Customer Satisfaction in North America

(March 29, 2012) – Michelin has once again ranked highest in customer satisfaction in three segments:

- Luxury – scoring 54 points higher than segment average;
- Passenger Car – scoring 54 points higher than segment average;
- Truck/Utility – scoring 60 points higher than segment average.

The 2012 honors brings Michelin's lifetime total of J.D. Power awards to 69, more awards than any other tire manufacturer since the study was launched in 1989.

2.9.2. GOVERNANCE

Michel Rollier Announced that Jean-Dominique Senard Would Succeed Him at the Next Annual Shareholders Meeting

(February 10, 2012) – Michel Rollier, Managing General Partner and Chairman of Michelin, has announced that at the Annual Meeting on May 11, he will recommend that shareholders accept that he leave office effective that date.

2012 Annual Shareholders Meeting

(May 11, 2012) – The Annual Meeting of Michelin shareholders was held in Clermont-Ferrand, under the chairmanship of Michel Rollier, Managing General Partner, along with Jean-Dominique Senard, Managing General Partner.

Shareholders adopted all of the resolutions submitted for their approval. These concerned, in particular:

- the payment of a dividend of €2.10 a share, with a reinvestment option. The dividend was paid in cash or reinvested in shares on June 18, 2012;
- the renewal of financial authorizations;
- an authorization to carry out an employee rights issue;
- authorizations to carry out a share buyback program at a maximum purchase price per share of €100 and to reduce the share capital by cancelling the shares purchased under the program.

2.9.3. PRODUCTS – SERVICES – INNOVATIONS

2.9.3.a) Passenger Car and Light Truck Tires and Related Distribution

Michelin at the Paris Motor Show

(September 29 - October 14, 2012) – For the first time, Michelin is presenting its recently introduced tires to consumers:

- the MICHELIN ENERGY™ E-V tire for electric vehicles;
- the MICHELIN ENERGY™ SAVER+ tire suitable for almost every car on the market;
- the MICHELIN AGILIS+ tire for light commercial vehicles.

While each tire is dedicated to a specific use or purpose, they all have one thing in common – they have been designed to combine, in the same tire, often-contradictory performance parameters, such as safety, high mileage, energy efficiency and many others.

The MICHELIN Pilot Alpin and MICHELIN Latitude Alpin, Two New High-Performance Winter Tires, Now on the Market

(November 14, 2012) – Designed for high-performance vehicles and SUVs, the new MICHELIN Pilot Alpin and MICHELIN Latitude Alpin have hit the European markets just in time for the winter season.

MICHELIN ENERGY™ E-V Tires Win Renault Innovation Award

(June 19, 2012) – Michelin has been presented with a Renault Innovation Award for the ENERGY E-V tires that, in a world premiere, will equip the Renault Zoé, the carmaker's first mass market electric compact.

Developed through a four-year research and innovation program in partnership with Renault, the new highly energy-efficient tires help increase the car's overall range by up to 10 kilometers.

For the Group, the challenge was to design tires that help to reduce energy consumption while maintaining the same high performance in the areas of safety – especially wet grip – and longevity. The tire is therefore rated A in fuel efficiency and A in wet grip, making it the highest graded commercial tire on the market.

MICHELIN ENERGY™ E-V is the first commercial tire to be graded AA in rolling resistance and braking.

2.9.3.b) Truck Tires and Related Distribution

■ 2012: A Record Year for Truck Tire Market Launches

(October 8, 2012) – In 2012, MICHELIN introduced 39 new truck tires, refreshing a major portion of its product portfolio, with two major objectives:

- offer custom-tailored solutions to meet the specific needs of customers in Asia (MICHELIN XZE 3R and MICHELIN X MULTI HD) and the Middle East (X LINE Tropic);
- offer customers value-added services. In the United States, for example, Michelin has pledged to guarantee that the new XZA3+ Evertread line will last 30% more miles than competing tires, while in Brazil, the MICHELIN X MULTIWAY is being marketed with a services package and retread warranty.

■ Michelin Presented New Truck Tire Lineup at the IAA Trade Show in Hanover, Germany

(September 20-27, 2012) – At this year's IAA show, Michelin is holding the world premier of the MICHELIN X® Line™ Energy™, which delivers superior fuel efficiency to meet the needs of long-haul trucking companies.

The launch of the new range of MICHELIN Truck tires comes at a special time as it coincides with the introduction on November 1 of the new European tire labeling program, which will provide passenger and goods transport companies with tire performance ratings in three areas. The label will display information about an aspect of safety performance (wet grip), the tire's energy efficiency (according to its rolling resistance) and its drive-by noise.

■ "Communicating" Tires During the London Olympic Games for More Efficient Mobility

(June 21, 2012) – For the 30th Olympic Games, held in London from July 27 to August 12, Michelin has unveiled its latest innovation – the "communicating" tire. By combining the Tire Pressure Monitoring System (TPMS) and Radio Frequency Identification (RFID) chips, Michelin is enabling London urban transport operators to enhance the safety of the tires fitted on their buses, thereby immediately improving the mobility of both vehicles and transport users.

When used with the RFID chips now integrated in MICHELIN X InCity™ tires, the TPMS sensors not only make it possible to obtain tire pressure and temperature data easily but also to ensure flawless traceability that streamlines and secures monitoring as long as the tire is used on the vehicle.

This innovation points the way to new methods of managing fleets, not only of buses but also of trucks, thanks to solutions that will be available in the near future.

2.9.3.c) Specialty Businesses

Earthmover Tires

■ Michelin Presented its New Earthmover Product Lineup for 2013 at the MINExpo Trade Show in Las Vegas (USA)

(September 24-26, 2012) – Among this year's latest news, the most celebrated of all MICHELIN Earthmover tires has been given a new name – MICHELIN XDR2 (following the MICHELIN XDR) – indicating that it is the second-generation of the record size 63-inch tire. The new tire integrates the most recent technological advances made by Michelin's research teams to take into account customer and user needs.

MINExpo also provides Michelin with an opportunity to unveil two novelties – the new MICHELIN XTXL tire and MICHELIN X Mine D2, both dedicated to the underground mining segment, and integrating the new B2 technology in certain sizes.

The development of electronic management systems is also helping to improve operational efficiency, making it possible to track tires throughout their life cycle and thus to plan for their recovery, recycling and replacement.

Michelin's latest-generation Earthmover tire management system, called MEMS Evolution 2 [(1)], is also being presented in Las Vegas.

■ Michelin and Caterpillar

(April 2012) – Michelin, which introduced the world's largest tire with Caterpillar in 2009, has signed a contract for a record 75,000 tires for 2012.

Agricultural Tires

■ MICHELIN YieldBib, a Step Ahead

(August 28-30, 2012) – To establish technological leadership, Michelin has launched a new agricultural tire in the highly demanding North American market.

Presented at the Farm Progress Show, North America's biggest agricultural trade event, MICHELIN YieldBib is the brand's new agricultural tire. The target is a potential market of 6,500 tractors, in which the Group is aiming to build a lead over the competition.

Produced at the Troyes plant in France, the MICHELIN YieldBib is the market's first very high flexion tire. Thanks to low-pressure MICHELIN UltraFlex technology, the tire's footprint spreads the load evenly and improves traction in the most difficult conditions, thereby ensuring that spring planting and fall soil preparation go smoothly.

Because the new tire's tread is also more resistant to sharp plant stubble that remains in fields after the harvest, tire life is extended and tractor downtime is reduced.

(1) MICHELIN MEMS Evolution 2 is the Michelin Earthmover tire management system, with its latest-generation Tire Pressure Management System (TPMS) and upgraded software for more user-friendly, efficient functionality.

Two-Wheel Tires

■ The MICHELIN Power Pure SC Radial, the First High-Performance, Dual-Compound Radial Scooter Tire

(September 20, 2012) – The latest generation of today's scooters is just at ease cruising down the highway as putting around city streets. With output of up to 70 bhp, these big-bore models deliver a ride and performance similar to more conventional motorcycles.

In bringing the world's first dual-compound radial sport scooter tire to market, Michelin has delivered a compelling, comprehensive response to these new expectations. In fact, this is the first time that the world's best two-wheel tire technologies have been packed into a single scooter tire.

Aircraft Tires

■ MICHELIN Aircraft Tire Product Line Helping its Customers' Business Take Off

(July 12, 2012) – At the 2012 Farnborough International Airshow in the United Kingdom, the Aircraft Tire Product Line unveiled its commitment to helping its customers' business take off.

Because MICHELIN tires can handle a large number of landings, their total cost of ownership is lowered, offering aircraft fleet managers real savings in their tire budgets.

With this strategy, the Product Line hopes to enhance its partnerships with customers, thereby opening the door to new growth opportunities.

Michelin Travel Partner

■ *New York City* MICHELIN Guide

(October 3, 2012) – New York City's culinary scene shines bright with a record number of coveted Michelin stars and nearly 900 restaurants recognized for excellence and quality.

In the latest edition of the MICHELIN Guide *New York City 2013,* a record 66 restaurants have been awarded Michelin stars.

Michelin Lifestyle Limited

■ The new MICHELIN Electrically Assisted Bicycle: an Urban Mobility Solution

(August 28-September 1, 2012) – At the 2012 Eurobike trade show in Friedrichshafen, Germany, Michelin has unveiled its all-new electrically assisted bicycle. Adapted for use mainly in cities, the new bike combines practical and safety features at an unprecedented level.

The MICHELIN electrically assisted bicycle is convenient for day-to-day use, as it is foldable, compact and weighs just 17.6 kilograms (light for this vehicle category).

It is equipped with a virtually puncture-proof MICHELIN tire solution that combines the ultra-resistant Protek Urban tire and the Protek Max inner tube.

The battery can be charged in four and a half hours, enabling the user to travel an average of 45 kilometers. It can be ridden as a traditional bicycle (i.e. with the battery switched off) as well as in electric mode. Three engine speeds have been defined as well as a "pedestrian" program for biking at six kilometers an hour. The bike comes with warranties of three years for the frame and two years for the powertrain and electrical components. Throughout, everything has been meticulously engineered to provide users of the MICHELIN electrically assisted bicycle with peace of mind.

2.9.4. MICHELIN PERFORMANCE AND RESPONSIBILITY

■ Celebrating 10 Years of Michelin Performance and Responsibility

(June 18, 2012) – Launched in 2002, the Michelin Performance and Responsibility (PRM) approach helps everyone in the Group to remain focused on the long-term consequences of their decisions. In addition to expressing Michelin's sustainable development commitment, PRM also shows that achieving performance and responsibility is the best way to move Michelin forward. In 2012, PRM's 10-year anniversary is being widely celebrated across the Group.

■ Michelin and the Road Safety for Young People in Europe (ROSYPE) Project Have Raised Road Safety Awareness Among 1,130,000 Young People Since 2009

(November 22, 2012) – Michelin and the European Commission initiated the European ROSYPE project in 2009 with the goal of building road safety awareness and education among initially 730,000 young Europeans age 6 to 25 over a three-year period.

ROSYPE uses three avenues to reach young people: classroom teaching, learning by doing and driving simulators.

2.9.5. RACING

■ Audi and Michelin Triumph at Le Mans

(June 18, 2012) – Audi's and Michelin's long experience at Le Mans helped the German carmaker to claim an emphatic success in the 80th edition of the world's most famous endurance race. Its new "e-tron quattro" diesel/electric hybrid technology won first time out in La Sarthe thanks to its No.1 car (Lotterer/Fassler/Tréluyer), while Audi and Michelin locked up the top three places. This result has also provided Michelin with its 15th victory in a row at Le Mans since 1998.

■ A One-Two for Audi/Michelin at Sebring, the Opening Round of the New FIA World Endurance Championship (WEC)

(March 13, 2012) – Audi/Michelin dominated the opening round of the new FIA World Endurance Championship (WEC) from flag to flag. Dindo Capello, Tom Kristensen and Allan McNish (No.2 Audi R18 TDI) were first across the line at Sebring, while the No.3 sister car of Bernhard/Dumas/Duval came home second. It was Michelin's 14th straight win at Sebring.

2.10. RISK FACTORS

2.10.1. INTRODUCTION

Preliminary comments

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. All of these 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.

The risk management process

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 French securities regulator AMF. Moreover, it is continuously updated to reflect the latest regulatory changes and risk management best practices.

This iterative, integrated and optimized process comprises four key phases:

1. Identifying risks, which is a prerequisite for successful risk management. This phase involves identifying all internal and external events and circumstances that could have an adverse effect on Michelin's objectives, earnings or reputation. This information is then summarized in the form of a Group risk map and individual risk maps by unit (Corporate Departments, Performance Divisions, Technology Center, Product Lines, Tactical Operational Units, and Geographic Zones).
2. Defining risk appetite, i.e. deciding, on a fully informed basis, how much risk the Group is prepared to accept in pursuing its objectives, taking into account the resources that this will require.
3. Managing risks. Once the Group's risk appetite has been defined, specific measures and processes are put in place to manage the identified risks. They may be prevention-focused or consist of protective measures to mitigate any adverse effects in the event that the risk does occur.
4. Tracking and controlling risks. The aim of this fourth and final phase is to ensure that any residual risk – i.e. the risks remaining after all risk management measures have been implemented – is consistent with the Group's risk appetite. 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.

Risk management governance

The risk management process is governed at three levels of the organization:

1. The Audit Committee, which is made up of four Supervisory Board members who represent the shareholders. This Committee meets several times a year to monitor the effectiveness of risk management systems in accordance with the governmental order of December 8, 2008 transposing into French law the 8th EU Company Law Directive.
2. The Chief Executive Officer and the Group Executive Committee, who meet monthly to oversee the risk management process. In this role, they approve the Group risk map, determine risk management priorities, validate risk acceptance levels, take decisions concerning resource allocation and verify that the action plans for priority risks are being implemented according to plan.
3. Unit/Zone Risk Committees. Risk Committees are gradually being set up across the various units. Once they are in place, they meet two to three times a year to monitor the principal risks within their remit.

Risk management in strategic planning

Risk management is factored into the strategic planning process on both an annual and multiyear basis (annual plans and budgets and the five-year strategic plan).

The units' five-year business plans take into account priority risks and determine the resources necessary to manage them, and their annual plans set out risk management action plans and allocate the resources required for their implementation. The units then monitor the progress of these action plans throughout the course of the year.

Risk management stakeholders and their respective roles

Every employee has a role to play in the risk management process, helping to enhance it through his or her skills and expertise. In addition, everyone is expected to ensure that all of the risk management processes and procedures are properly applied and respected.

The main risk management stakeholders are:

1. The support units (Corporate Departments, Performance Divisions and Technology Centers). As risk owners, these units submit proposals concerning levels of acceptable risk to the Chief Executive Officer and the Group Executive Committee for approval. They also propose risk management rules, estimate the required resources, track changes in risks, and verify that their guidelines are effectively applied.
2. The operating units (Product Lines, Tactical Operational Units, Geographic Zones), which manage risks on a daily basis. These units apply the guidelines defined by the support units and implement the necessary risk management procedures and resources.
3. The Group Audit and Risks Department, which leads the overall risk management process. Its responsibilities include (i) defining the risk management methodology, organizing its deployment and building a risk-aware culture within the Group; (ii) ensuring that the most significant risks are effectively controlled by the units concerned; (iii) tracking the progress of all the action plans related to priority risks; (iv) ensuring the quality of risk management by performing audits; and (v) presenting risk management agenda items at Group Executive Committee meetings.
4. Risk Managers appointed in each unit, who form part of the risk management network. Unit Risk Managers are responsible for implementing and overseeing the risk management process in their units. They are assisted by managers from the Group Audit and Risks Department who support them at every stage in the process.

Insurance strategy

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.

a. 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 and liability insurance.

The property & casualty insurance program provides total coverage of €500 million, which includes €50 million worth of Increased Cost of Working cover to enable operations to continue in the best possible financial conditions in the event of a business interruption.

The liability insurance program comprises three key coverage areas:

- product liability;
- 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.

b. Medium-frequency risks

To reduce costs by pooling medium-frequency risks, the Group's captive insurance company provides coverage in the following areas, with limits commensurate with its resources:

- Property & casualty risks, with a €30 million limit per claim;
- Product liability in the United States and Canada, with a US$25 million limit per claim;
- Product recall expenses, with a US$25 million limit per claim.

Aggregate premiums amounted to €58.8 million in 2012, including premiums paid to the captive insurance company.

Risk management tools

To facilitate deployment of the above-described process, the Group uses a variety of tools managed by the Group Audit and Risks Department, which take different forms depending on the phase concerned. The following section presents a number of examples.

a. Identifying risks

Risks are identified based on the risk maps prepared and updated by the various units. In addition to these regular updates, the units are requested every three years to perform a full new risk mapping exercise. The Group Audit and Risks Department oversees this process and consolidates all of the various risk maps on an annual basis. The consolidated risk maps are then used to diagnose the Group's risks and help to identify priority risks that require action plans. The units are responsible for preparing and implementing the action plans, under the supervision of the Unit Risk Managers.

b. Defining risk appetite

For each of its identified risks, the Group determines the level of risk that it considers acceptable, which is then used as a basis for allocating the resources required to implement the risk management strategy.

In this way, risk management is seamlessly integrated into the strategic planning process. The strategic plan involves a number of key milestones at which risks need to be assessed: (i) a diagnostic review performed before the strategic plan is formally documented, (ii) the plan's operational rollout 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.

c. Managing risks

Managing a given risk primarily involves the protection and prevention measures described below.

d. Monitoring and controlling risk

A number of stakeholders are involved in monitoring the risk management process and verifying that it is operating efficiently.

First, all of the Group's Departments and Divisions regularly control the risks that fall within their remit. For example, the internal control team within the Group Finance Department checks that the internal control standards applied to finance and accounting are appropriate and effective, the Group Quality Department regularly controls product risks, and the Prevention and Industrial Performance Department also performs controls on the risks falling within its remit.

Second, the Audit and Risks Department regularly assesses how priority risks are being managed. These assessments take different forms, such as (i) performing an in-depth analysis of a given priority risk so as to prepare recommendations on how to reduce exposure to it, or (ii) ensuring that recommended corrective measures have been properly implemented and measuring the ensuing risk reduction.

For further information on the Group's risk management process, please see the Report of the Chairman of the Supervisory Board on the Company's Internal Control and Risk Management Procedures on page 102 of this Registration Document.

The risks presented below were identified as having a non-negligible probability of occurring or causing a significant impact on the Group's operations and financial position as of the date this Registration Document was filed. However, it is possible that other risks that are not described below or have not been identified to date could also adversely affect the Group's earnings, objectives, reputation or share price.

2.10.2. RISKS RELATED TO THE GROUP'S OPERATIONS AND STRATEGY

2.10.2.a) Market risk

Risk factors

Michelin's principal business operations consist in selling Passenger car & Light truck, Truck and Specialty (Earthmover, Agricultural, Two-wheel, Aircraft) tires to vehicle manufacturers, dealer networks and end-users.

78% of the Passenger car & Light truck 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 policies and weather conditions for winter tires.

The original equipment business, which represents 22% of Passenger car & Light truck 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.

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

More generally, business activity 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. The main economic factors that could affect the Group's business going forward are sovereign risk in Europe, the risk of the recent upturn in North America proving to be short-lived and a slowdown in growth in new markets.

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 ensuring the Group can grow in a sustainable and responsible way 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 managers. The Group's strategic plan is regularly reviewed over the medium term by the Chief Executive Officer and the Group Executive Committee.

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

2.10.2.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 lead, which would expose it to increased competitive pressure. By way of example, technological or regulatory changes could result in Michelin's products becoming obsolete or less appealing to customers. The Group's technological leadership could also be hindered if new product developments are delayed or if a competitor captures a market segment with a major new innovation.

The second type of innovation risk involves the development of innovative products that are not as successful as hoped in the marketplace or that do not meet a market need initially thought to exist.

■ 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 more than €600 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.

2.10.2.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. This situation could have a negative impact on our revenue, financial position and earnings.

■ Risk management response

Our strategy to counter competition risk is to pursue continuous innovation, expand more quickly in high-growth markets and improve our competitiveness. In tandem, we are taking steps to bolster our specific strengths such as our global footprint, our management skills, our premium positioning, our leadership in specialty businesses and the power of the Michelin brand.

2.10.2.d) Distribution risk

■ Risk factors

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

Substantially all dealers are independent and the integrated dealer networks – Euromaster in Europe and TCI in North America – make only a limited contribution to sales volumes. The TYREPLUS network, which is currently being developed in the new markets, is also made up of independent sales outlets, most of which are franchised.

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 distribution 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.

2.10.2.e) Raw materials risk

■ Risk factors

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

Raw materials, which represented 47% of all Group purchases in 2012, 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.

Raw materials costs	2010	2011	2012
In EUR million	4,799	7,019	6,479
As a % of net sales	26.8%	33.9%	30.2%
Of which:			
Natural rubber	34%	42%	36%
Synthetic rubber	25%	24%	27%
Reinforcing agents	15%	13%	15%
Chemicals	12%	10%	10%
Metal cables	8%	7%	7%
Textiles	6%	4%	5%

On the basis of estimated 2013 production volumes, the sensitivity of cash purchasing outlays to fluctuations in natural rubber and oil prices is as follows:

- a $0.10 per kg increase in natural rubber prices would feed through to around a $90 million increase in full-year purchasing costs;
- a $1.00 per barrel increase in oil prices would feed through to a $15 to $20 million increase in full-year purchasing costs.

■ Risk management response

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

It has been the Group's long-standing policy to pass along any increase in raw material costs in selling prices. In 2012, the impact of raw materials used in production during the period amounted to €76 million.

Margins on certain fixed-price sales contracts have been protected using short-term futures. At December 31, 2012, these futures had a positive fair value of €2 million, recorded in assets. This compares with the €7 billion cost of raw materials used in production during the year (see Note 16.2 to the consolidated financial statements on page 195).

2.10.2.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 recent steady development 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 a major asset for the Group. The 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 continuous and systematic intelligence process that analyzes the different media, particularly online, to identify any initiatives or comments that could spiral out of control and lastingly damage the Group's image.

2.10.3. OPERATIONAL RISKS

2.10.3.a) Product quality risk

■ Risk factors

Tires are a factor in vehicle safety, which means that Michelin's brand image is inextricably linked to the innovative features, quality, reliability and safety of its products. Every year, we manufacture some 170 million tires worldwide to equip everything on wheels, including cars, trucks, buses, aircraft, scooters, motorcycles, earthmovers, tractors and subway trains.

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

■ Risk management

Tire quality, reliability and safety are an integral part of our corporate culture 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 customer needs analysis, 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-situ behavior is constantly monitored to detect even the slightest indication and to swiftly implement any requisite corrective measures.

2.10.3.b) Supply continuity risk

■ Risk factors

Every year Michelin purchases more than €14 billion worth of goods and services from more than 40,000 different suppliers. These purchases can be broken down into three different types:

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

The Group is exposed to three different 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 recent tightening of environmental regulations in Europe, the United States and a number of emerging countries – can impact the operations of some suppliers.

The Group is also exposed to the risk that one or more of its 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. In general, several categories of risk management measures have been put in place Group-wide to deal with all types of supply risk. These include raising employee awareness of these issues to improve risk planning, signing multi-year contracts with the main suppliers, looking for new suppliers, maintaining strategic buffer stocks for critical products and seeking substitute products when certain commodities become scarce.

2.10.3.c) 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 €1.6 billion and €2.2 billion a year depending on the outlook of its host markets.

There are two types of major projects. The first are growth projects, which are mainly focused on manufacturing facilities and aimed at increasing production capacity. Examples include three large-scale plant construction projects in Shenyang 2 (China), Chennai (India) and Anderson (United States).

The second are business transformation projects, which have been consolidated into two priority programs: the OPE Business Management System – intended to create an integrated reporting and information sharing system to enhance the Group's management and performance – and the Efficiency Program, launched in 2011 with a view to streamlining and optimizing the support function processes.

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 even 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. In addition, to ensure consistent implementation, standard project management methods defined by the Group Quality Department are used Group-wide. 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.

To proactively prevent variances, all major projects and programs are also reviewed on a monthly basis by senior management and are carefully tracked by the Executive Committee.

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

2.10.3.d) 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 both of these types 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 such high-risk regions as the southern (tornadoes) and certain Thaïland areas (flooding) and (iii) regulatory or geopolitical changes. Internal sources of business interruption risk are 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 enables us 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.

2.10.3.e) Information technology and information systems risks

Risk factors

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

Over the past ten years, we have extensively overhauled our information technology and systems, building both on 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 more than a thousand applications hosted in a small number of data centers or, in certain cases, local servers.

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 depend 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) systematically reviewing IT continuity needs and putting in place the related disaster recovery plans, (ii) closely tracking contractual terms and conditions to be able to respond in the event of service provider default, (iii) reinforcing the physical and logistical security aspects of IT systems, 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.

2.10.3.f) 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 their use.

The production processes use energy, electricity and water as well as steam generated internally in gas, coal or oil-fired boilers. The tire manufacturing process can likewise potentially lead to environmental risks. The land and sea transport both of semi-finished products among the various plants and of manufactured products to dealerships in 170 countries across the globe gives rise to CO_2 emissions. In addition.

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 four 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 CO_2 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 2012, for example, the Michelin sites Environmental Footprint indicator declined by 33% over the year.

For more information on environmental risks see section 6.4, page 148 of this Registration Document, as well as the 2012 Annual and Sustainable Development Report.

2.10.3.g) 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.

2.10.3.h) Health and safety risks

Risk factors

Michelin directly employs 113,443 people worldwide and uses temporary employment agencies and subcontractors. These people work in a wide variety of environments, particularly industrial environments involving the use of machines and equipment that range from manual to fully automated, depending on the type of product manufactured and the age of the machines. Office environments entail the wide use of information and communication technologies in a highly competitive and performance-driven context that is often international.

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

- risks related to on-site equipment and logistics (mechanical and electrical risks; ergonomic risks), psychosocial risks, risks related to the general working environment (working hours and shifts, noise, heat, working at heights, and exposure to country-specific risks such as political instability, terrorism or kidnappings).
- risks related to exposure to chemicals as well as risks of industrial accidents and natural disasters.

Occupational risks can have an impact on the health, the well-being, and even the physical and psychological 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 and a continuous improvement process, for example, encourage all of our employees, temporary workers and subcontractors to get personally involved in reducing these risks.

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

On the manufacturing side, the design and upgrades of equipment and procedures 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 more information on health and safety risks see section 6.2.3, page 129 of this Registration Document, as well as the 2012 Annual and Sustainable Development Report.

2.10.3.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. It is also dependent on the information systems it uses to store and share sensitive information.

In today's fast-changing environment, security breaches and piracy are becoming increasingly sophisticated, requiring constant vigilance and responsiveness from our IT teams. In addition, while local networks are an opportunity, they can also be a threat to the protection of sensitive information.

This 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 risk 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 protecting its trade secrets, in the broadest sense of the term, and by filing patent applications when possible or appropriate. Operating markets are therefore closely monitored to ensure that our intellectual property rights are not infringed. In the last decade, the number of patents has tripled, with a total of more than 2,000 patents families now in the Group's portfolio.

In addition to this legal protection, knowledge is being retained by a policy of confidentiality. This involves identifying sensitive assets and materials and putting in place the appropriate resources and organizational structures to ensure their physical and logical security.

In some cases, short time-to-market cycles can also be an effective way of protecting our technological advances.

Overall, knowledge retention risks are tracked at the highest levels of the organization and in particular by the Executive Committee.

2.10.3.j) Human resources risk

■ Risk factors

Michelin's strategy for the coming years is based on four core objectives: drive strong, diversified growth, become more competitive, deliver sustainable business and financial performance, and foster mutual commitment between the Group and its people.

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, 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, particularly 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 also has a network of experienced in-house trainers and teams from the new plants in China, India and Brazil who have attended hands-on training courses at facilities in mature markets. In 2012, the percentage of training hours per total hours worked stood at 4.4%.

To enhance employer appeal and employee engagement, the Group-wide "Moving Forward Together" program has been deployed to demonstrate the global "Michelin employer promise" policy. Scheduled for roll-out in every host country, the program is supported by the definition of individual career paths that foster personal growth and include the requisite training, a process to strengthen the quality of management and the offer of competitive compensation, benefits and working conditions.

In addition, a structured human resources planning and development program has been put in place Group-wide to ensure that we are able to adapt and refresh our skills base as required. Among its key components are tailored training both for each new position and career-long, systems for managing jobs, and a broad-based plan to professionalize managerial skills and behavior.

2.10.3.k) 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 jeopardize the integrity of the entire Group.

■ 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.

That's why a dedicated ethics and compliance system has been put into place:

- A *Code of Ethics* has been prepared and distributed in every region. It defines the behavioral standards applicable to our business activities and presents guidelines to help employees make decisions about the following fifteen ethical issues:
  - Legal and regulatory compliance;
  - Conflicts of interest;
  - Gifts and invitations;
  - Governmental relations and anti-corruption;
  - 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 governance structure has been set up at Group level and in the regions:
  - the Group Ethics Committee, which meets three or four times a year, comprises the heads of the Group Legal Affairs, Finance, Purchasing, Safety and Security, and Audit and Risks Departments, as well as the heads of the geographic zones;
  - each region has a dedicated Ethics Committee;
  - a reporting process at both Group-level and in each region makes it possible to monitor compliance with the *Code of Ethics* and identify any violations.
- A large number of training programs dedicated to ethical issues have been developed and are currently being deployed, notably through a purpose-designed educational game.

Lastly, ethics hotlines enabling any employee to report suspected cases of fraud or unethical behavior are now up and running in most host countries.

2.10.3.l) Financial risk

■ 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 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.

1) 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.

Gearing stood at 12% at December 31, 2012, corresponding to a net debt of €1.053 million, versus 22% and €1.814 million at yearend 2011.

■ 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 Compagnie Financière du groupe Michelin, "Senard et Cie" (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 Group companies 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 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.

To find out more about the Liquidity risk, please refer to Note 4.2.1 to the consolidated financial statements, page 181.

2) 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 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.

■ Risk management processes

Currency transaction risk

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

Each Group companies 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 exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts, the majority of which has short term maturities of around 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.

To find out more about the currency risk, please refer to Note 4.2.2 to the consolidated financial statements, page 182.

3) 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 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.

■ 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 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, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

To find out more about interest rate risk, please refer to Note 4.2.3 to the consolidated financial statements, page 182.

4) 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 processes

The Group Investment Committee, which includes representatives of the Financial, Legal and Corporate Finance Departments, is responsible for the application of monitoring rules on investments. It therefore makes an annual review of the investments to assess the risk level and the evolution of the results compared to defined targets.

To find out more about the Equity risk, please refer to Note 4.2.4 to the consolidated financial statements, page 183.

5) Counterparty risk

■ Risk factors

Counterparty risk is the risk of a debtor refusing or being unable to fulfill 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.

■ 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.

To find out more about the Counterparty risk, please refer to Note 4.2.5 to the consolidated financial statements, page 183.

6) 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 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 region and Group level. A monthly credit reporting system operates within the Group.

In 2012, the Group Credit Department continued to promote actions to progressively shorten the terms of payment.

To find out more about the Credit risk, please refer to Note 4.2.6 to the consolidated financial statements, page 183.

2.10.3.m) Legal and tax risks

Risk factors

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

Among the legal risks that affect all companies engaged in both manufacturing and services, the following are specific to Michelin:

- 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, it has 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 as well as any other material contracts. It has also devised an internal program aimed at ensuring compliance with antitrust laws and has set up a process for managing customer claims and product disputes, together with product liability insurance coverage.

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

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

2.11. MATERIAL CONTRACTS

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

2.12. 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.

2.13. INFORMATION CONCERNING SUPPLIER PAYMENTS

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

Trade payables (including tax, in € thousand)	Past due		Due within 60 days		Due beyond 60 days		Total trade payables	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Foreign suppliers:								
Group	0	0	7,357				7,357	0
Non-Group	0	0	1,044	193			1,044	193
French suppliers:								
Group	0	0	108,841	73,178	0	50,227	108,841	123,406
Non-Group	0	0	378	648	0	0	378	648
TOTAL	**0**	**0**	**117,620**	**74,019**	**0**	**50,227**	**117,620**	**124,247**

Trade payables totaled €118 million at December 31, 2012 and €124 million at December 31, 2011. They are reported under "Other liabilities" which, including other payables, amounted to €179 million at year-end 2012 and €197 million at year-end 2011.

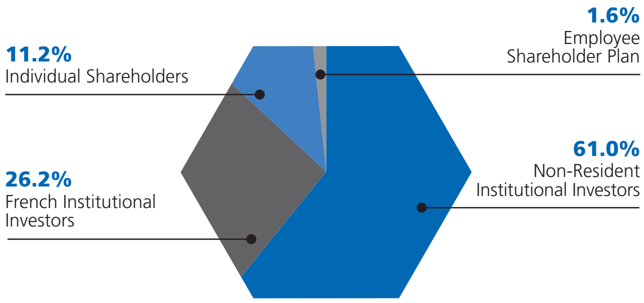
2.14. MATERIAL CHANGES IN THE COMPANY'S BUSINESS OR FINANCIAL POSITION

There were no material changes in the Company's business or financial position between February 7, 2013 (the date of the Statutory Auditors' Report) and the date on which this Registration Document was filed with the *Autorité des marchés financiers*.

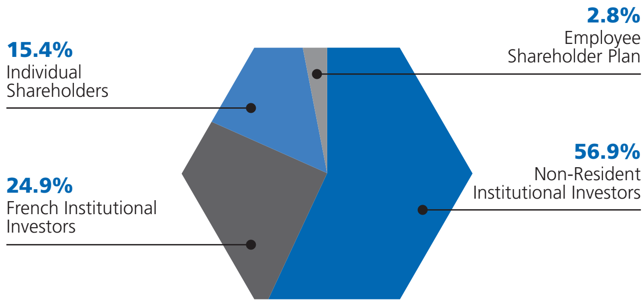
2.15. OWNERSHIP STRUCTURE AND VOTING RIGHTS

At December 31, 2012, Michelin's share capital amounted to €365,113,426, represented by 182,556,713 ordinary shares, all fully paid-up, with a total of 229,872,141 voting rights.

SHARE OWNERSHIP
(at December 31, 2012)



VOTING RIGHTS
(at December 31, 2012)



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

At December 31, 2012, 182,556,713 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 July 18, 2012, Franklin Resources, Inc. disclosed that it had reduced its interest to less than 5% of the voting rights and that at that date it held 11,245,566 shares and the same number of voting rights.
- No other shareholder directly or indirectly holds more than 5% of capital or voting rights.
- There are no shareholders' agreements or pacts.

No Michelin shares are held in treasury. There has been no material change in the Company's ownership structure over the last three years.

2.16. INFORMATION DISCLOSED IN COMPLIANCE WITH THE GRENELLE 2 ACT

The 2012 social, societal and environment 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. Michelin Performance and Responsibility.

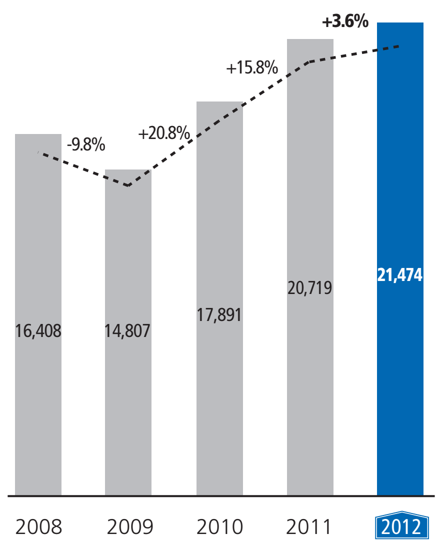
3

Financial Highlights

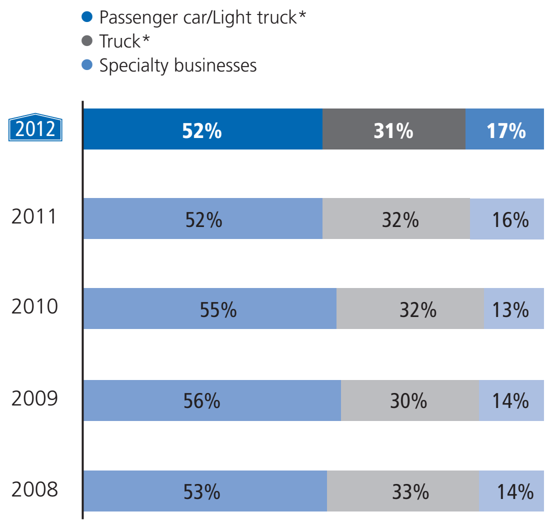
3.1. SALES

UNIT SALES
(in tons)

NET SALES
(in € million)

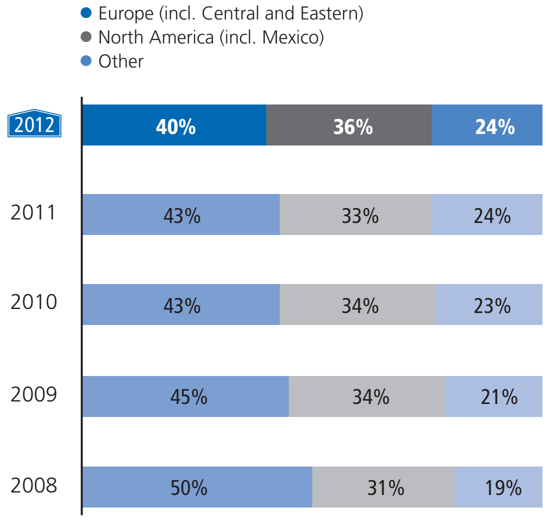


NET SALES BY REPORTING SEGMENT – BREAKDOWN
(in value)

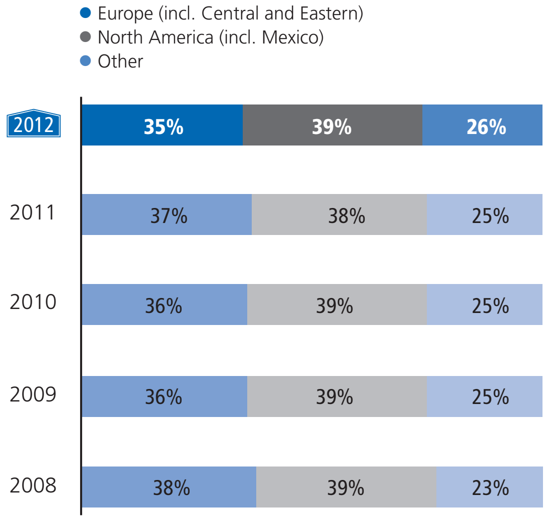


* *And related distribution.*

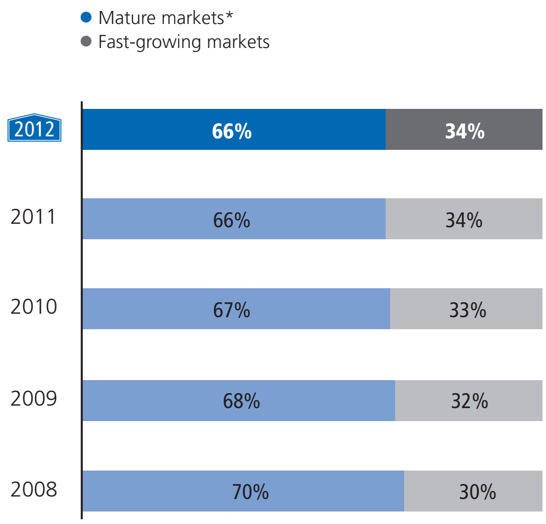
NET SALES BY REGION – BREAKDOWN
(in value)



SALES BY REGION – BREAKDOWN
(in tons)



BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

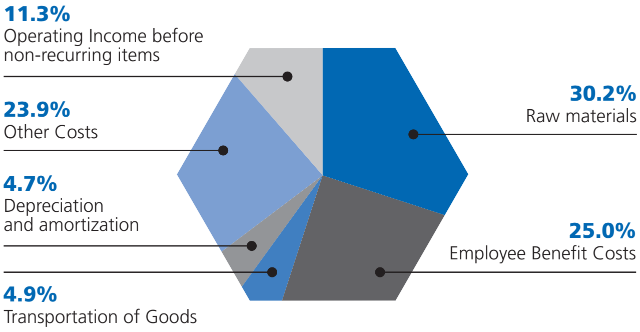


* *Mature markets: United States, Canada, Western Europe and Japan.*

3.2. EARNINGS

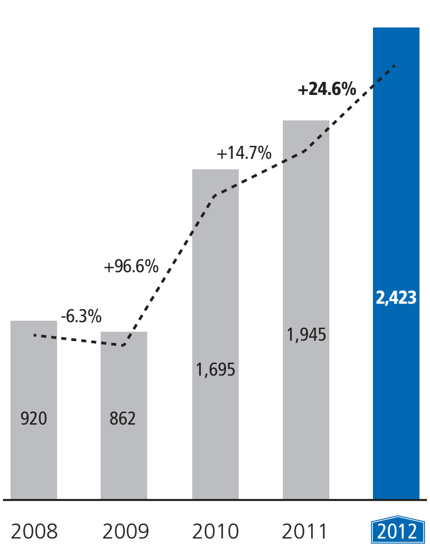
ANALYSIS OF OPERATING EXPENSES

(as a % of 2012 net sales)



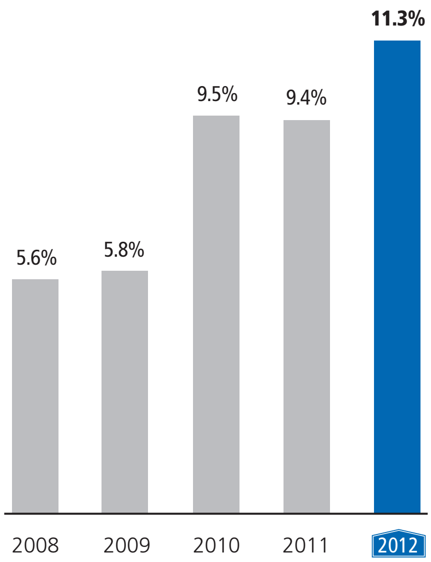
OPERATING INCOME BEFORE NON-RECURRING ITEMS

(in € million)

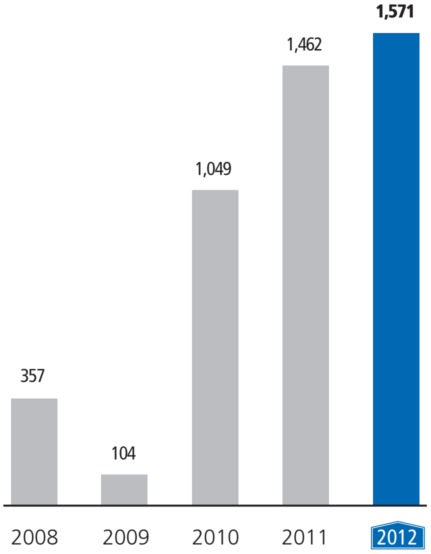


OPERATING MARGIN BEFORE NON-RECURRING ITEMS

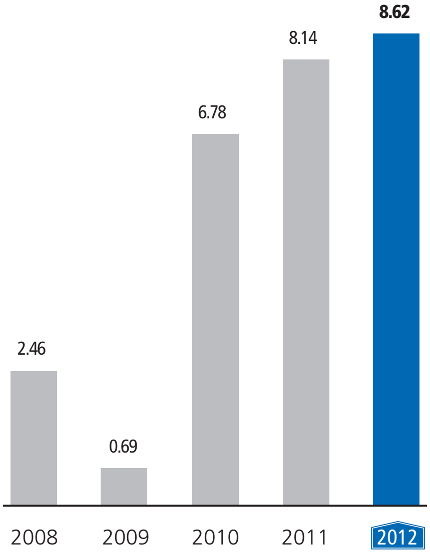
(as a % of net sales)



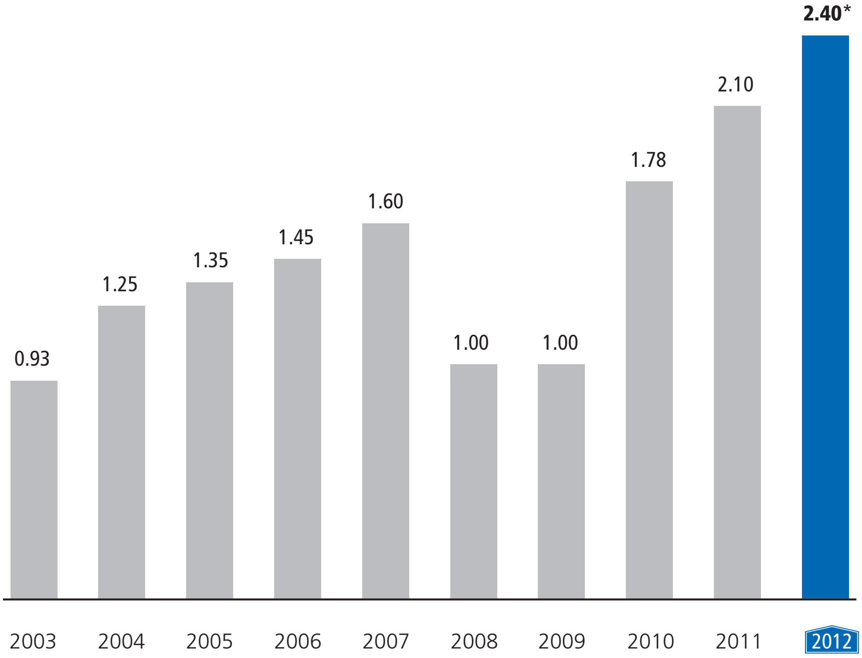
NET INCOME
(in € million)



BASIC EARNINGS PER SHARE
(in €)



DIVIDEND PER SHARE
(in €)

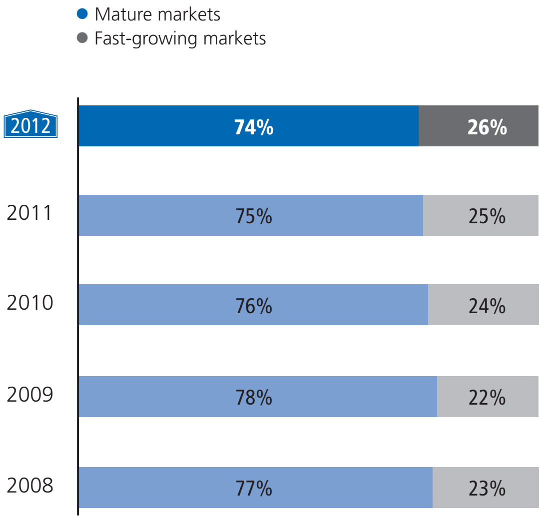


* *Subject to approval at the Annual Shareholders Meeting on May 17, 2013.*

3.3. REPORTING SEGMENTS

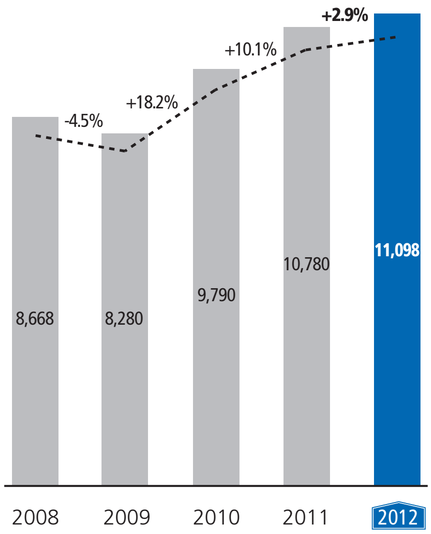
3.3.1. PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

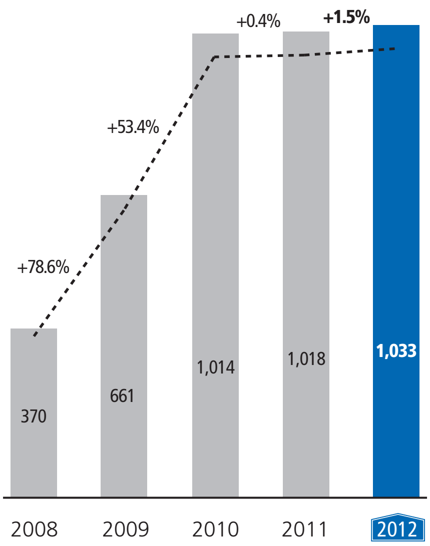


* *Mature markets: United States, Canada, Western Europe and Japan.*

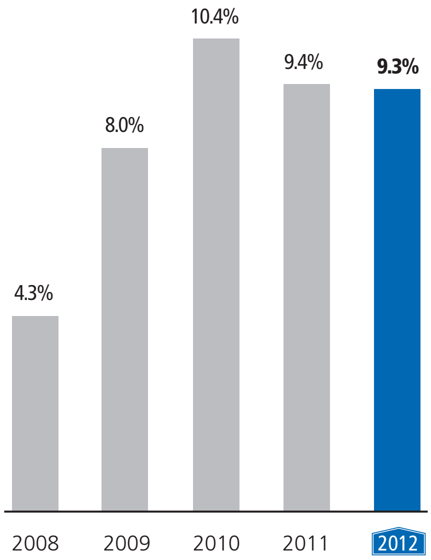
NET SALES
(in € million)



OPERATING INCOME BEFORE NON-RECURRING ITEMS
(in € million)

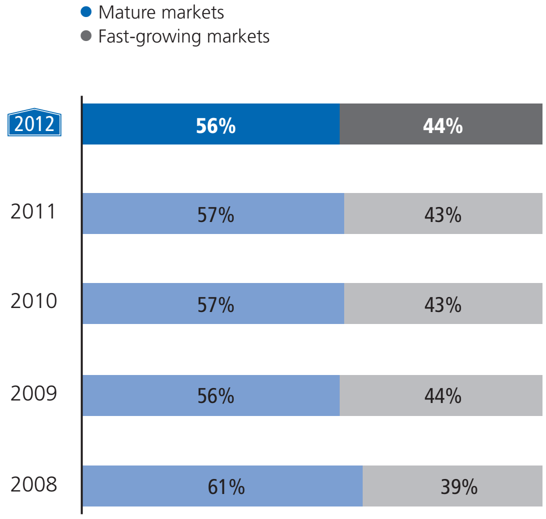


OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)



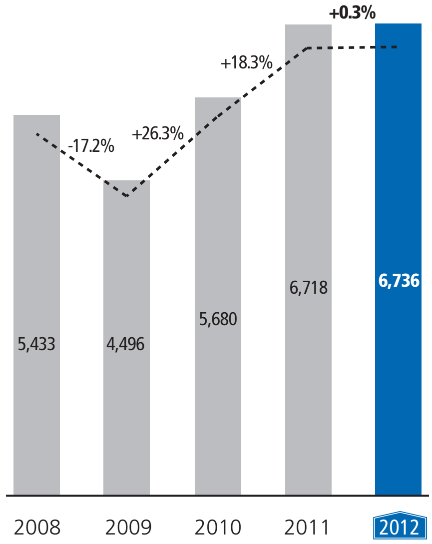
3.3.2. TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

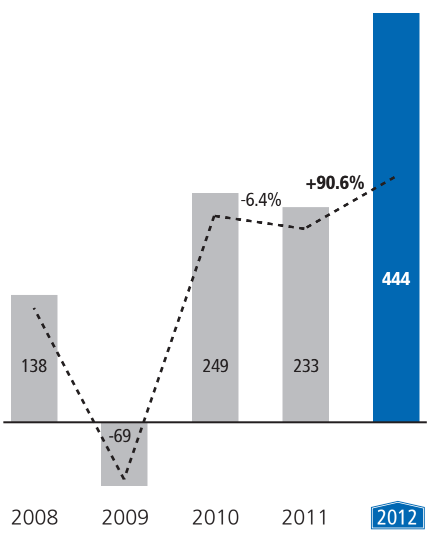


* *Mature markets: United States, Canada, Western Europe and Japan.*

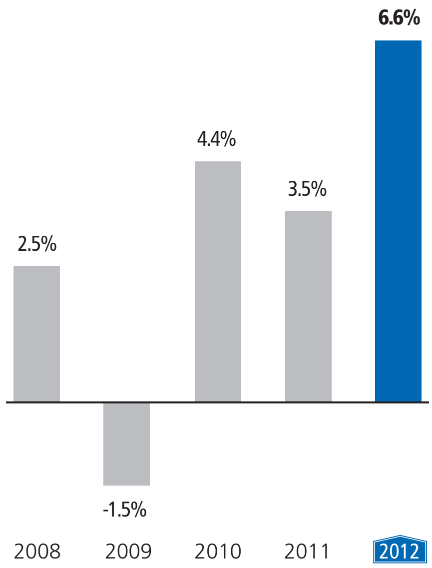
NET SALES
(in € million)



OPERATING INCOME BEFORE NON-RECURRING ITEMS
(in € million)

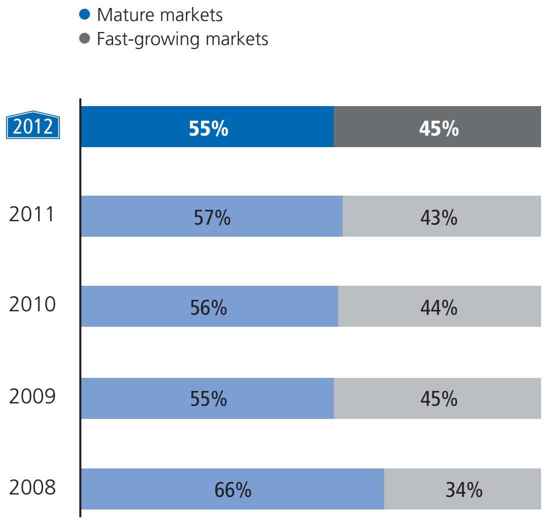


OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)



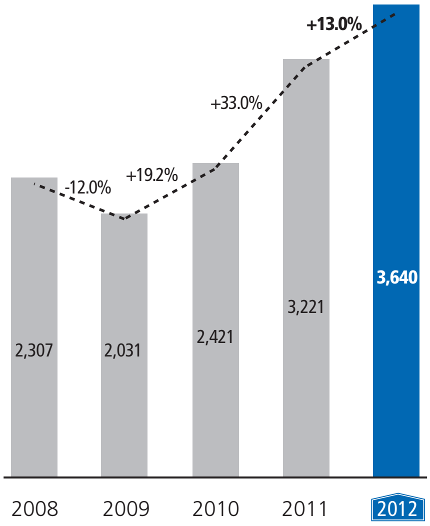
3.3.3. SPECIALTY BUSINESSES

BREAKDOWN OF SPECIALTY TIRE SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

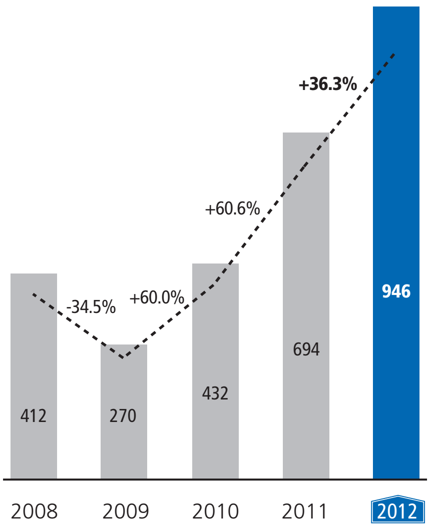


* *Mature markets: United States, Canada, Western Europe and Japan.*

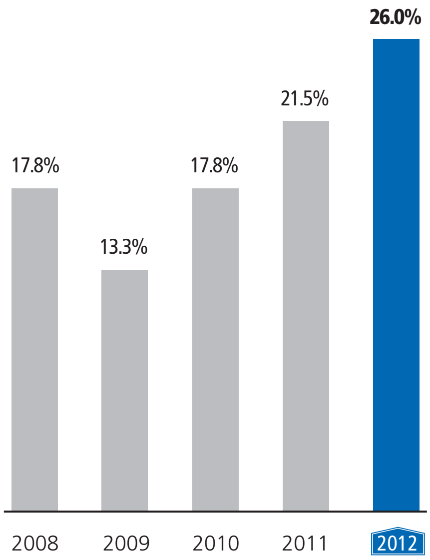
NET SALES
(in € million)



OPERATING INCOME BEFORE NON-RECURRING ITEMS
(in € million)

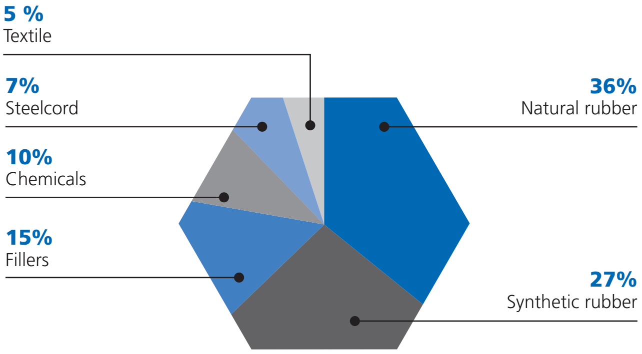


OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)

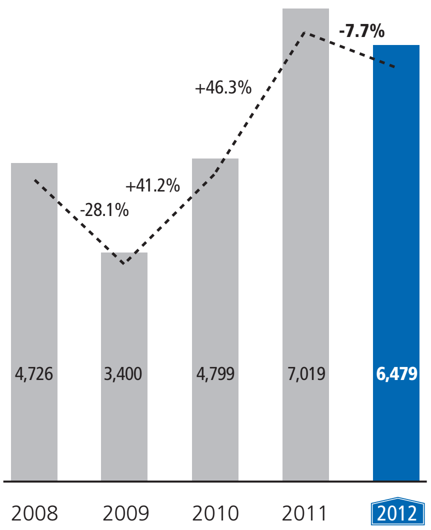


3.4. COST STRUCTURE

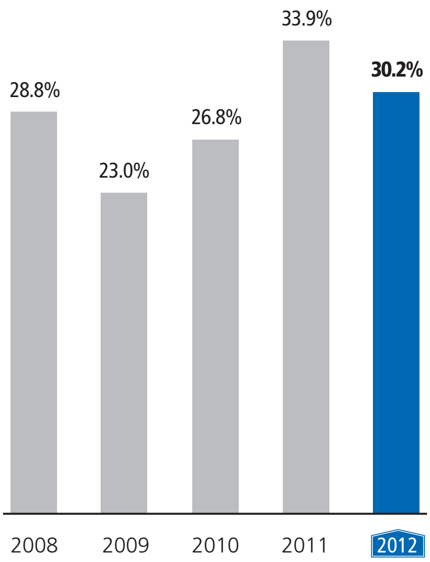
2012 RAW MATERIAL COSTS
(in €)



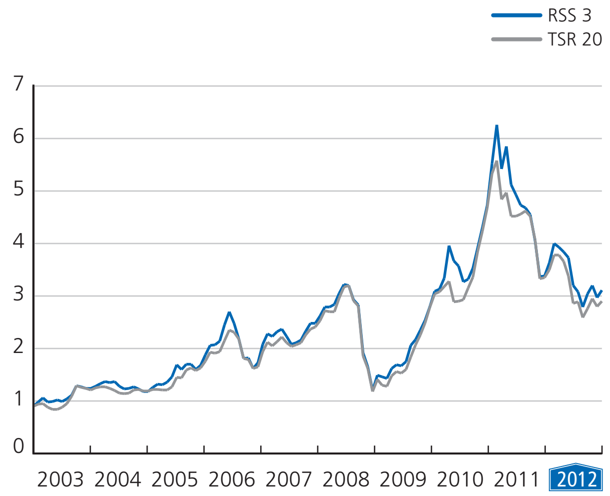
RAW MATERIAL COSTS
(in € million)



RAW MATERIAL COSTS
(as a % of net sales)

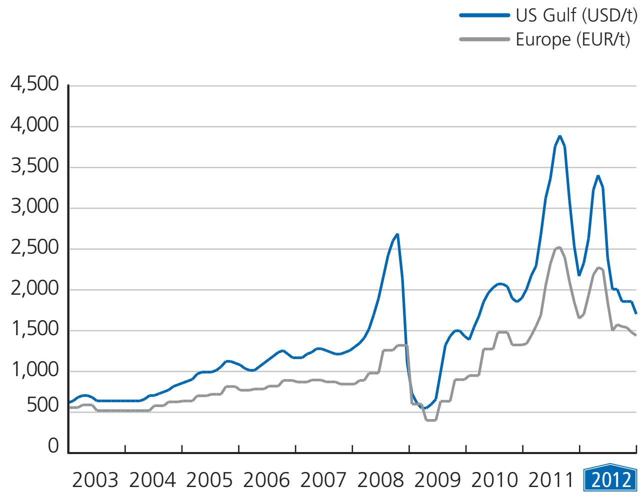


NATURAL RUBBER PRICES*
(in USD/kg)



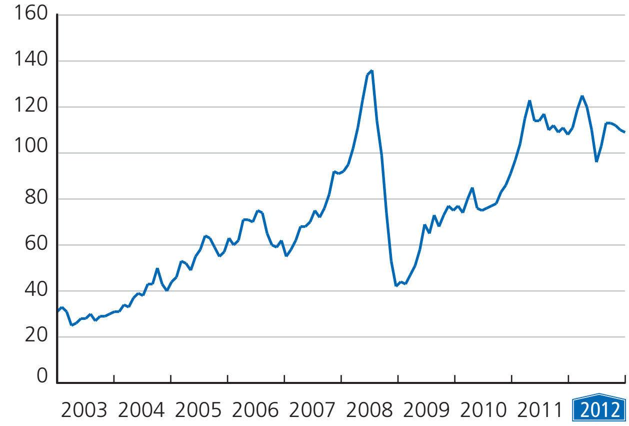
* Monthly average.

BUTADIENE PRICES*
(in USD/ton)



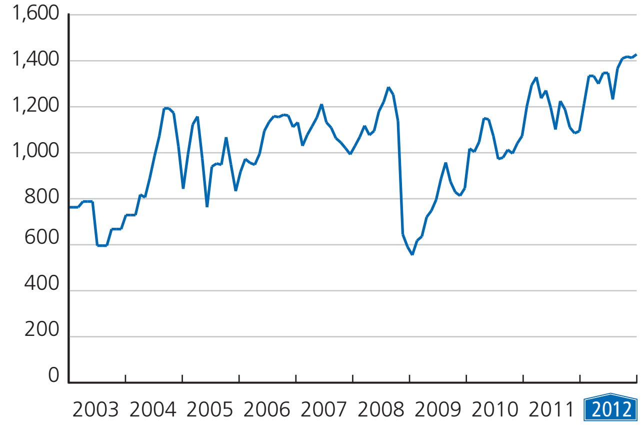
* Monthly average.

BRENT OIL PRICES*
(in $/bbl)



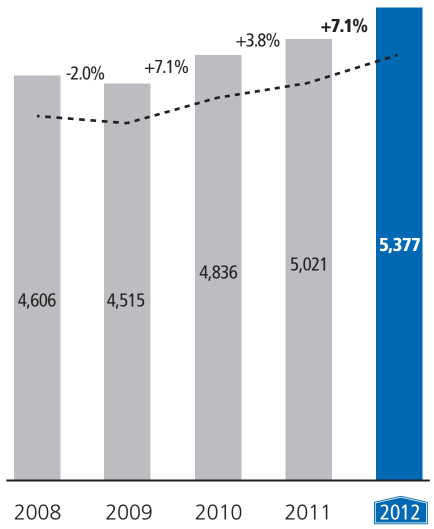
* Monthly average.

STYRENE PRICES*
(in €/ton)

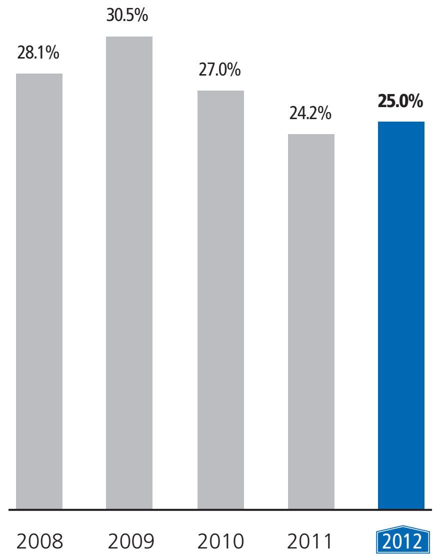


* Monthly average.

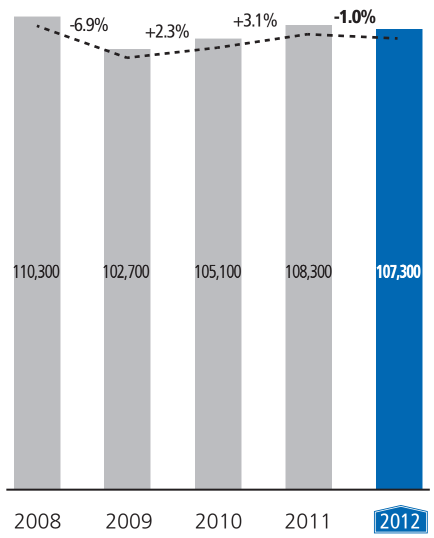
EMPLOYEE BENEFIT COSTS
(in € million)



EMPLOYEE BENEFIT COSTS
(as a % of net sales)



NUMBER OF EMPLOYEES
(full-time equivalent employees at December 31)



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

	2012	2011	2010	2009	2008
Europe	63,000	64,500	63,400	63,300	67,700
North America	21,400	21,700	21,000	20,300	22,200
Asia (excluding India)	15,300	15,000	14,500	13,200	13,500
South America	5,500	5,300	5,100	4,900	5,800
Africa India Middle-East	2,100	1,800	1,100	1,000	1,100
TOTAL	**107,300**	**108,300**	**105,100**	**102,700**	**110,300**
including mature countries (1)	68%	68%	65% (2)	66% (2)	66% (2)
including fast-growing countries	32%	32%	35% (2)	34% (2)	34% (2)

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

(2) Excluding distribution.

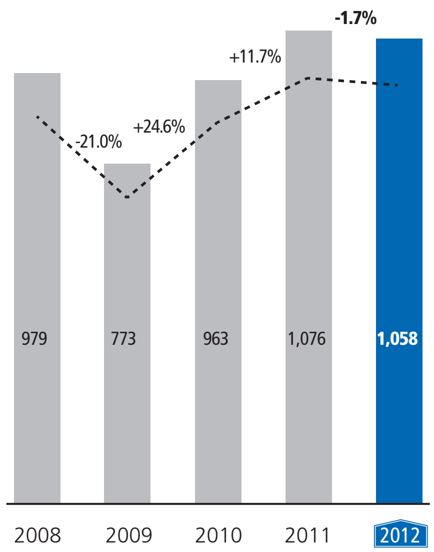
EMPLOYEES BY JOB CATEGORY

(total workforce at December 31)

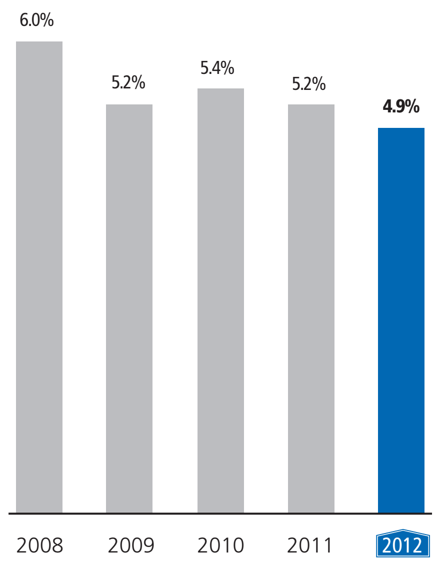
	2012	2011	2010	2009 (1)	2008 (1)
Production workers	63.1%	63.9%	64.7%	64.8%	66.7%
Administrative and technical staff	30.1%	29.7%	29.2%	29.3%	27.4%
Managers	6.8%	6.4%	6.1%	5.9%	5.9%

(1) Excluding distribution.

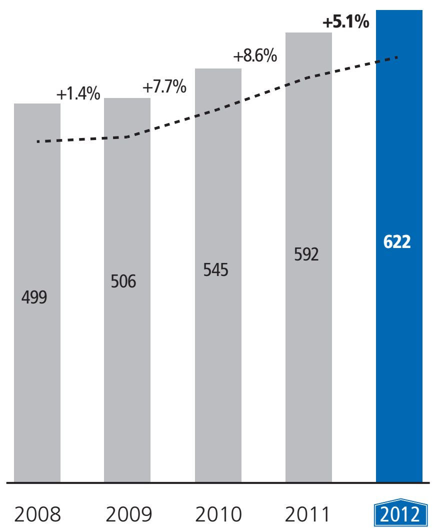
TRANSPORTATION COSTS
(in € million)



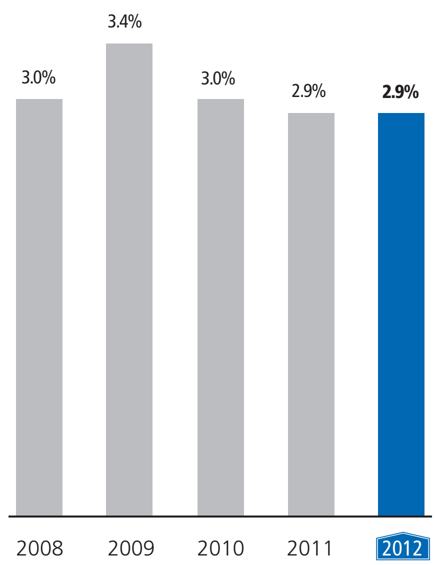
TRANSPORTATION COSTS
(as a % of sales)



RESEARCH AND DEVELOPMENT COSTS
(in € million)

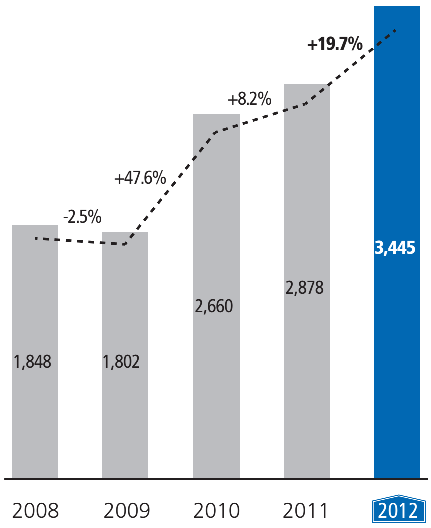


RESEARCH AND DEVELOPMENT COSTS
(as a % of net sales)

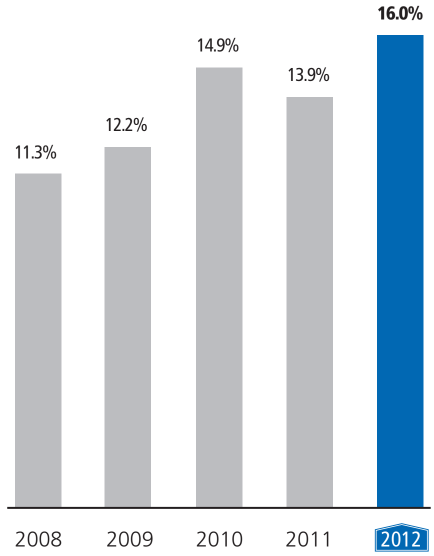


3.5. CASH FLOW AND BALANCE SHEET

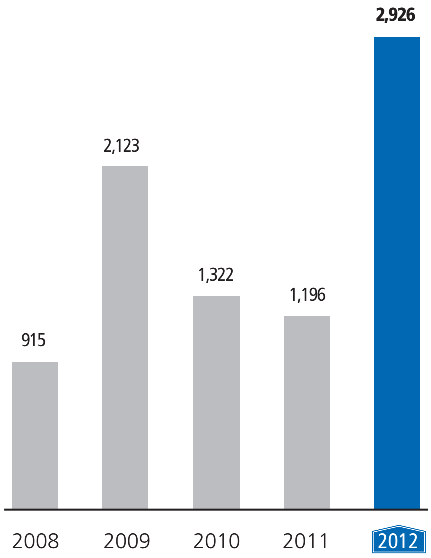
EBITDA BEFORE NON-RECURRING INCOME AND EXPENSES (1)
(in € million)



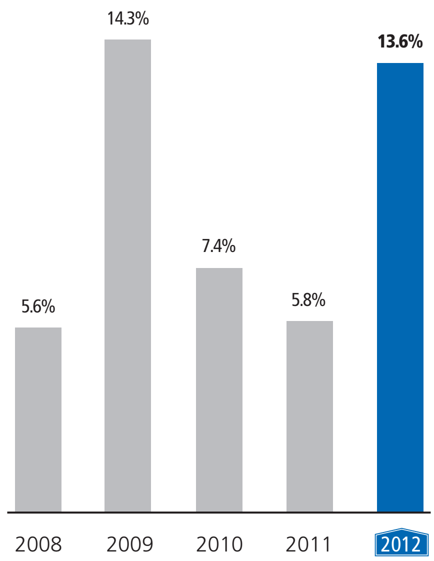
EBITDA BEFORE NON-RECURRING INCOME AND EXPENSES (1)
(as a % of net sales)



CASH FLOWS FROM OPERATING ACTIVITIES
(in € million)

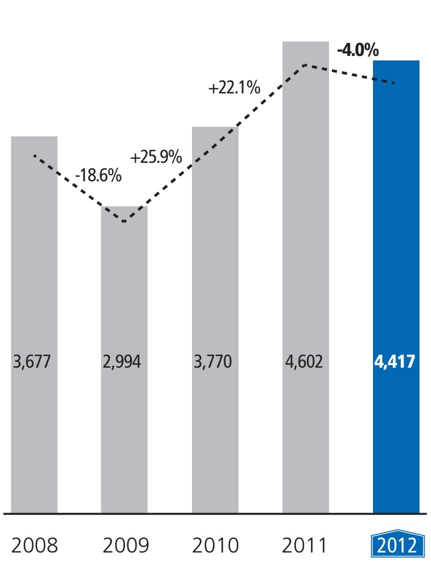


CASH FLOWS FROM OPERATING ACTIVITIES
(as a % of net sales)

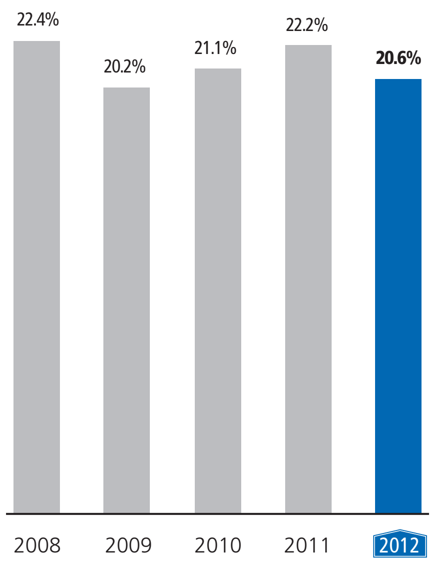


(1) This indicator is defined in Note 3.7.2 to the consolidated financial statements.

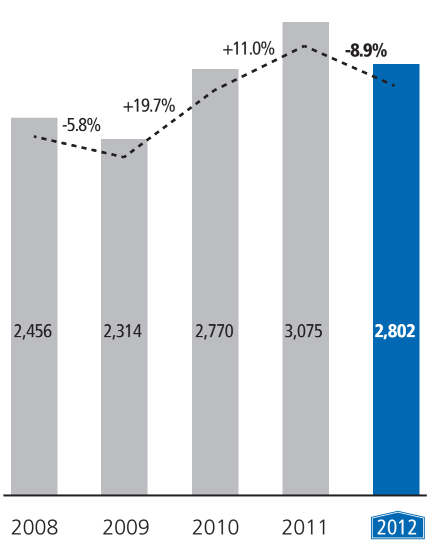
INVENTORIES
(in € million)



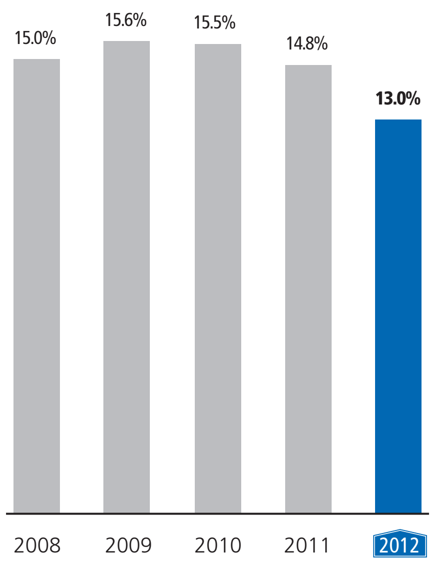
INVENTORIES
(as a % of net sales)



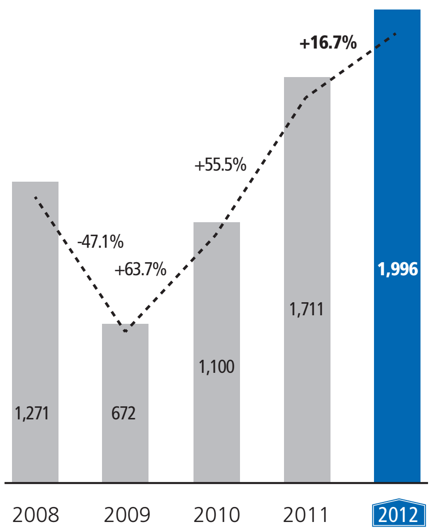
TRADE RECEIVABLES
(in € million)



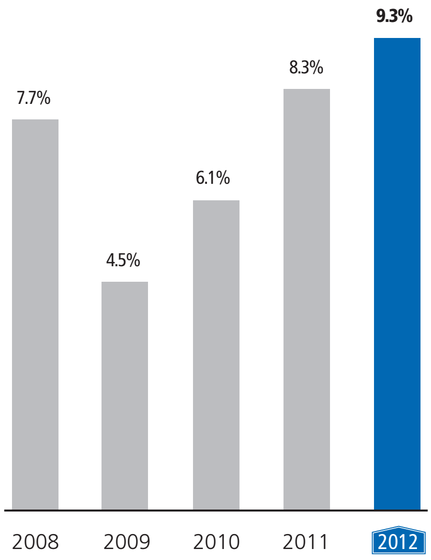
TRADE RECEIVABLES
(as a % of net sales)



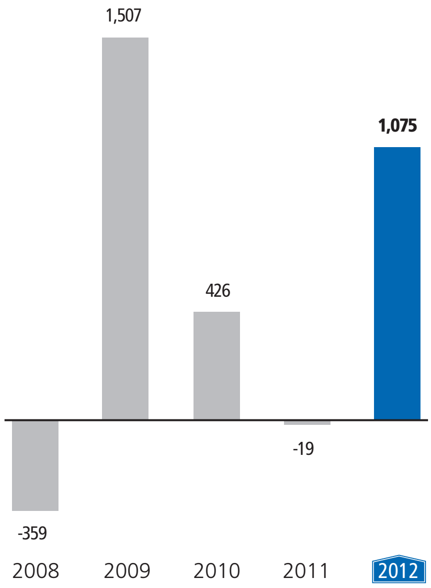
CAPITAL EXPENDITURE
(in € million)



CAPITAL EXPENDITURE
(as a % of net sales)

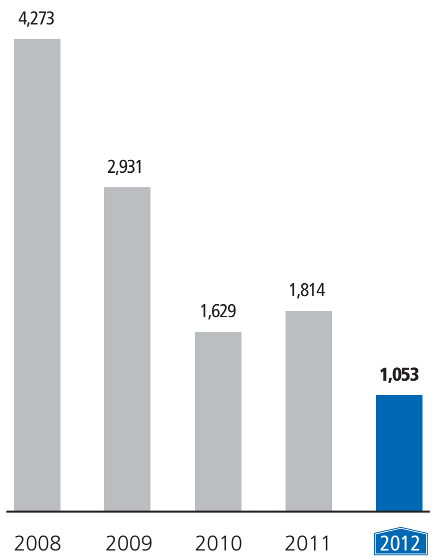


FREE CASH FLOW [(1)] (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)
(in € million)

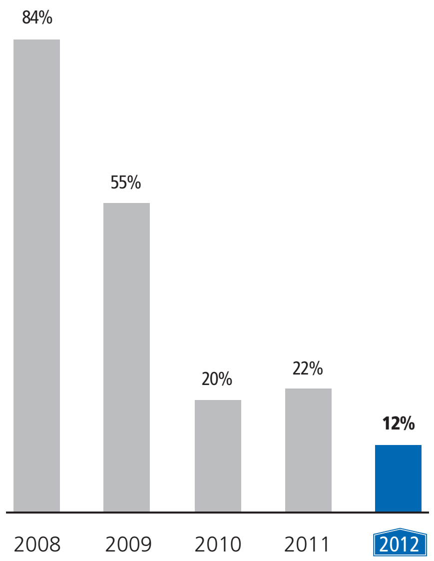


(1) This indicator is defined in section 2.6.3 of the present document.

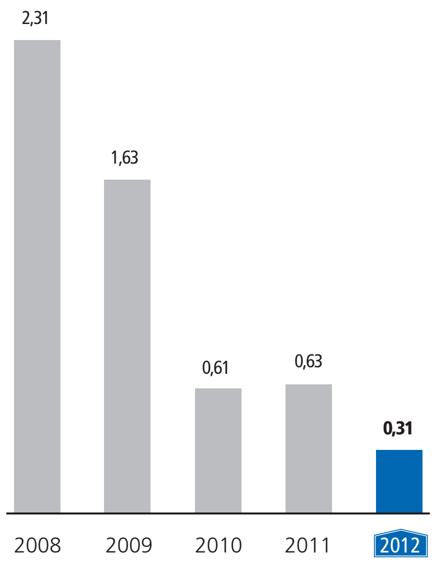
NET DEBT (1)
(in € million)



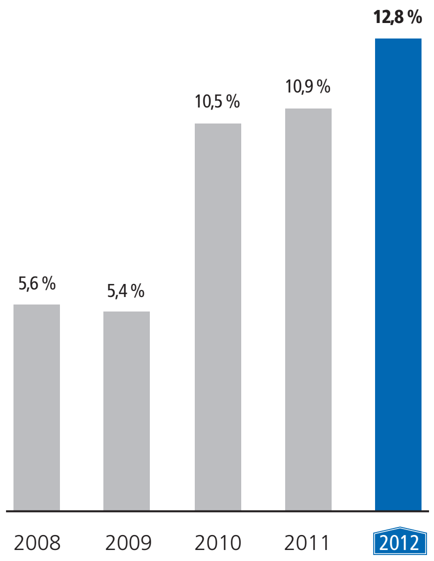
NET DEBT (1)-TO-EQUITY RATIO



NET DEBT (1)-TO-EBITDA (2) RATIO



RETURN ON CAPITAL EMPLOYED (3)
(after tax)



(1) This indicator is defined in Note 26 to the consolidated financial statements.
(2) This indicator is defined in Note 3.7.2 to the consolidated financial statements.
(3) This indicator is defined in section 2.7 of the present document.

3.6. CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2012	2011	2010	2009	2008
Net sales	21,474	20,719	17,891	14,807	16,408
% change	+3.6%	+15.8%	+20.8%	-9.8%	-2.7%
Total employee benefit costs	5,377	5,021	4,836	4,515	4,606
as a % of sales	25.0%	24.2%	27.0%	30.5%	28.1%
Number of employees (full time equivalent)	107,300	108,300	105,100	102,700	110,300
Research and development expenses	622	592	545	506	499
as a % of sales	2.9%	2.9%	3.0%	3.4%	3.0%
EBITDA before non-recurring income and expenses [(1)]	3,445	2,878	2,660	1,802	1,848
Operating income before non-recurring income and expenses	2,423	1,945	1,695	862	920
Operating margin before non-recurring income and expenses	11.3%	9.4%	9.5%	5.8%	5.6%
Operating income	2,469	1,945	1,695	450	843
Operating margin	11.5%	9.4%	9.5%	3.0%	5.1%
Cost of net debt	155	206	236	262	330
Other financial income and expenses	(22)	236	10	10	(3)
Income before taxes	2,307	1,996	1,498	207	520
Income tax	736	534	449	103	163
Effective tax rate	31.9%	26.8%	30.0%	49.8%	31.3%
Net income	1,571	1,462	1,049	104	357
as a % of sales	7.3%	7.1%	5.9%	0.7%	2.2%
Dividends [(2)]	378	314	147	145	230
Cash flows from operating activities	2,926	1,196	1,322	2,123	915
as a % of sales	13.6%	5.8%	7.4%	14.3%	5.6%
Gross purchases of intangible assets and PP&E	1,996	1,711	1,100	672	1,271
as a % of sales	9.3%	8.3%	6.1%	4.5%	7.7%
Net debt [(3)]	1,053	1,814	1,629	2,931	4,273
Equity	8,501	8,101	8,127	5,495	5,113
Gearing	12%	22%	20%	55%	84%
Net debt [(3)]/EBITDA [(1)]	0.31	0.63	0.61	1.63	2.31
Cash flows from operating activities/Net debt [(3)]	277.9%	65.9%	81.2%	72.4%	21.4%
Net interest charge average rate [(4)]	11.0%	9.6%	6.3%	6.2%	6.0%
Operating income before non-recurring items/ Net interest charge [(4)]	14.2	9.2	9.1	3.5	3.5
Free cash flow [(5)]	1,075	(19)	426	1,507	(359)
ROE [(6)]	18.5%	18.1%	12.9%	1.9%	7.0%
ROCE [(7)]	12.8%	10.9%	10.5%	5.4%	5.6%

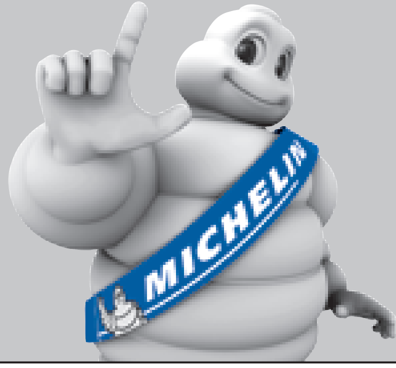
(in € million)	2012	2011	2010	2009	2008
Per share data (in €)					
Net assets per share (8)	46.6	45.9	46.0	37.2	35.2
Basic earnings per share (9)	8.62	8.14	6.78	0.69	2.46
Diluted earnings per share (9)	8.41	7.97	6.64	0.69	2.46
Price-earnings ratio (10)	8.3	5.6	7.9	77.7	15.3
Dividend for the year	2.40*	2.10	1.78	1.00	1.00
Pay-out ratio (11)	28.7%	30.0%	30.0%	140.8%	40.7%
Yield (12)	3.4%	4.6%	3.3%	1.9%	2.7%
Share turnover rate (13)	129%	180%	188%	199%	308%

(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 2.7.
(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 2.7.
(8) Net assets per share: net assets/number of shares outstanding at the end of the period.
(9) 2009 earnings per share have been restated to take into account the impact of the October 2010 rights issue.
(10) P/E: Share price at the end of the period/basic earnings per share.
(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.

* *Dividend proposed to the Shareholders at the May 17, 2013 Annual General Meeting.*

4

Corporate Governance


MICHELIN

4.1. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES, AND SENIOR MANAGEMENT

4.1.1. SENIOR MANAGEMENT

The Group is led by Jean-Dominique Senard, Managing Chairman.

	Directorships
JEAN-DOMINIQUE SENARD Born in 1953 5,222 Michelin shares owned as of December 31, 2012 First elected: May 13, 2011 *(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 SA. Joined Michelin in 2005 as Chief Financial Officer and member of the Executive Council, then Non-General Managing Partner in 2007. **Business address:** 23, place des Carmes-Déchaux 63000 Clermont-Ferrand France	**Managing Chairman** **2008** Non-General Managing Partner of CGEM* Director of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) **2009 – 2010 – 2011** Non-General Managing Partner of CGEM* *(until May 2011)* Director of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) Director of Groupe SEB* *(from May 2009)* **2012** Managing Partner of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) *(from June 2012)* Director of Groupe SEB* Director of Saint-Gobain*

* *Listed company.*

4.1.2. SUPERVISORY BODIES

4.1.2.a) Presentation

The Supervisory Board exercises permanent oversight of Michelin's management and assesses its quality on behalf of the shareholders, presenting a report thereon at each Annual Shareholders Meeting. It has eight members, all qualified as independent and elected for four-year terms.

The Supervisory Board as a whole performs the duties generally assigned to a Compensation and Appointments Committee. It has created an Audit Committee made up of four members: François Grappotte, the Committee Chairman, Éric Bourdais de Charbonnière, Pierre Michelin and Benoît Potier.

	Directorships
ÉRIC BOURDAIS DE CHARBONNIÈRE Born in 1939 – French national 3,211 shares owned as of December 31, 2012 First elected: June 11, 1999 Current term expires: 2013 **Experience:** After 25 years with JP Morgan, where he notably served as the bank's Chief Executive Officer for France, Éric Bourdais de Charbonnière became Michelin's Chief Financial Officer in 1990, a position he held until his retirement in 1999. He has chaired Michelin's Supervisory Board since 2000. **Business address:** Michelin 27, cours de l'Île-Seguin 92100 Boulogne-Billancourt France	**Independent Member** **Chairman of the Supervisory Board** **Member of the Audit Committee** **2008** Member of the Supervisory Board of Oddo et Cie Member of the Board of Directors of Thomson SA Member of the Supervisory Board of ING Group **2009** Member of the Supervisory Board of Oddo et Cie Member of the Board of Directors of Thomson SA Member of the Supervisory Board of ING Group *(until April 27)* **2010 – 2011 – 2012** Member of the Supervisory Board of Oddo et Cie Director of Faurecia* *(from February 8, 2010)* Director of Associés en Finance
PAT COX Born in 1952 – Irish national 259 shares owned as of December 31, 2012 First elected: May 20, 2005 Current term expires: 2014 **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. **Business address:** 7 Maretimo Gardens East Blackrock County Dublin Ireland	**Independent Member** **2008 – 2009** President of European Movement International Member of the Board of Trustees of the International Crisis Group 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 Member of the Microsoft European Advisory Council Member of the Pfizer Europe Advisory Council Director of Tiger Developments Europe Member of the APCO Worldwide International Advisory Council **2010 – 2011** President of European Movement International 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 Member of the Microsoft European Advisory Council **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

* *Listed company.*

	Directorships
BARBARA DALIBARD Born in 1958 – French national 465 shares owned as of December 31, 2012 First elected: May 16, 2008 Current term expires: 2013 **Experience:** Barbara Dalibard became Chief Executive Officer of SNCF Voyages in January 2010. Before joining SNCF Voyages, she was a member of France Télécom's Group Management Committee in charge of enterprise communication solutions (Orange Business Services). Prior to that, she held various management positions within France Télécom and Alcatel. **Business address:** SNCF, bureaux du CNIT 2, place de La Défense 92800 Puteaux France	**Independent Member** **2008** Member of the France Télécom Group Management Committee Chairman and Chief Executive Officer of Equant Director of Globecast Holding **2009** Member of the France Télécom Group Management Committee Chairman and Chief Executive Officer of Equant Director of Globecast Holding Member of the Supervisory Board of Wolters Kluwer *(from April 21, 2009)* **2010 – 2011** Chief Executive Officer of SNCF Voyages Chairman of Voyages-SNCF.com SAS Chairman of VFe commerce SAS Chairman of SNCF Voyages Développement SAS Director of Nuovo Transporto Viaggiatori SpA (NTV) Member of the Supervisory Board of Wolters Kluwer **2012** Chief Executive Officer of SNCF Voyages Chairman of VSC Group Director of Nuovo Transporto Viaggiatori SpA (NTV) Member of the Supervisory Board of Wolters Kluwer Director of Eurostar International Limited
LOUIS GALLOIS Born in 1944 – French national 311 shares owned as of December 31, 2012 First elected: May 16, 2008 Current term expires: 2013 **Experience:** Louis Gallois has served as the French government's Chief Investment Commissioner since June 2012. He was formerly Chief Executive Officer of EADS and Chairman of SNCF French National Railways. He has held various positions in the aviation industry as well as at the Ministry of the Economy and Finance, the Ministry of Research and Industry, and the Ministry of Defense. **Business address:** Commissaire Général à l'Investissement Hôtel Cassini 32, rue de Babylone 75007 Paris France	**Independent Member** **2008 – 2012** Director of *École centrale des arts et manufactures* Chairman of the Board of Directors of *Universcience Partenaires* Endowment Fund (formerly *Fondation Villette-Entreprises*) Chairman of the Association *"La Fabrique de l'Industrie"* *(since September 2011)* Executive Chairman of EADS NV* *(until May 31, 2012)* Member of the EADS NV* Executive Committee *(until May 31, 2012)* Chairman of the Board of EADS ASTRIUM NV *(until May 31, 2012)* Chairman of the Airbus Shareholders Committee *(until May 31, 2012)*
FRANÇOIS GRAPPOTTE Born in 1936 – French national 1,336 shares owned as of December 31, 2012 First elected: June 11, 1999 Current term expires: 2013 **Experience:** After serving for 20 years as Chief Executive Officer of Legrand, François Grappotte was appointed non-executive Chairman in 2004 and Honorary Chairman on March 17, 2006. **Business address:** Legrand 128, avenue de Lattre de Tassigny 87045 Limoges France	**Independent Member** **Chairman of the Audit Committee** **2008 – 2009** Director and Honorary Chairman of Legrand Director of BNP Paribas **2010 – 2011** Director and Honorary Chairman of Legrand Director of BNP Paribas **2012** Director and Honorary Chairman of Legrand*

* *Listed company.*

	Directorships
PIERRE MICHELIN Born in 1949 – French national 1,795 shares owned as of December 31, 2012 First elected: June 12, 1998 Current term expires: 2013 **Experience:** After holding various positions within Philips' IT Department, Pierre Michelin moved to Groupe Bull, where he currently heads India Development. Since 2003, he has also lectured on information systems technology at the Reims Management School (RMS), France. **Business address:** Bull, rue Jean-Jaurès, BP68 78340 Les Clayes-sous-Bois France	**Independent Member** **Member of the Audit Committee** **2008 – 2012** No other directorships
LAURENCE PARISOT Born in 1959 – French national 500 shares owned as of December 31, 2012 First elected: May 20, 2005 Current term expires: 2014 **Experience:** Laurence Parisot was Chief Executive Officer of the Institut Louis Harris France polling organization from 1986 to 1990, and Chairman of Optimum from 1990 to March 2006. She has been Chairman and Chief Executive Officer of *Institut français de l'opinion publique* (Ifop) since 1990 and President of France's Employers Association (MEDEF) since July 2005. **Business address:** Groupe Ifop Immeuble Millénaire 2 35, rue de la Gare 75019 Paris France	**Independent Member** **2008 – 2012** Vice-Chairman of the Management Board of Ifop Director of BNP Paribas* Director of Coface SA* President of Medef
BENOÎT POTIER Born in 1957 – French national 3,358 shares owned as of December 31, 2012 First elected: May 16, 2003 Current term expires: 2013 **Experience:** During a 30-year career with Air Liquide, Benoît Potier has successively held the positions of Chief Executive Officer *(from 1997 to November 2001)*, Chairman of the Executive Board *(from November 2001* to May 2006) and Chairman and Chief Executive Officer *(since May 2006)*. **Business address:** Air Liquide 75, quai d'Orsay 75321 Paris Cedex 07 France	**Independent Member** **Member of the Audit Committee** **2008 – 2009** Chairman and Chief Executive Officer of Air Liquide, Air Liquide International, American Air Liquide, Inc., Air Liquide International Corporation Chairman of American Air Liquide Holdings, Inc. Chairman of *Fondation d'entreprise* Air Liquide Chairman of the Audit Committee and Director of Groupe Danone Director of *École centrale des arts et manufactures* Member of the French Council of Insead Director of ANSA Director of AFEP Director of *Cercle de l'industrie* **2010** Chairman and Chief Executive Officer of Air Liquide, Air Liquide International, Air Liquide International Corporation Chairman of American Air Liquide Holdings, Inc. Chairman of *Fondation d'entreprise* Air Liquide Chairman of the Audit Committee and Director of Groupe Danone Director of *École centrale des arts et manufactures* Member of the French Council of Insead Director of ANSA Director of AFEP Director of *Cercle de l'industrie* Vice-President of the European Round Table of Industrialists *(since May 2010)* **2011 – 2012** Chairman and Chief Executive Officer of Air Liquide*, Air Liquide International, Air Liquide International Corporation Chairman of American Air Liquide Holdings, Inc. Chairman of *Fondation d'entreprise* Air Liquide Director of Groupe Danone* Director of *École centrale des arts et manufactures* Member of the French Council of Insead Director of ANSA Director of AFEP Director of *Cercle de l'industrie* Vice-President of the European Round Table of Industrialists Director of *"La Fabrique de l'Industrie"* (since October 2011)

* *Listed company.*

4.1.2.b) Terms of office of Supervisory Board members

Name	First elected/ re-elected (1)	Current term expires	Independent (2)
Éric Bourdais de Charbonnière Chairman	June 11, 1999	2004	
	May 14, 2004	2009	
	May 15, 2009	2013	Yes
Pat Cox	May 20, 2005	2010	
	May 7, 2010	2014	Yes
Barbara Dalibard	May 16, 2008	2013	Yes
Louis Gallois	May 16, 2008	2013	Yes
François Grappotte	June 11, 1999	2004	
	May 14, 2004	2009	
	May 15, 2009	2013	Yes
Pierre Michelin	June 12, 1998	2003	
	May 16, 2003	2008	
	May 16, 2008	2013	Yes
Laurence Parisot	May 20, 2005	2010	
	May 7, 2010	2014	Yes
Benoît Potier	May 16, 2003	2008	
	May 16, 2008	2013	Yes

(1) Members were elected for five-year terms prior to the Annual Shareholders Meeting of May 15, 2009, when the term was reduced to four years for members elected or re-elected after that date.

(2) Based on the criteria set in the Supervisory Board's internal rules, which correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code for listed companies, except that the Code sets a limit on the aggregate period during which a member may serve on the Board (please refer to section 4.2.2.a), below).

4.1.3. STATUTORY AUDITORS

Please refer to section 9.2 – Statutory Auditors.

4.1.4. NON-MANAGING GENERAL PARTNER

Société Auxiliaire de Gestion (SAGES) is a non-managing General Partner of Michelin with 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 a vote to elect Supervisory Board members.

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

According to the bylaws, its role is to:

- assume the responsibilities of General Partner of CGEM;
- make recommendations concerning the election, re-election or removal from office of the Managing Chairman;
- in the absence of a Managing Partner, act as CGEM's Managing Partner and call an Extraordinary Shareholders Meeting to elect a new Managing Partner.

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 number of seats on its Board of Directors.

The Chairman, Jacques d'Armand de Chateauvieux, is the only Managing Partner.

To enable SAGES to assume its liability as non-managing General Partner of CGEM, a portion of its distributable earnings (derived exclusively from the statutory share of profits paid by CGEM) is allocated to a contingency reserve fund, for the purpose of covering any losses resulting from its liability as General Partner or, as the case may be, as Managing Partner. At least 50% of the reserve is invested in CGEM shares.

JACQUES D'ARMAND DE CHATEAUVIEUX
Born February 13, 1951
No CGEM shares held directly
105,337 shares held by SAGES
Chairman of SAGES since April 2011

Experience:
Graduate of *Institut supérieur de gestion de Paris,* MBA from Columbia University, New York. As Chairman of Bourbon since 1979, Jacques d'Armand de Chateauvieux 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

2008
Chairman and Chief Executive Officer of Bourbon
Chairman and Chief Executive Officer of Jaccar SAS
Chairman of CBo Territoria SA
Chairman of Sapmer SA
Chairman of the Supervisory Board of AXA
Director of Sinopacific Shipbuilding Group (China)
Director of Innodis Ltd (Mauritius)
Director of Financière du Pladen SAS

2009
Chairman and Chief Executive Officer of Bourbon
Chairman of Cana Tera SAS
Chairman and Managing Director of Jaccar Holdings SA (Luxembourg)
Chairman of Sapmer SA
Chairman of the Supervisory Board of AXA
Director of Sinopacific Shipbuilding Group (China)
Director of Innodis Ltd (Mauritius)
Director of Financière du Pladen
Non-voting director of CBo Territoria SA

2010
Chairman and Chief Executive Officer of Bourbon
Chairman of Cana Tera SAS
Chairman and Managing Director of Jaccar Holdings SA (Luxembourg)
Chairman of Sapmer SA
Director of AXA
Director of Sinopacific Shipbuilding Group (China)
Director of Sinopacific Offshore and Engineering (China)
Director of Innodis Ltd (Mauritius)
Director of Piriou SAS
Director of Eitzen Ethylene Carrier (Norway)
Non-voting director of CBo Territoria SA

2011
Chairman of Bourbon
Chairman of Cana Tera SAS
Chairman and Managing Director of Jaccar Holdings SA (Luxembourg)
Chairman of Sapmer SA
Director of AXA
Director of Sinopacific Shipbuilding Group (China)
Director of Sinopacific Offshore and Engineering (China)
Director of Piriou SAS
Director of Evergas (Denmark)
Non-voting director of CBo Territoria SA

2012
Chairman of Bourbon*
Chairman of Cana Tera SAS
Chairman and Managing Director of Jaccar Holdings SA (Luxembourg)
Chairman of Sapmer SA
Director of Greenship Holdings (Singapore)
Director of Sinopacific Shipbuilding Group (China)
Director of Piriou SAS
Non-voting director of CBo Territoria SA

* *Listed company.*

4.1.5. STATEMENTS

There are no family relationships between any of the Supervisory Board member, the Managing Chairman and the Chairman of SAGES, non-managing General Partner of CGEM.

To the best of the Company's knowledge, no Supervisory Board member, Managing Chairman or Chairman of SAGES has been (i) convicted of fraud during the past five years, (ii) associated with a bankruptcy, receivership or liquidation during the past five years, (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 during the past five years.

No Supervisory Board member, nor Managing Chairman, nor the Chairman of SAGES, 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 Managing Chairman or as a member of the Supervisory Board or as Chairman of SAGES;
- conflicts of interest between the duties to the Company of the Managing Chairman, the Supervisory Board members or the Chairman of SAGES and their private interests and/or other duties;
- no restrictions accepted by these persons on the disposal within a certain period of time of their Michelin shares, except for those resulting from insider dealing rules and the rules applicable to Managing Chairman.

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 (SCA).

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 provide capital, elect the members of the Supervisory Board and the Managing Chairman and approve the financial statements presented by the Managing Partners. 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 have unlimited personal liability for the partnership's debts. They can be relieved of this liability only by decision of the shareholders in Extraordinary Meeting. If they are Managing General Partners, they can relinquish their status before the end of their term only with the Extraordinary Meeting's approval. The General Partners may be shareholders, but may not take part in a vote to elect Supervisory Board members. They receive a statutory share of any profits subject to shareholder approval at the Annual Shareholders Meeting.

Since May 11, 2012, Michelin has two General Partners: Jean-Dominique Senard, Managing Chairman, 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

Following Mr. Rollier's departure at the May 11, 2012 Annual Shareholders Meeting, Michelin is now led by a single Managing General Partner, Jean-Dominique Senard, who in accordance with the bylaws has been appointed Managing Chairman.

Candidates for election as Managing General Partners or Non-General Managing Partners are proposed by the Non-Managing General Partner (SAGES) after consulting the Supervisory Board. They are elected by shareholders in Ordinary or Extraordinary Meeting for a four-year term. They may be re-elected directly by the Non-Managing General Partner, with the endorsement of the Supervisory Board. Note that Supervisory Board members may be elected only by shareholders, without the General Partners (including the Managing Chairman) taking part in the vote.

Managing General Partners or Non-General Managing Partners may be removed from office according to the same simplified procedure applicable to their re-election.

A Managing General Partner may resign provided that (i) the decision is announced at least six months before the next Annual Shareholders Meeting and (ii) shareholders adopt an extraordinary resolution at that Meeting accepting the resignation.

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

4.2.1.b) Role and responsibilities

The Managing Chairman is responsible for administering and managing the Company.

As such its 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.

They fulfill these responsibilities under the oversight of the Supervisory Board.

The Managing Chairman is assisted by an 11-member Executive Committee currently comprising:

- **François Corbin,** President, Geographic Zones;
- **Éric de Cromières,** Executive Vice President, Sales and Marketing Performance. Supervises the Euromaster and TCI dealership networks, Michelin Global Solutions and the Supply Chain and Logistics Performance Division;
- **Claire Dorland-Clauzel,** Executive Vice President, Communication and Brands. Supervises the Group Public Affairs Department, Michelin Travel Partner and Michelin Lifestyle Limited;
- **Terry Gettys,** Executive Vice President, Research and Development;
- **Jean-Christophe Guérin,** President, Materials Product Line. Supervises the Group Purchasing Department;
- **Jean-Michel Guillon,** Executive Vice President, Personnel. Supervises the Group Quality and Security Departments;
- **Marc Henry,** Chief Financial Officer;
- **Serge Lafon,** President, Truck Product Line;
- **Florent Ménégaux,** President, Passenger Car and Light Truck Product Line. Supervises Motorsports and operations managed by Jean-Christophe Guérin;
- **Laurent Noual,** Executive Vice President, Corporate Development. Supervises the Group Information Systems and Group Standards and Regulations Departments;
- **Bernard Vasdeboncoeur,** President, Specialty Product Lines: Agricultural, Two-Wheel, Earthmover, Aircraft. Supervises the Prevention and Industrial Performance Division and operations managed by Serge Lafon.

4.2.1.c) Responsibility

As General Partners, the Managing Chairman 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 Managing Chairman is especially vigilant in their management of corporate risks.

Consistent with this long-term commitment, the Managing Chairman may not relinquish its status as General Partners without the prior approval of an Extraordinary Shareholders Meeting. He is therefore bound to assume 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

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 is presented in section 4.5 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. The General Partners (including the Managing Chairman) may not take part in the vote. Supervisory Board members may be re-elected.

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

The Supervisory Board currently has eight members: Éric Bourdais de Charbonnière (Chairman), Barbara Dalibard, Laurence Parisot, Pat Cox, Louis Gallois, François Grappotte, Pierre Michelin and Benoît Potier. (1)

The terms of office of six members expire at the end of the May 17, 2013 Annual Shareholders Meeting.

The role and practices of the Supervisory Board and its committees are set out in their respective internal rules, the main provisions of which are set out below.

■ 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 approved by the Managing Chairman;
- assessing the quality of the Group's financial information;
- assessing the Group's internal control and risk management systems;
- reviewing strategic roadmaps and their implementation;
- obtaining assurance that shareholders' rights are respected.

The Supervisory Board receives regular information about the Group's strategy and outlook.

In compliance with the Board's internal rules, as revised to reflect the new powers vested in the Board by the changes in the bylaws approved by shareholders at the May 13, 2011 Annual Meeting, the Managing Chairman must present to the Board, prior to any decision, information about significant projects concerning capital expenditure, commitments, acquisitions and asset disposals.

In addition, in compliance with these same internal rules and the internal rules of the Compensation Committee, the Supervisory Board must approve or, depending on the case, issue an opinion on decisions concerning the election, re-election or removal of the Managing Chairman, as well as his or her compensation.

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

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).

A Supervisory Board member is qualified as independent when he or she fulfills the following criteria:

- The member is not currently and has not been during the last five years an employee of the Company or of one of its consolidated subsidiaries.
- The member is not a corporate officer of an entity of which the Company (directly or indirectly) or a corporate officer of the Company is a director.
- The member is not a customer, a supplier or a banker of the Company that is material for the Company or that derives a significant portion of its business from the Company.
- The member does not have any close family ties with the Managing Chairman.
- The member has not been an auditor of the Company in any of the past five years.

These criteria correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code for listed companies, except that the Code sets a limit on the aggregate period during which a member may serve on the Board.

This latter criterion is not applied because the Board considers that the aggregate term served by a Supervisory Board member in a partnership limited by shares is not an obstacle to the exercise of his or her free judgment in relation to the Company. Quite the reverse, the experience acquired by Supervisory Board members helps them to better understand the Company in all its complexity and efficiently oversee its management on an ongoing basis in line with a medium to long-term strategic vision.

The dates of first election and of expiration of the current term of office are shown in table 4.1.2.b).

During 2012 and up to the date of this report, all Supervisory Board members qualified as independent based on the above criteria. In addition, they bring to the Board their extensive experience in management, manufacturing and finance.

Supervisory Board practices

Regular presentations are made to the Supervisory Board by the Managing Chairman or by other executives or internal or external experts, to enable the Board to fulfill its oversight role. They include:

- analyses of the Group's results, presented by the Managing Chairman and the Chief Financial Officer;
- reviews of strategic roadmaps and important projects;
- risk analyses, covering all types of risks;
- presentations of any other issues that are critical to understanding the Group's strategy, business and outlook, as well as its markets and competitive environment.

In order to afford the Supervisory Board optimum visibility on the Group's operations, 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

Once a year, the Supervisory Board reviews its practices and the status of each of its members in relation to the independence criteria. This review is conducted formally each year by its Chairman.

The conclusions of this annual assessment are presented in the report of the Chairman of the Supervisory Board to the Annual Shareholders Meeting [1].

The Supervisory Board is assisted in its oversight role by two Committees, each with its own internal rules as summarized below.

4.2.2.b) 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. The Committee currently has four members – François Grappotte (Chairman), Éric Bourdais de Charbonnière, Pierre Michelin and Benoît Potier – all of whom are independent.

Due to extensive experience acquired during their careers, mostly notably as senior executives of large companies, the Audit Committee's four members have a deep understanding of financial and accounting matters.

Role and responsibilities

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

The Audit Committee's role includes:

- reviewing the annual and interim financial statements, as approved by the Managing Chairman and audited by the Statutory Auditors;
- 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;
- assessing the effectiveness of internal control and risk management systems;
- reviewing financial, accounting and legal 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 internal audit programs and recommending internal audits of specific financial risks;
- verifying the Statutory Auditors' independence and objectivity and expressing an opinion about their appointment or re-appointment.

Committee practices

The Committee's work program and meeting schedule are decided by the Supervisory Board.

Each year, the Committee assesses the general risk management system and, in liaison with the departments concerned, reviews the systems in place, the major risks and the resources available to prevent their occurrence and ensure business continuity. Also on a

(1) This report is presented in section 4.5 below.

yearly basis, the Committee assesses the Company's internal control and risk management systems and hears the report of the Senior Vice President, Internal Audit and Risk Management.

The Audit Committee can ask the Chief Financial Officer or other Group executives to attend its meetings and may call on the services of independent experts. In addition, the Committee meets with the Statutory Auditors once a year without any members of management being present.

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

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

The report of the Chairman of the Supervisory Board to the Annual Shareholders Meeting includes an account of the Audit Committee's activities [(1)].

4.2.2.c) Compensation and Appointments Committee

The Compensation Committee comprises all Supervisory Board members, all of whom are independent, and is chaired by the Supervisory Board's Chairman.

■ Role and responsibilities

The Committee's role encompasses:

- senior management compensation policy, including the criteria used to determine:
  - fixed and variable compensation paid to members of the Executive Committee,
  - variable compensation paid to other senior executives;
- the stock option and performance share allocation policy.

In the case of the Managing Chairman, the Committee reviews the portion of the statutory share of profits proportional to consolidated earnings that is due to him and issues an opinion to the General Partners.

In addition, the Committee makes recommendations concerning senior executive and Managing Partner compensation policies, career development plans and succession plans.

■ Committee practices

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

The report of the Chairman of the Supervisory Board to the Annual Shareholders Meeting includes an account of the Compensation and Appointments Committee's activities.

4.2.3. A NON-MANAGING GENERAL PARTNER, GUARANTEEING THE COMPANY'S LONG-TERM VIABILITY

SAGES is CGEM's Non-Managing General Partner [(2)]. It is organized as a *société par actions simplifiée,* whose Chairman and sole executive director is Jacques d'Armand de Chateauvieux. SAGES's purpose is to:

- assume the responsibilities of General Partner of CGEM;
- make recommendations concerning the election, re-election or removal from office of the Managing Chairman;
- in the absence of a Managing Partner, act as CGEM's Managing Partner and call an Extraordinary Shareholders Meeting to elect a new Managing Partner.

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 number of seats on its Board of Directors.

(1) This report is presented in section 4.5 below.
(2) Information on SAGES and its Chairman are presented in section 4.1.4 above.

4.3. MANAGEMENT AND SUPERVISORY BOARD COMPENSATION

The data and tables in this section:

- have been prepared in accordance with the AFEP-MEDEF Corporate Governance Code dated April 2010 and the most recent consolidated document of recommendations issued by the AMF on February 9, 2012 concerning the information on corporate governance and executive compensation to be disclosed in annual reports filed with the AMF;
- comply with the guidelines contained in the AMF's report dated October 11, 2012 concerning corporate governance and executive compensation in listed companies.

4.3.1. SUMMARY INFORMATION

4.3.1.a) Compensation, stock options and performance shares awarded to the Chief Executive Officer at December 31, 2012 (in €)

Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	2011	2012
Compensation due for the year *(see table 4.3.1.b for details)*	1,996,541	2,106,856
Value of stock options granted during the year	0	0
Value of performance shares granted during the year	0	0
TOTAL	**1,996,541**	**2,106,856**
Reference CGEM consolidated net income	*1,462,140,000*	*1,570,555,230*

4.3.1.b) Compensation due and paid to the Chief Executive Officer (in €)

Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	2011		2012	
	Due	Paid	Due	Paid
Salary	788,842	788,842	900,000 (1)	900,000 (1)
Performance bonus	1,200,000 (2) (3)	609,294 (4)	1,200,000 (5)	1,200,000 (2) (3)
Long-term incentive bonus	0	0	0	0 (6)
Exceptional compensation	0	0	0	0
Attendance fees	0	0	0	0
Fringe benefit (car)	7,699	7,699	6,856	7,699
TOTAL	**1,996,541**	**1,405,835**	**2,106,856**	**2,107,699**
Reference CGEM consolidated net income	*1,462,140,000*	*1,049,000,000*	*1,570,555,520*	*1,462,140,000*

(1) 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.

(2) Corresponding to the statutory share of the 2011 profits, which was paid by CGEM following approval by shareholders at the 2012 Annual Meeting. This compensation is entirely variable to the extent that it depends on CGEM's profit for the year.

Mr. Senard has waived the bonus to which he was entitled as a Non-General Managing Partner of the Company for the period from January 1, 2011 until the May 13, 2011 Annual Shareholders Meeting.

(4) Variable compensation paid in 2011 in respect to 2010 in his previous capacity as Non-General Managing Partner.

(5) This is an estimated amount, proportional to 2012 consolidated earnings, that is proposed with the endorsement of the Supervisory Board. It is subject to i) approval of the statutory share of profits by CGEM shareholders at the next Annual Meeting on May 17, 2013, and ii) approval by the other General Partner. It includes the estimated €200,000 corresponding to the statutory share of the 2012 profits of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM), a controlled entity, that is payable by that company subject to approval by its shareholders at the 2013 Annual Meeting. This statutory share is entirely variable to the extent that it depends on CFM's profit for the year.

(6) In the same way as he waived his 2011 performance bonus payable in 2012 (see note 3 above), Mr. Senard has waived his long-term incentive bonus payable in respect of 2011.

4.3.1.c) Attendance fees and other compensation received by the Supervisory Board members

Please refer to the table in section 4.3.4 below.

4.3.1.d) Stock options granted during the year to the Chief Executive Officer [(1)]

Of the 143,276 stock options granted on June 25, 2012 pursuant to the authorization given at the May 15, 2009 Annual Shareholders Meeting, none were granted to the Chief Executive Officer.

No Managing Partner has received any stock options since 2005.

Stock options granted to the Chief Executive Officer by the issuer and any other Group company	Plan No. and date	Type of options (purchase or subscription)	Value of the options calculated by the method used for the consolidated accounts	Number of options granted during the year	Exercise price	Exercise period
Jean-Dominique Senard	-	-	0	0	-	-

4.3.1.e) Stock options exercised during the year by the Chief Executive Officer [(2)]

Stock options exercised during the year by the Chief Executive Officer	Plan No. and date	Number of options exercised during the year	Exercise price	Grant year
Jean-Dominique Senard	-	0	-	-

4.3.1.f) Performance shares granted to the Chief Executive Officer

Of the 371,936 performance share rights granted on November 28, 2012 pursuant to the authorization given at the May 13, 2011 Annual Shareholders Meeting, none were granted to the Chief Executive Officer.

Performance shares granted to the Chief Executive Officer by the issuer and any other Group company	Plan No. and date	Number of performance shares granted during the year	Value of the performance shares calculated by the method used for the consolidated accounts	Vesting date	End of lock-up period
Jean-Dominique Senard	-	0	0	-	-

4.3.1.g) Chief Executive Officer's performance shares that vested during the year

Chief Executive Officer's performance shares that vested during the year	Plan No. and date	Number of performance shares that vested during the year	Vesting conditions	Grant year
Jean-Dominique Senard	-	0	-	-

4.3.1.h) Historical information about stock options

Please refer to the table in section 5.5.4 below.

(1) See also the Special Report and the details of current plans, as presented in the table in section 5.5.4 concerning stock options.
(2) See also the table in section 5.5.4 concerning stock options.

4.3.1.i) Stock options granted and exercised during the year

Stock options granted by CGEM [1] to the ten grantees other than the Chief Executive Officer who received the greatest number of options and options exercised by the ten grantees other than the Chief Executive Officer who exercised the greatest number of options	Number of options granted/ exercised	Exercise price	End of exercise period	Grant date
Options granted	16,886 [2][3]	€51.16	June 25, 2021	June 25, 2012
		€38.61	May 16, 2013	May 17, 2004
		€42.96	April 7, 2013	May 7, 2004
		€46.34	May 22, 2014	May 23, 2005
Options exercised (new shares subscribed)	45,176 [3]	€59.85	May 18, 2017	May 19, 2008

(1) No options have been granted by any Group company apart from CGEM.
(2) Out of a total 143,276 options granted.
(3) See section 5.5.4 below for further details.

4.3.1.j) Performance shares granted during the year

Rights to 371,936 performance shares were granted during the year.

	Number of shares granted	Grant date
Performance shares granted by CGEM to the ten grantees (other than the Chief Executive Officer) who received the greatest number of shares	25,344	November 28, 2012

4.3.1.k) Employment contracts, supplementary pension benefits and other benefits and allowances [1]

Chief Executive Officer	Employment contract	Supplementary pension benefits	Compensation for loss of office	Non-compete-clause consideration
Jean-Dominique Senard [1]	None	• Defined benefit plan set up for MFPM senior executives	Compensation defined in the CGEM bylaws: • In the event of forced departure due to a change of strategy or of control • Limited to two years' fixed and variable compensation (including any non-compete clause consideration or other severance benefit) • Subject to performance conditions, as defined by the Supervisory Board	• As an Officer of CGEM • Included in the two-year blanket ceiling described left

(1) Joined the Group in 2005; first elected at the 2011 Annual Shareholders Meeting (previously Non-General Managing Partner from 2007 to 2011); term ends at the 2015 Annual Shareholders Meeting.

4.3.2. AMOUNTS ALLOCATED TO JEAN-DOMINIQUE SENARD, CHIEF EXECUTIVE OFFICER AND GENERAL PARTNER [2]

In his capacity as General Partner, Jean-Dominique Senard has unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners [3] each receive a statutory capped portion of Company profits [4]. 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 Michel Rollier's departure in 2012, Jean-Dominique Senard has become the Chief Executive Officer of CGEM, in accordance with the bylaws.

■ Compensation

Based on the proposed allocation of the statutory share of profits between the three General Partners in office during 2012 (Michel Rollier, Jean-Dominique Senard and SAGES), the compensation payable to Mr. Senard in 2013 for his duties as Chief Executive Officer and

(1) These items are described in more detail in section 4.3.3.
(2) These amounts are shown in the table in section 4.3.1.b).
(3) At December 31, 2012, there are two General Partners: Jean-Dominique Senard, Chief Executive Officer, and SAGES, Non-Managing General Partner (see presentation in section 4.1.4.).
(4) See article 30 of the bylaws, referred to in the Other Legal and Financial Information section (section 5.1.2.e).

General Partner in 2012 would amount to €1.0 million, unchanged from 2011. The Board endorsed this allocation on February 7, 2013, taking also into consideration the following:

- the fixed compensation (€900,000) paid by MFPM for Mr. Senard's duties as Non-General Managing Partner of that company in 2012 (see table in section 4.3.1.b);
- the statutory share of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM)'s profits (€200,000) due to Mr. Senard for 2012 for his duties as Managing General Partner of that company (see footnote 5 of the table in section 4.3.1.b).

The total compensation due to Mr. Senard for 2012 was slightly up on 2011, reflecting the following results that were achieved despite the lackluster markets:

- Consolidated net income rose 7.5% year-on-year to €1,570 million;
- Operating margin improved by two points to 11.3% of net sales;
- Operating income before non-recurring items was 25% up on 2011 at €2.423 million;
- Free cash flow topped €1 billion.

Fringe benefit

Mr. Senard had the use of a company car in 2012 (see table in section 4.3.1.b).

In 2012, Mr. Senard did not receive any attendance fees 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.

Supplementary pension benefits

Mr. Senard does not participate in any pension plan set up specifically for Managing Partners. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard participates in the supplementary pension plan set up for MFPM senior executives, based on the fixed compensation paid to him by the Company (reference compensation). The cost of this supplementary plan, which is not restricted to Non-General Managing Partners, is recognized as a liability in the balance sheet in accordance with IAS 19 – Employee Benefits. Its main characteristics are as follows:

- 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;
- the replacement rate including benefit entitlements under compulsory plans is capped at 35%.

To be entitled to benefits under this plan, Mr. Senard must end his career with MFPM as an executive employee or corporate officer, in accordance with article L.137-11 of the French Social Security Code.

Based on the general actuarial assumptions used to measure the Group's obligation in accordance with IAS 19, Mr. Senard's total benefit entitlement under the plans would represent a gross replacement rate of 11% of his reference compensation.

Compensation for loss of office

In accordance with article 13 of the bylaws, as amended by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if Mr. Senard is 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 may 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 compensation paid would not exceed the equivalent of Mr. Senard's total compensation for the two years preceding the year of his removal from office. In accordance with the internal rules of the Compensation Committee of the Supervisory Board, the performance criteria to be applied for the calculation of the compensation for loss of office would be decided by the Supervisory Board.

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 Corporate Governance Code.

Following his election as Managing General Partner of CGEM by the Shareholders Meeting of May 13, 2011, Mr. Senard resigned as an employee of MFPM, leading to the termination of his 2005 employment contract that had been suspended since 2007, and also resigned as Non-General Managing Partner of CGEM.

He did not receive any compensation or benefits as a result of these resignations.

Non-compete clause

In the same way as Michelin employees who have specific expertise that needs to be protected to prevent its use by a competitor in a manner that is detrimental to the Company's interests, Mr. Senard is subject to a non-compete clause, which was signed on July 26, 2011 after prior approval by the Supervisory Board. This clause replaced the one contained in his employment contract that was terminated following his election as Managing General Partner. If the Company were to decide to apply this non-compete clause, for a two-year period 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.

Any compensation for loss of office that would be due to Mr. Senard in the event of a change of control or strategy would be reduced or withheld entirely if necessary so that his aggregate severance package, including the non-compete consideration referred to above, did not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP-MEDEF Corporate Governance Code.

Long-term incentive bonuses (plan 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	368,034	0
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 2012	0	0	0	0	0
Units or incentive bonuses cancelled/expired	0	0	0	0	0
Units or incentive bonuses outstanding at December 31, 2012	18,646 units	20,719 units	0	€368,034	0

Long-term incentive bonuses awarded in 2007 and 2008

The long-term incentive bonuses (ILTs) in respect to **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.

The maximum capped cost to the Company of the 2007 and 2008 ILTs as of December 31, 2012 may be analyzed as follows:

- €243,241 theoretically payable to Mr. Senard in respect to the 2008 ILT, corresponding to the number of units multiplied by difference between the Michelin share price at December 31, 2012 (€71.59) and the exercise price of the ILT 2008 unit (€59.85).
- €114,323 in payroll taxes due by the Company upon payment of the 2008 ILT, estimated in accordance with current legislation.
- No payment is due in respect to the 2007 ILT because the unit exercise price (€87.85) exceeded the Michelin share price at December 31, 2012 (€71.59). As a result, no cash-settled liability has been recognized in the financial statements for the year.

Long-term incentive bonuses awarded between 2009 and 2011

The long-term incentive bonus awarded in **2009** was calculated on the basis of Mr. Senard's performance bonus. However, given the year's recessionary economic environment and the various measures implemented in the Group in response, Mr. Senard **waived** his right to this bonus.

Mr. Senard's **2010** ILT was equal to the average amount, in euros, of the performance bonuses paid to him in respect to 2008, 2009 and 2010.

It 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 award date to the average price for the quarter preceding the date when Mr. Senard elects to cash in the bonus.

The adjustment may be positive or negative, depending on whether the average share price rises or falls, and will be capped at 100% of the performance bonus used as the basis for calculating the ILT.

Payment of the 2010 ILT is deferred because it may not be cashed in until 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 of December 31, 2012 may be analyzed as follows:

- €368,034 theoretically payable to Mr. Senard, corresponding to the average amount, in euros, of the performance bonuses paid to him in respect to 2008 (waived), 2009 (€494,807) and 2010 (€609,294).
- €368,034 in a provision covering the maximum impact of indexation on the ILT due, which would correspond to an assumed Michelin share price of at least €107.
- €345,952 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.

The 2010 ILT is the only long-term incentive bonus due since 2009 for the following reasons:

- In 2012, Mr. Senard **waived** his rights to his 2011 long-term incentive, whose amount had been calculated on the same basis as the 2010 ILT (the average amount, in euros, of the performance bonuses paid to him in respect to 2009, 2010 and 2011).
- The ILT program was closed in 2012 following Mr. Senard's election as Managing General Partner.

The Company does not have any specific commitments towards Mr. Senard other than those described above.

4.3.3. AMOUNTS ALLOCATED TO MICHEL ROLLIER, MANAGING CHAIRMAN AND GENERAL PARTNER UNTIL MAY 11, 2012

In his capacity as General Partner, Michel Rollier had unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners [(1)] each receive a statutory capped portion of Company profits [(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.

4.3.3.a) Summary table

Michel Rollier, Managing Chairman and General Partner until May 11, 2012	2011	2012
Compensation due for the year *(see table 4.3.3.b for details)*	3,100,000	650,000
Value of options granted during the year	0	0
Value of performance shares granted during the year	0	0
TOTAL	**3,100,000**	**650,000**
Reference CGEM consolidated net income	*1,462,140,000*	*1,570,555,230*

4.3.3.b) Summary table

Michel Rollier, Managing Chairman and General Partner until May 11, 2012	2011		2012	
	Due	Paid	Due	Paid
Salary	0	0	0	0
Performance bonus	3,100,000 (1)	4,500,000 (2)	650,000 (3)	3,100,000 (1)
Exceptional compensation	0	0	0	0
Attendance fees	0	0	0	0
Fringe benefits	0	0	0	0
TOTAL	**3,100,000**	**4,500,000**	**650,000**	**3,100,000**
Reference CGEM consolidated net income	*1,462,140,000*	*1,049,000,000*	*1,570,555,230*	*1,462,140,000*

(1) Including €400,000 from CFM. These amounts are entirely variable to the extent that they depend on each company's 2011 profit.

(2) Corresponding to the statutory share of the 2010 profits of CGEM and CFM, as approved by these companies' shareholders at the 2011 Annual Meetings. This compensation is entirely variable to the extent that it depends on each company's profit for the year.

(3) This is an estimated total amount, proportional to 2012 consolidated earnings, that is proposed with the endorsement of the Supervisory Board. It is subject to i) approval of the statutory share of profits by CGEM shareholders at the next Annual Meeting on May 17, 2013, and ii) approval by both General Partners. It includes the estimated €280,000 corresponding to the statutory share of CFM's 2012 profits that is payable by that company subject to approval by its shareholders at the 2013 Annual Meeting. This statutory share is entirely variable to the extent that it depends on CFM's profit for the year.

4.3.3.c) Compensation due or paid in 2012

The statutory share of profits due to the General Partners is entirely variable and proportional to net profit reported for 2011. Its total amount is calculated according the method defined in Article 30 of the CGEM bylaws (see section 5.1.2 e).

Based on the proposed allocation of the statutory share of profits between the three General Partners in office during 2012 (Michel Rollier, Jean-Dominique Senard and SAGES), the compensation payable to Mr. Rollier in 2013 for his duties as Managing Chairman and General Partner during part of 2012 amounts to €370,000. The Board endorsed this allocation on February 7, 2013, taking also into account the statutory share of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM)'s profits (€280,000) due to Mr. Rollier for 2012 for his duties as Managing General Partner of that company (see footnote 3 of the table in section 4.3.3.b) above).

In 2012, Michel Rollier did not receive any salary, fringe benefits, attendance fees, incentive bonuses or other bonuses, nor did he receive any performance shares or stock options in his capacity as Managing Chairman of the Company or as Executive Director or Partner of any company controlled by Michelin. Likewise he did not receive any compensation for loss of office or any non-compete consideration related to the termination of his duties as Managing Chairman and General Partner in 2012.

In addition, neither CGEM nor any other Group company paid any pension or social security contributions on Michel Rollier's behalf during the year.

(1) There were three General Partners until May 11, 2012: Michel Rollier, Managing Chairman; Jean-Dominique Senard, Managing General Partner; and SAGES, Non-Managing General Partner (see presentation in section 4.1.4).

(2) See article 30 of the bylaws, referred to in the "Statutory allocation of profits" section (section 5.1.2.e).

4.3.4. SUPERVISORY BOARD

Set by the Annual Shareholders Meeting on May 12, 2006, the aggregate amount of attendance fees paid to the Supervisory Board is freely allocated among its members pursuant to a collective decision by the Board.

ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY THE SUPERVISORY BOARD MEMBERS

(in €)	Attendance fees paid in 2011	Other compensation paid in 2011	Attendance fees paid in 2012	Other compensation paid in 2012
Éric Bourdais de Charbonnière	50,000	0	50,000	0
Pat Cox	30,000	0	30,000	0
Barbara Dalibard	30,000	0	30,000	0
Louis Gallois	30,000	0	30,000	0
François Grappotte	45,000	0	45,000	0
Pierre Michelin	40,000	0	40,000	0
Laurence Parisot	30,000	0	30,000	0
Benoît Potier	40,000	0	40,000	0
TOTAL	**295,000**	**0**	**295,000**	**0**

4.3.5. GROUP EXECUTIVE COMMITTEE

The aggregate gross compensation paid in 2012 to the members of the Group Executive Committee amounted to €5,351,751 (of which aggregate 2011 bonuses of €1,279,008 paid in the second half of 2012) *versus* €4,328,830 in 2011 (of which aggregate 2010 bonuses of €1,481,015 paid in the second half of 2011). The list of Group Executive Committee members is provided in section 4.2.1.b).

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 AND SUPERVISORY BOARD MEMBERS AND THEIR CLOSE RELATIVES IN 2012

4.4.1.a) Managing Chairman

Jean-Dominique Senard

Acquisition on June 18, 2012 of 222 shares at a unit price of €47.09 per share, corresponding to the reinvestment of dividends.

4.4.1.b) Supervisory Board

Barbara Dalibard

Acquisition on June 18, 2012 of 19 shares at a unit price of €47.09 per share, corresponding to the reinvestment of dividends.

Louis Gallois

Acquisition on June 18, 2012 of 11 shares at a unit price of €47.09 per share, corresponding to the reinvestment of dividends.

François Grappotte

Acquisition on June 18, 2012 of 57 shares at a unit price of €47.09 per share, corresponding to the reinvestment of dividends.

Benoît Potier

Acquisition on June 18, 2012 of 143 shares at a unit price of €47.09 per share, corresponding to the reinvestment of dividends.

To the best of the Company's knowledge, no other transactions in the Company's shares were carried out by any Managing Partners, 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

To the shareholders,

In my capacity as Chairman of the Supervisory Board, I hereby report to you on (i) the membership structure of the Board and the application of the principle of gender equality, (ii) the Supervisory Board's practices during the year ended December 31, 2012 and (iii) the internal control and risk management procedures put in place by the Company.

This report contains a corporate governance statement based on the AFEP-MEDEF Corporate Governance Code applicable to listed companies, which the Company's Supervisory Board has used as its reference framework since 2008. The latest version of the AFEP-MEDEF Corporate Governance Code (issued in April 2010) is available online at www.medef.com.

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 is currently made up of the following eight members, all of whom are considered as independent based on the criteria set out in the Board's internal rules. The Board's membership structure also complies 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:

- **Éric Bourdais de Charbonnière** (Chairman) – member of the Supervisory Board of Oddo et Cie and a Director of Faurecia; former Chairman of JP Morgan in France;
- **Pat Cox,** Member of the Board of Trustees of the Friends of Europe; former President of the European Parliament; former member of the Irish Parliament;
- **Barbara Dalibard,** Chief Executive Officer of SNCF Voyages;
- **Louis Gallois** – French General Commissioner for Investment;
- **François Grappotte** – Honorary Chairman of Legrand;
- **Pierre Michelin** – Chief Executive, India Development, Groupe Bull;
- **Laurence Parisot** – Vice-Chairman of the Management Board of Ifop and President of MEDEF;
- **Benoît Potier** – Chairman and Chief Executive Officer of Air Liquide.

4.5.1.b) Role and responsibilities

In 2012, the Supervisory Board fulfilled its role of overseeing the Company's management. In accordance with its internal rules, its oversight procedures included:

- reviewing the annual and interim 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;
- obtaining assurance that shareholders' rights are respected.

In addition, the Supervisory Board was regularly informed about the Group's strategy and outlook.

4.5.1.c) Annual self-assessment of the Supervisory Board's performance and the independence of its members

In accordance with its internal rules and with the AFEP-MEDEF Corporate Governance Code guidelines in 2012, the Supervisory Board carried out an annual self-assessment of its procedures and practices to (i) verify that Board members had received appropriate advance information about important matters and that these had been adequately discussed, and (ii) evaluate the contribution of each member to the Board's work. To this end, the Chairman of the Board asked for each member's opinion of the Board's procedures and practices during 2012. The results were presented by the Chairman and discussed at the meeting on February 7, 2013.

(1) *Five years for members elected prior to 2009.*

The Board members considered that the presentations made by the Chief Executive Officer, the Executive Committee and their teams were of high quality. They particularly appreciated the presentations given on human resources management during a special meeting dedicated to HR in October. The presentation on Group strategy given in December was followed up by visits to Michelin's plants.

In general, they appreciated the Chief Executive Officer's openness and the free and frank discussions that took place in Board meetings. In addition, they underlined the importance of the work carried out by the Board and the Audit Committee in the area of risk management. The Supervisory Board will continue to review risk management policies, assisted by the Audit Committee, and to prepare succession plans for key executives in its role as the Compensation and Appointments Committee.

In conclusion, the Supervisory Board considered that it had the relevant information to effectively fulfill its oversight role.

The Supervisory Board also considered that all of its members are independent based on the criteria listed in its internal rules. The independence criteria applied by Michelin correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code, except for the limit set by the Code on the aggregate period during which a member may serve on the Board [1].

4.5.1.d) Report on the Supervisory Board's activities during 2012

The Supervisory Board met five times in 2012 – on February 6, April 27, July 23, October 29 and December 3 and 4 – with an average attendance rate of 90%.

At its meetings on February 6 and July 23 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2011 and (ii) the interim financial statements for the six months ended June 30, 2012. It also examined and expressed its opinion on the financial information communicated to the markets.

The issues examined by the Supervisory Board – based in some cases on presentations made by the Managing Partners or by members of line management – were as follows:

- analyses of quarterly financial information and of interim and annual results;
- internal control and risk management;
- Audit Committee reports;
- competitor analyses;
- major capital expenditure programs;
- career management;
- compensation and appointment policies;
- internal organizational changes;
- the ethics and compliance program;
- the Supervisory Board's future membership structure;
- Supervisory Board practices;
- preparations for the Annual Shareholders Meeting.

As part of the program to deepen and broaden the Supervisory Board members' knowledge of the business, in December 2012 the Company organized a two-day seminar in Brazil during which:

- the Board members spent a day with the Chief Executive Officer and several other senior executives analyzing and discussing the Group's strategic roadmaps and their implementation;
- the Chief Executive Officer, the Director of Geographic Zones and the Head of Michelin's South American operations gave the Board an overview of the local economic context as well as a report on Michelin's markets, capital expenditure programs and business activities in South America;
- the Board members visited several manufacturing facilities to enhance their knowledge of Michelin's business and their understanding of its main industrial processes and planned developments.

4.5.1.e) Report on the Audit Committee's activities during 2012

The Audit Committee comprises the following members, all of whom are independent:

- **François Grappotte** (Chairman) – Honorary Chairman of Legrand;
- **Éric Bourdais de Charbonnière** – member of the Supervisory Board of Oddo et Cie and a Director of Faurecia; former Chairman of JP Morgan in France;
- **Pierre Michelin** – Chief Executive, India Development, Groupe Bull;
- **Benoît Potier** – Chairman and Chief Executive Officer of Air Liquide.

Due to extensive experience acquired during their careers, mostly notably as senior executives of large companies, the Audit Committee's four 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 2012 – on February 6, April 27, July 23 and October 29) – with a 100% attendance rate.

During its meetings, the Audit Committee made inquiries of the:

- Chief Financial Officer;
- Senior Vice President, Finance;
- Senior Vice President, Accounting;
- Senior Vice President, Internal Control;
- Senior Vice President, Internal Audit and Risk Management;
- Group Risk Manager;
- President of the Materials Product Line;
- Head of the Efficiency program.

The main purpose of the meetings held in 2012 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2011. In particular, the Audit Committee analyzed the recognition of actuarial gains and losses, changes in balance sheet and income statement items, income tax expense, cash flows and the main financial statement items related to employee benefit plans. It noted that the audit of the accounts had gone smoothly. The Statutory Auditors had issued an unqualified opinion on both the separate and consolidated financial statements for 2011 but with an observation on a technical matter for the 2011 consolidated financial statements concerning a change in the method used for recognizing actuarial gains and losses on pension plans.
- The interim separate and consolidated financial statements for the six months ended June 30, 2012. The Committee mainly analyzed changes in income statement items, consolidated cash flow and the main balance sheet items. The Statutory Auditors had no matters to report concerning their limited review of the 2012 interim consolidated financial statements. The Statutory Auditors also stated that there were no significant changes in IFRSs during the six months ended June 30, 2012 and presented their audit plan for full-year 2012.
- The internal control system. The Senior Vice President, Internal Control, presented a report on the action taken in 2011 and the planned measures and objectives for 2012.

(1) Please see section 4.5.2 – Corporate Governance Statement.

- Risk management. At the Audit Committee meeting of October 29, 2012, the Senior Vice President, Internal Audit and Risk Management, described the internal audits performed in 2012 and presented the internal audit plan for 2013. At the same meeting, the Group Risk Manager presented the Committee with an analysis of supply continuity risk, notably reporting on the risk mapping process, the results of the risk audits performed and the action plan that had been prepared.
- Measurement of employee benefits (IAS 19). The Senior Vice President, Accounting, reported to the Committee on an analysis carried out on the impacts of applying the revised version of IAS 19, effective from 2013.
- Debt management. The Senior Vice President, Finance, presented the key aspects of the Group's debt management measures.
- Financial forecasts. The Chief Financial Officer explained to the Committee the main steps in the financial forecasting process.
- The Group competitiveness plan. The Group Chief Financial Officer presented an overview of the competitiveness plan, which covers manufacturing productivity, raw materials efficiency and the Efficiency program. The leader of the latter program reviewed in detail its main phases, which are designed to drive competitiveness gains in general, administrative and selling costs and in research and development expenditure.
- The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 6, April 27, July 23 and October 29, 2012.

4.5.1.f) Report on the Compensation and Appointments Committee's activities during 2012

In accordance with its internal rules, the Supervisory Board as a whole performs the duties generally assigned to a Compensation Committee and an Appointments Committee. As stated above, all of the Supervisory Board's members are considered to be independent.

The Compensation and Appointments Committee met twice in 2012 (on February 6 and April 27), with a 100% attendance rate.

Based on a presentation given by the Managing Partners and the Senior Vice President, Personnel and Organization, during the year, the Committee approved the Managing Partners' decision to launch a performance stock option plan and a performance share plan (with the Managing Partners not being entitled to participate in either plan).

The Committee examined the indicators used to determine the portion of bonuses based on the Group's 2011 performance and payable in 2012.

During 2012 the Committee reviewed proposed adjustments to the compensation packages of the members of the Group Executive Committee, to be made in 2012, and the criteria for determining management bonuses.

The Committee also discussed senior executive and Managing Partner compensation policies, career development plans and succession plans after being consulted on these matters.

In order to ensure that these proposals and guidelines were appropriate, the Committee reviewed several benchmark surveys performed by external consultants.

In accordance with the amendments to the bylaws adopted in 2011, during the year the Committee reviewed the amounts and allocation of compensation due to the Managing General Partners (see section 4.5.2.b below and sections 4.3.2 and 4.3.3.c above)

Lastly, the Committee examined the profiles of candidates for seats on the Supervisory Board due to expire at the close of the 2013 Annual Shareholders Meeting. The candidate selection process is described in the report of the Supervisory Board, in which it is recommended that shareholders adopt the resolutions on the election and re-election of Supervisory Board members (see section 10.2 below).

4.5.2. CORPORATE GOVERNANCE STATEMENT

4.5.2.a) Exceptions to the corporate governance reference framework

As mentioned above, Michelin uses as its governance reference framework the AFEP-MEDEF Corporate Governance Code, all of whose principles the Supervisory Board hereby declares that it applies. As recommended in the Code's introduction, the Supervisory Board has adjusted the Code as needed to the Company's status as a partnership limited by shares, with the following two exceptions:

- Recommendation concerning independent Directors: the Company complies with all of the Code's independence criteria except for the 12-year limit on the aggregate period of time served on the Board. The Board considers that the aggregate term served by a Supervisory Board member in a partnership limited by shares is not an obstacle to the exercise of his or her free judgment in relation to the Company. Quite the reverse, it helps the member to understand the Company in all its complexity and efficiently oversee its management on an ongoing basis.
- Recommendation concerning Supervisory Board members' compensation: the Company complies with all of the principles, except for the recommendation that attendance fees should include a variable portion. In view of the level of commitment demonstrated by Supervisory Board members, as reflected in the high attendance rates at meetings of the Supervisory Board and its committees, the Board does not consider it necessary to make part of the fee payable to its members contingent upon their attendance at meetings.

4.5.2.b) Recommendation concerning compensation

The Supervisory Board considers that Michelin complies with the AFEP-MEDEF recommendations concerning Executive Directors' compensation and that these recommendations are reflected in the process of continuously improving the governance practices of the Company's Executive Officers.

Although the recommendations state that they apply to Managing Partners of partnerships limited by shares, they have to be adapted to the special case of the share of the Company's profit paid to the Chief Executive Officer, which he receives as part of the profit allocation to General Partners provided for in the Company's bylaws. This statutory share of profit paid to the General Partners is:

- consideration for the risk they incur by virtue of their unlimited joint and several personal liability for the Company's debts;
- entirely variable and based on the prior year's profit;
- approved every year by the shareholders in Annual Meeting, without the General Partners taking part in the vote.

At the May 13, 2011 Annual Shareholders Meeting, major amendments to the Company's bylaws were adopted in order to give greater powers to the Supervisory Board, notably in terms of electing Managing General Partners and setting their compensation. Consequently, Managing General Partners are now elected for four years, whereas previously their term of office only ended when they reached the age of 72.

In addition, the Supervisory Board now has to issue a formal opinion prior to any proposals being submitted to the Annual Shareholders Meeting in relation to the allocation of the statutory share of profits between the two General Partners, namely SAGES (Non-Managing General Partner) and Jean-Dominique Senard, Chief Executive Officer and the sole Managing General Partner since his predecessor, Michel Rollier, left the position. Consequently, the Supervisory Board – sitting in its capacity as the Company's Compensation and Appointments Committee – now reviews the Chief Executive Officer's overall compensation package.

Furthermore, at the May 11, 2012 Annual Shareholders Meeting, the cap on the share of profits attributable to the General Partners was significantly reduced at their own request.

Lastly, the Supervisory Board hereby states that Michel Rollier did not receive any compensation or benefits on his resignation from his position as Managing General Partner (with an unlimited term), which was proposed and accepted at the May 11, 2012 Annual Shareholders Meeting.

4.5.2.c) Shareholder participation

The specific rules concerning shareholder participation at General Meetings are presented in section 5.1.2. f) below and in the 2012 Shareholders Guide (in the section entitled "Your rights as a Shareholder"), which can be downloaded from the website at www.michelin.com/corporate.

4.5.3. MICHELIN GROUP INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

4.5.3.a) The control environment

The Michelin 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. Two retail networks are attached to the Product Lines – Euromaster in Europe and Tire Centers, Inc. (TCI) in North America.

The Product Lines are backed by thirteen Corporate Departments that are responsible for support functions such as Purchasing, Legal Affairs, Human Resources, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around eight regions – Europe, Eastern Europe, North America, South America, ASEAN-Australia, China, Japan-South Korea, and Africa-India-Middle East.

The role, responsibilities and structure of each of these entities have been defined by the Group, along with their contribution to strategic decisions, their performance indicators and how they exchange information with other entities.

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 powers.

Michelin places great importance on accountability, integrity and ethical conduct. These values are set out in Michelin's Performance and Responsibility Charter, which is widely circulated both within and outside the Group. The Charter describes how the Group endeavors to put into practice its key values of respecting customers, shareholders and general human rights, together with its commitment to protecting the environment and providing transparent information.

A Code of Ethics was issued in October 2010 describing 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. A Corporate Ethics and Compliance Committee has been set up in each region and business line in 2012.

The Michelin Performance and Responsibility Charter is supplemented by the Code of Ethics, which 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 a variety of ethical issues.

In a video broadcast in every region, the Chief Executive Officer reaffirmed that every employee is expected to respect and personally demonstrate the Group's ethical values. In 2012, 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, as needed. Ethics hotlines have been set up in almost every host country, providing an additional channel for employees to report potential ethics violations. Audits and inspections were performed concerning various ethics issues.

In addition, an Internal Governance Manual was published in July 2010 to help employees behave in the proactive manner needed to support tightened management of operations.

The manual describes in particular:

- the entities' roles and responsibilities;
- their planned operating procedures and governance structures;
- the behavior expected of managers, in line with Michelin's corporate values.

The manual will be updated in 2012 to reflect the creation of the Corporate Ethics and Compliance Committees.

The Group's Annual and Sustainable Development Report describes its operations and results for the year as well as its Performance and Responsibility process.

4.5.3.b) Internal control procedures relating to the preparation and processing of financial and accounting information

■ Reference framework

The Michelin Group has adopted the definition of internal control set out in the AMF's Reference Framework published in January 2007 and reaffirmed on July 22, 2010. Internal control is a set of measures designed and implemented by the Company under its own responsibility.

It comprises a set of resources, patterns of conduct, procedures and actions adapted to the individual characteristics of each company, which:

- contributes to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources;
- enables it to take into consideration, in an appropriate manner, all major operational, financial and compliance risks.

More particularly, the system is designed to ensure:

- compliance with laws and regulations;
- Application of the instructions and directional guidelines set by the Managing Partners, the Executive Council and the Company's corporate governance structures;
- the proper functioning of the Company's internal processes, particularly those involving the security of its assets;
- the reliability of financial information.

However, the internal control system cannot provide an absolute guarantee that the Company's objectives will be met. Any internal control system has intrinsic limitations arising for example from uncertainties about the external environment, the exercise of judgment and the cost effectiveness of introducing new controls.

Within the Michelin Group, the parent company makes sure that its subsidiaries have implemented internal control procedures. These procedures are adapted to the subsidiaries' specific features and to the relations between the parent and the consolidated companies.

■ Preparation and processing of accounting and financial information

The Managing Partners are responsible for publishing reliable financial and accounting information. The accounting, consolidation, management control and financial communication departments all contribute to the process of producing this information.

Under the Group's organizational structure, accounting teams generally report to the heads of the Regions, while management controllers report to the heads of the Product Lines.

Separate and consolidated financial statements are drawn up monthly according to the same overall processes as for the annual financial statements.

To guarantee the reliability of accounting information, the necessary internal control procedures have been defined at Group level and implemented locally. These include a physical inventory (for both fixed assets and stocks), 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 Group subsidiaries and dealing with any questions that may be raised by these entities.

General accounting and management accounting data are submitted simultaneously by the subsidiaries. The systems verify the consistency of the main indicators (sales, operating income, etc.). Statutory accounting data received from the subsidiaries is 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 examined in detail every month by the Group's Executive Council and the Product Lines.

At every interim and annual closing, the heads of the Regions 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).

Each year, the Internal Audit and Risk Management Department puts forward proposals to the Managing Partners for specific audits of control procedures for financial and accounting information and if approved, subsequently performs the related audits.

The Investor Relations Department, which forms an integral part of the Group's Finance Department, is responsible for the preparation and distribution throughout the financial community of the Group's financial communication. Financial communication takes three main forms:

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

Design and preparation of the Registration Document and the Annual and Sustainable Development Report are coordinated by the Investor Relations Department and approved by the Managing Chairman, with significant input from the Group Legal Affairs Department and the Michelin Performance and Responsibility teams. Both of these documents contain high-quality, in-depth information drawn from contributions by a range of specialists in the Group's main fields of operations.

Financial press releases are systematically reviewed by the Chief Investor Relations Officer and results announcements are also reviewed by the Supervisory Board.

Presentations to analysts and investors are prepared by the Investor Relations Department and approved by the Managing Chairman.

4.5.3.c) Internal control management

Group managers can detect any weaknesses in their internal control processes through the systems used to monitor operations. In addition, internal reviews are performed within the entities by specialists in the fields concerned.

Strict procedures have also been put in place for receiving, analyzing and responding to customer complaints concerning product quality.

■ Control procedures

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.

Audits are also carried out by specially trained Quality Auditors as part of the Michelin Quality System, to ensure compliance with Group quality standards, which are largely based on the applicable international standards. In addition to these internal audits the Group obtains quality certifications awarded by external bodies.

Management regularly carries out reviews to assess the efficiency and performance of the overall system and to pinpoint areas where progress can be made.

■ Information

Information generated by the Group's management systems is analyzed by the Financial Control teams and reported to the managers concerned for inclusion in the scorecards used to track their operations. Management information is also reported to the Group's Executive Council on a monthly basis. Quarterly reports are presented 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.

The Group Internal Audit and Risk Management Department reports directly to the Managing Partners and is totally independent from the operating units. It is made up of a Group-level team in charge of auditing Group operations worldwide and local teams in North America. It regularly carries out assessments of internal control and risk management processes concerning operational, accounting, IT, manufacturing and product quality risks. The Department's scope of reference covers all of the Group's processes and entities. Based on the observations made during its audits, it makes recommendations to the entities, which draw up action plans to address identified weaknesses. Internal Audit then monitors implementation of the relevant actions. Periodic summaries of internal audit findings and the related action plans are presented to the various line managers, the Managing Partners and the Audit Committee.

In the Group's various host countries local auditors issue their own internal control recommendations to accounts department managers who are responsible for ensuring that these recommendations are acted upon. The recommendations are also reported to the internal control teams and to the Group's Statutory Auditors, network by network, for consolidation and communication to Group management. In this way, all levels of management are informed that Michelin's teams have taken into account the required measures.

4.5.3.d) Assessment of processes affecting the reliability of financial information

Financial internal control objectives

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

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

Its role includes:

- deploying internal control best practices and providing training to each region's correspondents;
- 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 internal control activities of the heads of the regions and operational areas concerned;
- structuring the internal control network;
- acting as an interface with the other players in the relevant processes, such as process owners, risk managers and internal and external auditors;
- advising on the implementation of transformation projects and programs.

A worldwide software application for monitoring internal control was set up and rolled out in 2009. The application leverages existing Group databases and principles developed in previous phases that were launched in 2004. The model will continue to be extended to cover additional processes and legal entities.

Processes concerned

Fifteen key processes were initially identified for Michelin Group as a whole in 2004, then gradually integrated into the financial internal control system, which was stabilized in 2010.

The main identified and integrated processes were as follows:

- purchases (from the order through to supplier payment);
- sales (from the customer order through to payment);
- inventory management;
- inventory valuation;
- Group 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;
- human resources management (compensation, benefits and travel expenses);
- consolidation;
- investor relations;
- mergers/acquisitions/divestments.

In 2012, a sixteenth process was added to cover the management of Customs Affairs, including the Group's customs management processes, import/export management, supervising freight forwarders, organizing delegations of powers and authority, customs documentation, etc.

Internal control manuals

The Group's internal control manuals describe the main risks that exist within each business process or cycle, together with the corresponding control objectives and activities aimed at mitigating the risk concerned. These manuals are regularly updated to reflect best process execution practices and changes in the applicable standards and regulations.

Target companies

As of end-2012, the system covered companies accounting for around 98% of consolidated revenue, a three-point increase on 2011. Coverage spanned all of the Group's regions and operations, including manufacturing, sales and dealership networks.

It is being extended to the smaller entities with the aim of covering the whole Group by 2014.

Method

This full internal control system has been rolled out to a broader array of companies and processes since 2009.

At every company concerned by the system, self-assessments are carried out by line personnel each year on the key internal control activities for each process, with additional controls implemented where required.

The key controls for all processes are tested at all sites at least once every four years and more often where necessary.

Action plans are drawn up by the various companies to address the identified areas for improvement, and are implemented by line personnel.

This overall approach forms part of the Group's objective of continuously improving its internal control processes, taking into account work conducted by the external and internal auditors.

Monitoring findings

The findings of the work performed by Financial Internal Control and the implementation of the ensuing action plans are appraised and monitored by line management. These findings are regularly presented to the Finance Committee as well as to the managers in charge of the relevant processes, operational areas and regions.

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

4.5.3.e) Risk assessment and control

The Group's objectives are defined by the Managing Chairman. These relate not only to economic performance but also to the areas in which the Group aims at a particular level of excellence, such as people management, quality, innovation, working conditions and the environment.

The main objectives are updated every year and relayed to the Group's various units, which subsequently translate them into five-year strategic goals and yearly action plans. These plans cover both operational aspects and improvement targets aimed at enhancing performance and service quality.

Objectives are based on past performance and detailed diagnostics, and they also take into account changes in the Group's operating 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. Strategic risks are specifically addressed as part of this process.

4.5.3.f) Risk management and mapping

The Group also ensures that its operational risks are effectively managed.

These risks have been classified into thirteen separate families: accounting and finance; business interruption; the environment; ethics violations; knowledge retention; information systems and technologies; legal and tax; project management; product quality; continuity of supply; property security; employee and third-party health and safety; and employee relations.

Within these thirteen categories, operating risks are managed at four different levels:

1. The support units (Corporate Departments, Performance Divisions and Technology Centers). As risk owners, these units analyze the risks and submit proposals concerning levels of acceptable risk to the Chief Executive Officer and the Group Executive Committee for approval. They also recommend risk management rules, estimate the resources required to deploy prevention and protection measures, track changes in risks, and verify that their guidelines are effectively applied.
2. The operating units (Product Lines, Tactical Operational Units and Geographic Zones) manage risks on a daily basis. They are responsible for identifying and managing their unit's risks, in compliance 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 units to help manage their operational risks.

   Their responsibility encompasses:
   - risk-prevention measures;
   - measures to protect people, assets and equipment 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.
3. The Group Audit and Risks Department leads the overall risk management process. It defines the methodology, organizes its deployment and fosters a risk-aware culture within the Group. It ensures that the most significant risks are effectively controlled by the units concerned. It tracks the progress of all the action plans related to priority risks. It also ensures the quality of risk management by performing audits. In addition, it presents 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.
4. Unit Risk Managers, appointed in each unit, form part of the risk management network. They are responsible for leading, implementing and overseeing the risk management process in their units, with the assistance of managers from the Group Audit and Risks Department, who support them at every stage in the process.

A new risk mapping exercise was conducted in 2012, with the Group Audit and Risks Department consolidating the risk analyses prepared by the operating units. The consolidated risk maps serve as the Group's risk audit tool, facilitating the identification of priority risks that may require a specific action plan. These plans are then implemented by the operating units, supervised by the Risk Manager.

The Chief Executive Office and the Group Executive Committee met ten times in 2012 as part of their management duties to oversee the risk management process. In this role, they approved the Group risk map, determined priorities, validated risk acceptance levels, took decisions concerning resource allocation and verified that the action plans for previously identified priority risks were being implemented according to plan.

They also observed that the implementation of the various risk prevention and protection measures had reduced the Group's exposure to these priority risks.

Lastly, the Supervisory Board's Audit Committee focused in particular on analyzing supply chain risks and the related action plans, as well as the management of the major projects designed to increase the Group's production capacity.

This report, presented by the Chairman of the Supervisory Board, was approved by the Supervisory Board on February 7, 2013.

Éric Bourdais de Charbonnière
Chairman of the Supervisory Board

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, 2012

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 Etablissements Michelin

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin, 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, 2012.

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 of the Supervisory Board'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 of the Supervisory Board sets out the other information required by article L.226-10-1 of the French Commercial code.

Neuilly-sur-Seine, February 7, 2013

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Dominique Descours

The Statutory Auditors

Members of "*Compagnie régionale de Versailles*"

5

Investor Relations

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.

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/corporate).

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. This 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 Managing Chairman, 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)

Except as otherwise provided for by law, a shareholder at the Meeting may exercise one vote for each share he or she owns or represents by proxy, without limitation.

However, 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 retained earnings, profits 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;
- Traded in units of: 1.

Market capitalization

- €13.069 billion at December 31, 2012.

Average daily trading volume

- 913,167 shares in 2012.

Indices

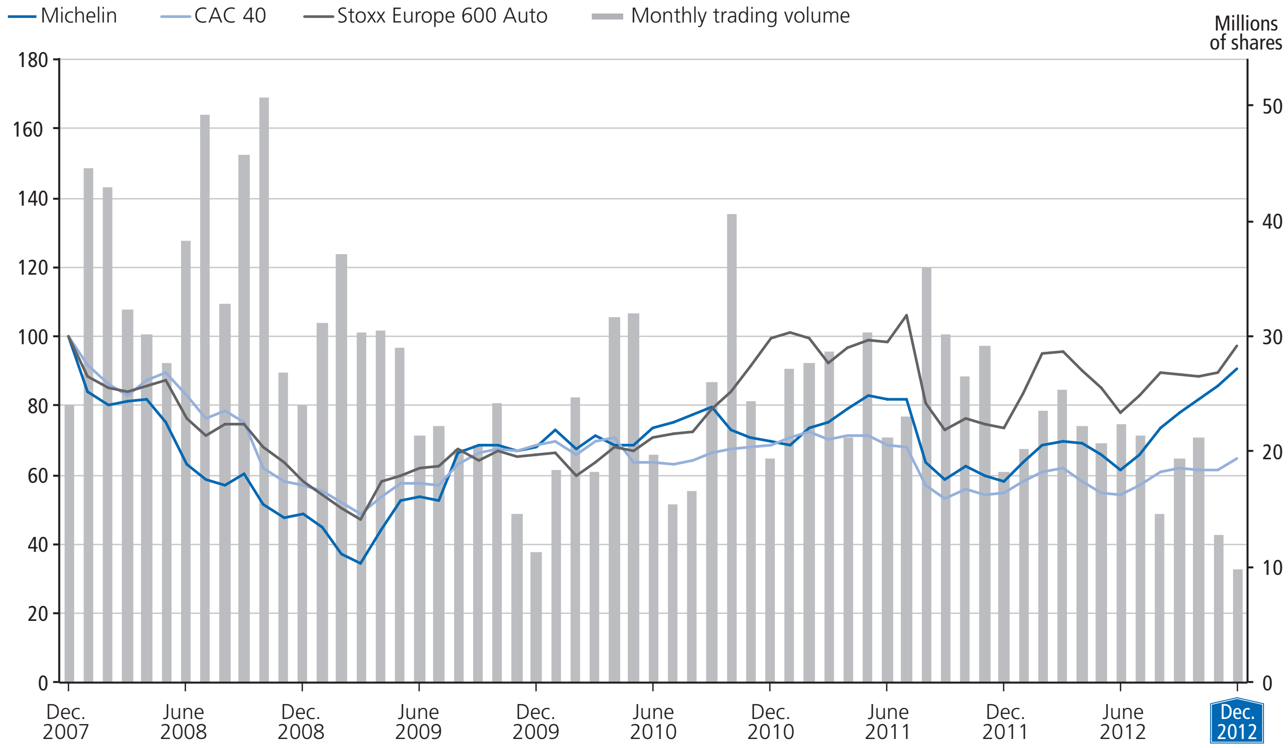
The Michelin share is included in two leading stock market indices. As of December 31, 2012, it represented:

- 1.87% of the CAC 40 index;
- 0.80% 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;
- Advanced Sustainable Performance Index (ASPI) Eurozone.

SHARE PERFORMANCE
(closing price at December 31, 2012)



5.2.2. SHARE DATA

Share price (in €)	**2012**	**2011**	**2010**	**2009**	**2008**
High	72.58	68.54	64.51	58.67	79.90
Low	45.32	40.20	48.13	22.69	30.65
High/low ratio	1.60	1.70	1.34	2.59	2.61
Closing price, end of period	71.59	45.68	53.70	53.58	37.57
Change over the period	+56.7%	-14.9%	+0.2%	+42.6%	-52.1%
Change in the CAC 40 index over the period	*+15.2%*	*-17.0%*	*-3.3%*	*+22.3%*	*-42.7%*
Market value at end of period (in € billion)	**13.07**	**8.22**	**9.48**	**7.90**	**5.45**
Average daily trading volume over the period	913,167	1,246,389	1,116,722	1,138,691	1,740,267
Average shares outstanding	181,099,501	178,446,812	153,672,558	146,184,080	144,495,251
Volume of shares traded over the period	233,770,814	320,321,901	288,114,287	291,504,866	445,508,266
Share turnover ratio	**129%**	**180%**	**187%**	**199%**	**308%**

Sources: NYSE Euronext Paris, Michelin.

5.2.3. PER-SHARE DATA

(in € per share, except ratios)	2012	2011	2010	2009	2008
Net assets per share	46.6	45.9	46.0	37.2	35.2
Basic earnings per share	8.62	8.14	6.78	0.69 (1)	2.46
Diluted earnings per share (2)	8.41	7.97	6.64	0.69 (1)	2.46
Price-earnings ratio	**8.31**	**5.6**	**7.9**	**77.7**	**15.3**
Dividend for the year	2.40*	2.10	1.78	1.00	1.00
Pay-out ratio	28.7%	30.0%	30.0%	140.8%	40.7%
Yield (3)	3.4%	4.6%	3.3%	1.9%	2.7%

(1) 2009 earnings per share have been restated to take into account the impact of the October 2010 rights issue.
(2) Earnings per share adjusted for the effect on net income and on the average number of shares of the exercise of outstanding dilutive instruments.
(3) Dividend/Share price at December 31.
** Dividend proposed to the Shareholders at the May 17, 2013 Annual General Meeting.*

The goal of the Group's dividend policy is to pay out approximately 30% of consolidated net income before exceptional items.

5.2.4. CAPITAL AND OWNERSHIP STRUCTURE

At December 31 2012, Michelin's share capital amounted to €365,113,426.

	At December 31, 2012			At December 31, 2011		
	Number of shareholders	Shares outstanding	Voting rights outstanding	Number of shareholders	Shares outstanding	Voting rights outstanding
French institutional investors	3,600	26.2%	24.9%	3,500	30.2%	27.6%
Non-resident institutional investors		61.0%	56.9%		55.5%	54.5%
Individual shareholders	134,700	11.2%	15.4%	156,400	12.7%	15.6%
Employee Shareholder Plan	64,200	1.6%	2.8%	66,600	1.6%	2.3%
TOTAL	**202,500**	**182,556,713 SHARES***	**229,872,141 VOTING RIGHTS**	**226,500**	**180,018,897 SHARES***	**230,108,052 VOTING RIGHTS**

** All fully paid-up.*

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

5.3. SHAREHOLDER 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 and other publications, such as press releases, the Annual and Sustainable Development Report, the Registration Document, the Interim Financial Reports, 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/corporate in the Finance section and on request from the Investor Relations Department.

In addition, six meetings with French shareholders were held in 2012, in Biarritz, Colmar, Grenoble, Lyon, Montpellier and Rouen, and on November 23 and 24, 2014, Michelin attended the Actionaria retail investor fair in Paris to meet with individual shareholders and present the Group to prospective shareholders.

At the same time, close to 300 group and individual meetings were organized during the year with 840 institutional investors and financial analysts in 18 countries, offering valuable opportunities for face-to-face discussions. Analysts, investors and portfolio managers were also invited to a number of presentations on specific topics and plant visits.

Created in 2003, the Shareholder Consultative Committee is comprised of 14 members, including two employee shareholders. Through its input and recommendations, the Committee helps to improve the quality of our financial and/or image communication with individual shareholders. The Committee met twice in 2012.

Each year, shareholders and proxy solicitors are notified of the date of the Annual Shareholders Meeting and of the voting procedures.

According to the Bylaws of the Company, 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's Bylaws, and all of the regulatory filings within the meaning of Article 221-1 of 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/corporate (Finance section) or at the Company's registered office.

5.5. ADDITIONAL INFORMATION ABOUT THE CAPITAL

5.5.1. CHANGES IN SHARE CAPITAL

		Change in capital		
Year	Transaction	Number of shares	Par value (in €)	Share premium (in €)
2008	**At December 31, 2008**	**144,997,422**	**289,994,844**	
2009	Conversion of OCEANE bonds	0	0	0
	Dividend reinvestment	2,371,623	4,743,246	75,253,969
	Exercise of stock options	67,312	134,624	2,340,825
	At December 31, 2009	**147,436,357**	**294,872,714**	
2010	Conversion of OCEANE bonds	346	692	33,176
	Dividend reinvestment	1,735,759	3,471,518	78,907,604
	Exercise of stock options	275,507	551,014	10,871,325
	Share issue with pre-emptive subscription rights	27,159,876	54,319,752	1,167,874,668
	At December 31, 2010	**176,607,845**	**353,215,690**	
2011	Conversion of OCEANE bonds	14	28	1,296
	Dividend reinvestment	3,128,066	6,256,132	170,479,597
	Exercise of stock options	282,972	565,944	11,523,396
	At December 31, 2011	**180,018,897**	**360,037,794**	
2012	Conversion of OCEANE bonds	0	0	0
	Dividend reinvestment	1,883,606	3,767,212	84,931,794
	Exercise of stock options	654,210	1,308,420	27,249,423
	AT DECEMBER 31, 2012	**182,556,713**	**365,113,426**	

5.5.2. FINANCIAL AUTHORIZATIONS

5.5.2.a) Granted by the Annual Shareholders Meeting of May 15, 2009

■ Employee share issue

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Issuance of stock options (to purchase new or existing shares)	9th	38 months (July 2012)	• Managing Partners excluded • Exercise price set without a discount • Capped at 3 million shares	Grant of 143,276 options (1) to purchase new shares

(1) *Please refer to the table in section 5.5.4.*

5.5.2.b) Granted by the Annual Shareholders Meeting of May 7, 2010

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 €72 (1)	Maximum aggregate par value of shares	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	13th	26 months (July 2012)	• €4.24 billion (shares) • €1 billion (5) (securities carrying rights to shares)	€118 million (2) (3) or 40% of current issued capital	None (4)
Issuance of new shares by capitalizing reserves	17th	26 months (July 2012)	€2,88 billion	€80 million	None

(1) CGEM share price at December 31, 2012, rounded up to the nearest whole number.
(2) With the aggregate par value of shares issued under the 13th, 14th, 15th, 16th and 18th resolutions not to exceed €118 million (21st resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 13th and 14th resolutions (16th resolution).
(4) New shares with an aggregate par value of a little over €54 million were issued in 2010 (see page 123 of the 2010 Registration Document).
(5) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 12th, 13th, 14th 15th and 16th resolutions not to exceed €2 billion (21st resolution).

Issuance of shares and share equivalents without pre-emptive subscription rights

Corporate action	Resolution	Duration (expiry date)	Maximum issue amount, based on a share price of €72 (1)	Maximum aggregate par value of shares	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	14th	26 months (July 2012)	• €1.58 billion (shares) • €700 million (4) (securities carrying rights to shares)	€44 million (2) (3) (or 14.9% of current 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	15th	26 months (July 2012)	• €1.58 billion (shares) • €700 million (4) (securities carrying rights to shares)	€44 million (2) (3) (5) (or 14.9% of current issued capital)	None
Issuance of ordinary shares in connection with a stock-for-stock offer or in payment of contributed assets	18th	26 months (July 2012)	€1.58 billion	€44 million (5)	None

(1) CGEM share price at December 31, 2012, rounded up to the nearest whole number.
(2) With the aggregate par value of shares issued under the 13th, 14th, 15th, 16th and 18th resolutions not to exceed €100 million (21st resolution), and the 14th, 15th and 18th resolutions to be used only up to a maximum of €29 million (press release dated May 7, 2010).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 13th and 14th resolutions (16th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 12th, 13th, 14th, 15th and 16th resolutions not to exceed €2 billion (21st resolution).
(5) Amount to be included in the maximum total capital increase authorized under the 14th resolution.

Employee share issues

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Issuance of new shares	19th	26 months (July 2012)	Capped at 2% of current issued capital	None

Debt securities without rights to shares/Other debt securities

Corporate action	Resolution	Duration (expiry date)	Maximum nominal amount authorized	Utilization during the year
Issuance of bonds	12th	26 months (July 2012)	€1 billion (1)	None

(1) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 10th, 11th, 12th and 17th resolutions not to exceed €2 billion (20th resolution).

5.5.2.c) Granted by the Annual Shareholders Meeting of May 13, 2011

Share buyback program

Corporate action	Resolution	Duration (expiry date)	Ceilings	Utilization during the year
Share buybacks	5th	18 months (November 2012)	Statutory limit of 10% of issued capital Maximum purchase price: €100	None
Capital reduction by canceling shares	14th	18 months (November 2012)	10% of issued capital	None

Employee share issue

Corporate action	Resolution	Duration (expiry date)	Comments (1)	Utilization during the year
Performance shares	15th	38 months (July 2014)	• Managing Partners excluded • Performance conditions over 3 years • Capped at 0.5% of current issued capital	Grant of 371,936 options (2) to purchase new shares

(1) *Please refer to the Managing Partners' Report, pages 257-258, in the 2010 Registration Document.*
(2) *Please refer to the section 5.5.5.*

5.5.2.d) Granted by the Annual Shareholders Meeting of May 11, 2012

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 €72 (1)	Maximum aggregate par value of shares	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	4th	26 months (July 2014)	• 4,53 billion (shares) • 1 billion (4) (securities carrying rights to shares)	126 billion (2) (3) (or less than 35% of current issued capital)	None
Issuance of new shares by capitalizing reserves	8th	26 months (July 2014)	2,88 billion	80 billion	None

(1) *CGEM share price at December 31, 2012, rounded up to the nearest whole number.*
(2) *With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €126 million, excluding any shares issued under the 8th and 10th resolutions (11th resolution).*
(3) *This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 4th, 5th and 6th resolutions (7th resolution).*
(4) *With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 4th, 5th, 6th, 7th, 9th and 18th resolutions not to exceed €2 billion (11th 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 €72 (1)	Maximum aggregate par value of shares	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	5th	26 months (July 2014)	• €1.29 billion (shares) • €700 million (4) (securities carrying rights to shares)	€36 million (2)(3) (or less than 10% of current 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	6th	26 months (July 2014)	• €1.29 billion (shares) • €700 million (4) (securities carrying rights to shares)	€36 million (2)(3)(5) (or less than 10% current issued capital)	None
Issuance of ordinary shares in connection with a stock-for-stock offer or in payment of contributed assets	9th	26 months (July 2014)	€1.29 billion	€36 million (5)	None

(1) *CGEM share price at December 31, 2012, rounded up to the nearest whole number.*
(2) *With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €126 million, excluding any shares issued under the 8th and 10th resolutions (11th resolution).*
(3) *This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 4th, 5th and 6th resolutions (7th resolution).*
(4) *With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 4th, 5th, 6th, 7th, 9th and 18th resolutions not to exceed €2 billion (11th resolution).*
(5) *Amount to be included in the maximum total capital increase authorized under the 5th resolution.*

Employee share issues

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Issuance of new shares	10th	26 months (July 2014)	Less than 2% of current issued capital	None

Debt securities without rights to shares/Other debt securities

Corporate action	Resolution	Duration (expiry date)	Maximum nominal amount authorized	Utilization during the year
Issuance of bonds	18th	26 months (July 2014)	€1 billion (1)	None

(1) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 4th, 5th, 6th, 7th, 9th and 16th resolutions not to exceed €2 billion (11th resolution).

Share buyback program

Corporate action	Resolution	Duration (expiry date)	Ceilings	Utilization during the year
Share buybacks	17th	18 months (November 2013)	Less than 10% of issued capital Maximum purchase price: €100	None
Capital reduction by canceling shares	12th	18 months (November 2013)	10% of issued capital	None

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: NYSE 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, 2012: 6,230,684.
- 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).
- 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 share for 1 bond (as adjusted on October 26, 2010 – see NYSE Euronext Paris announcement of the same date).

A total of 511,404 bonds were bought back by the company in 2012.

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, 2012

(In number of shares with a par value of €2.00)	Maximum number of potential new shares	Issued capital (in €)
ISSUED CAPITAL AT DECEMBER 31, 2012		**365,113,426**
OCEANE bonds In the event that all of the 6,230,684 bonds outstanding as of December 31, 2012 are redeemed for new shares on the basis of 1.036 share for 1 bond with a nominal value of €103.82 (the bonds may also be redeemed for existing shares) [1] Maturity: January 2017	**6,454,988**	**6,454,988**

(1) Of the 6,742,438 bonds issued in total, 21 were converted into shares in 2007, 317 in 2010 (creation of 346 shares), 12 in 2011 (creation of 14 shares), and none in 2012, when 511,404 bonds were bought back.

■ Stock options outstanding as of December 31, 2012

Grant date	Adjusted exercise price (in €)	Vesting date	Expiry date	Number of shares outstanding	
May 19, 2002	42.47	May 19, 2006	May 18, 2011	0	
May 19, 2003	31.13	May 19, 2007	May 18, 2012	0	
November 24, 2003	32.82	November 24, 2007	November 23, 2012	1,244 [1]	
May 17, 2004	38.61	May 17, 2008	May 16, 2013	27,596	
July 5, 2004	42.96	July 5, 2008	July 4, 2013	38,222	
May 23, 2005	46.34	May 23, 2009	May 22, 2014	77,066	
November 7, 2005	46.34	November 7, 2009	November 6, 2014	484,437	
May 15, 2006	55.99	May 15, 2010	May 14, 2015	116,556	
May 14, 2007	87.85	May 14, 2011	May 13, 2016	1,161,826	
May 19, 2008	59.85	May 19, 2012	May 18, 2017	283,390	
November 23, 2009	51.16	November 23, 2013	November 22, 2018	1,408,389	
May 12, 2010	52.13	May 12, 2014	May 11, 2019	260,138	
May 19, 2011	66.00	May 19, 2015	May 18, 2020	252,900	
June 25, 2012	51.16	June 25, 2016	June 24, 2021	142,426	
TOTAL STOCK OPTIONS OUTSTANDING					**4,254,190**

(1) Corresponding to a supplementary plan expiring in November 2013.

■ Performance shares

Grant date	Vesting period ends	Performance shares outstanding	
November 28, 2011	November 28, 2014 [1] November 28, 2015 [2]	285,848	
November 28, 2012	November 28, 2015 [1] November 28, 2016 [2]	371,936	
TOTAL PERFORMANCE SHARES OUTSTANDING			**657,784**
MAXIMUM POTENTIAL SHARES AS OF DECEMBER 31, 2012 (+3.11%)			**376,480,388**

(1) French subsidiaries.
(2) Non French subsidiaries.

5.5.4. STOCK OPTIONS

Michelin grants options to purchase new or existing shares of Company stock, based on a fair, conservative allocation policy in place since 2002.

Under the plan approved on June 25, 2012 the options were granted at an exercise price of €51.16:

- without any discount and without any reset mechanism in the event that they fall out of the money due to a decline in the share price;
- with any acquisition capital gain capped at 100% of the option exercise price times the number of options granted.

The options are subject to a four-year vesting period and have a five-year exercise period.

5.5.4.a) Stock option plans in effect at December 31, 2012 [(1)]

	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	5/18/ 2001	5/18/ 2001	5/18/ 2001	5/18/ 2001	5/18/ 2001	5/14/ 2004	5/14/ 2004	5/12/ 2006	5/12/ 2006	5/12/ 2006	5/15/ 2009	5/15/ 2009	5/15/ 2009	5/15/ 2009
Date granted by the Managing Partners	5/19/ 2002	5/19/ 2003	11/24/ 2003	5/17/ 2004	7/5/ 2004	5/23/ 2005	11/7/ 2005	5/15/ 2006	5/14/ 2007	5/19/ 2008	11/23/ 2009	5/12/ 2010	5/19/ 2011	6/25/ 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 [(2)] Jean-Dominique Senard	0	0	0	0	0	10,359	0	6,216	0	0	0	0	0	0
Vesting date	5/19 /2006	5/19/ 2007	11/24/ 2007	5/17/ 2008	7/5/ 2008	5/23/ 2009	11/7/ 2009	5/15/ 2010	5/14/ 2011	5/19/ 2012	11/23/ 2013	5/12/ 2014	5/19/ 2015	6/25/ 2016
Expiry date	5/18 /2011	5/18/ 2012	11/23/ 2012	5/16/ 2013	7/4/ 2013	5/22/ 2014	11/6/ 2014	5/14/ 2015	5/13/ 2016	5/18/ 2017	11/22/ 2018	5/11/ 2019	5/18/ 2020	6/24/ 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
Exercise terms:														
Number of options exercised as of December 31, 2012	647,332	239,847	205,820	154,492	,82,691	146,491	398,805	22,107	0	35,705	4,354	0	0	0
Number of options cancelled	75,303	5,200	23,322	2,000	11,859	2,500	58,973	2,800	68,497	2,000	34,629	0	0	850
NUMBER OF OPTIONS OUTSTANDING AS OF DECEMBER 31, 2012	**0**	**0**	**1,244 [(3)]**	**27,596**	**38,222**	**77,066**	**484,437**	**116,556**	**1,161,826**	**283,390**	**1,408,389**	**260,138**	**252,900**	**142,426**

(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 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) Corresponding to a supplementary plan expiring in November 2013.

5.5.4.b) Special Report of the Managing Chairman

The Annual Shareholders Meeting of May 15, 2009 authorized the grant of stock options to employees of the Company (except Managing Partners) and of related companies within the meaning of article L. 225-180 of the French Commercial Code, with the number of new shares that may be issued upon exercise limited to 3,000,000 or around 2% of current issued capital.

This authorization was used to grant 143,276 options to purchase new shares of common stock to 233 grantees, exercisable from May 25, 2016 at a price of €51.16.

None of the Managing Partners were granted any stock options in 2012.

The ten employees other than Managing Partners who were granted or exercised the greatest number of options:

- received 16,886 options (one grantee received 4,000, two received 2,000, one received 1,554, three received1,244 and three received 1,200);
- exercised 45,176 options at a unit price of €38.61 for options granted on May 17, 2004, of €42.96 for options granted on July 5, 2004, of €46.34 for options granted on May 23, 2005 and of €59.85 for options granted on May 19, 2008.

Clermont-Ferrand – February 7, 2013

Jean-Dominique Senard
Managing Chairman

5.5.5. PERFORMANCE SHARES

5.5.5.a) Performance share plans

Following on from the performance share plan granted in November 2011, a second plan with similar features was offered on November 28, 2012.

Plan	Vesting period	Lock-up period	Number of performance shares granted	Of which to the Chief Executive Officer	Performance conditions [1]	Performance fulfilled	Number of vested shares
November 28, 2011	France – 3 years Other countries – 4 years	2 years None	287,944	0	• At least 3% growth in sales volumes, on average per year, in 2011, 2012 and 2013 • At least €1.4 billion in consolidated operating income, on average per year, in 2011, 2012 and 2013	To be determined	To be determined
November 28, 2012	France – 3 years Other countries – 4 years	2 years None	371,936	0	• At least 3% growth in sales value, on average per year, in 2012, 2013 and 2014 • At least €2 billion in consolidated operating income, on average per year, in 2012, 2013 and 2014	To be determined	To be determined

(1) On a comparable, consolidated basis.

5.5.5.b) Special report of the Managing Chairman

The Annual Shareholders Meeting of May 13, 2011 authorized the grant of shares without consideration to employees of the Company (except Managing Partners) and of related companies within the meaning of article L. 225-180 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 to grant 371,936 rights to one new share of common stock to 2,480 grantees, which will vest if a certain performance condition is fulfilled.

These shares will vest if a performance condition on meeting Group objectives is fulfilled.

The final number of shares that will vest after the close of the vesting period will depend on whether the following two performance criteria have been fulfilled:

- Like-for-like growth in consolidated net sales value at least an average 3% a year in 2012, 2013 and 2014;
- Consolidated operating income, before non-recurring income and expenses, of at least an average €2 billion a year in 2013, 2013 and 2014.

One half of between 25% and 100% of the granted performance shares, depending on the grantee's level of responsibility, will vest if either of these performance criteria is fulfilled. The only condition for the remaining granted shares to vest (between 0% and 25% depending on the situation) is that the grantee still be an employee of the Group.

None of the Managing Partners were granted any shares without consideration in 2011.

The ten employees other than Managing Partners who were granted the greatest number of share rights:

- received 25,344 rights to one share (two grantees received 3,104, two grantees received 2,356 and six grantees received 2,304);
- did not exercise any of these rights.

Clermont-Ferrand – February 7, 2013

Jean-Dominique Senard
Managing Chairman

5.5.6. EMPLOYEE SHARE OWNERSHIP

Following the three Employee Shareholder Plans, nearly 64,200 employees and former employees in 58 countries and five continents are now shareholders. At December 31, 2012, employees owned 1.6% of issued capital.

A new employee stock ownership plan intended for all Group employees will be introduced in 2013.

5.5.7. INFORMATION CONCERNING A SHARE BUYBACK PROGRAM CURRENTLY IN EFFECT

In 2012 and until the date of filing in 2013, the Company did not hold any of its own shares, either directly or indirectly, nor did it purchase, sell or transfer any of its shares. Likewise, no liquidity contract was in force with an investment service provider during the period.

5.5.8. DESCRIPTION OF THE SHARE BUYBACK PROGRAM SUBMITTED FOR SHAREHOLDER APPROVAL AT THE ANNUAL MEETING OF MAY 17, 2013

The following description has been prepared in accordance with Articles 241-1 *et seq.* of the General Regulations of the *Autorité des marchés financiers* and European Commission regulation No. 2273/2003/EC of December 22, 2003.

■ Date of the Shareholders Meeting at which the share buyback program is submitted for approval

May 17, 2013.

■ Purposes of the new share buyback program

- To maintain a liquid market for the Company's shares under a liquidity contract that complies with a code of ethics recognized by the *Autorité des marchés financiers.*
- To sell or grant shares to employees of the Company and its subsidiaries in accordance with the law, notably through stock option or performance share plans or employee share issues with or without a matching contribution from the Company.
- For allotment upon exercise of rights attached to securities convertible, exchangeable, redeemable or otherwise exercisable for shares.
- To purchase shares to be held and subsequently delivered (as consideration, in exchange or otherwise) in connection with external growth transactions.
- To implement any and all market practices that may be authorized in the future by legislation or the AMF.
- To cancel all or some of the bought back shares, subject to shareholder approval to reduce the Company's capital.

■ 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.* 18,200,000 shares at the date of this report. Based on the maximum purchase price of €100 per share and the absence of any shares currently held in treasury, this would correspond to a maximum theoretical investment of €1,800,000,000.

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.

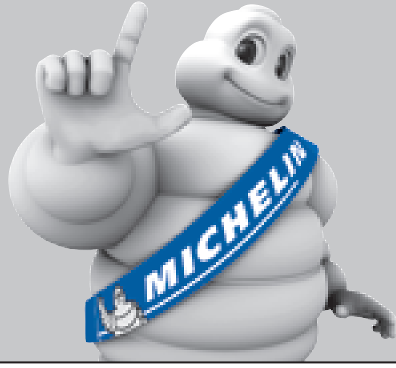
Pursuant to article L. 225-210 of the French Commercial Code, the total value of shares held in treasury may not exceed the amount of available reserves (other than the legal reserve) recorded in the Company's balance sheet at December 31, 2012.

■ Duration of the share buyback program

Subject to shareholder approval, the shares may be bought back at any time during the 18 months from the May 17, 2013 Shareholders Meeting, *i.e.* until the close of trading on November 17, 2014.

6

Michelin Performance and Responsibility



6.1. 2012 EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION PUBLISHED IN COMPLIANCE WITH ARTICLE 225 OF FRANCE'S GRENELLE II ACT

AN APPROACH THAT HAS UNITED MICHELIN TEAMS FOR MANY YEARS

Michelin Performance and Responsibility is the emblematic expression of the Group's sustainable development and corporate responsibility strategy. Committed to helping enhance mobility responsibly, the Group leverages its technological leadership to enable Michelin teams worldwide to meet new mobility challenges. By innovating and developing new skills and new structures, Michelin is staying true to the traditional values presented in the *Michelin Performance and Responsibility Charter,* published in 2002.

The Group has always endeavored to secure sustainable growth while maintaining a responsible balance among business performance, environmental protection and a constant commitment to forging positive relationships with employees and other stakeholders, both inside and outside the Company.

Following on from the *Michelin Performance and Responsibility Charter,* a new document was distributed to employees in 2012 to reaffirm the Group's commitments. *Michelin Performance and Responsibility, A Better Way Forward* describes how Michelin intends to continue delivering a solid performance in the future and how each employee can contribute to the quest for sustainable road mobility on a day-to-day basis. Adhering to the values and practices of the Michelin Performance and Responsibility approach constitutes the common foundation of Michelin's development around the world. A new Michelin Performance and Responsibility governance system was established in 2012 to deepen the integration of sustainable development criteria in all Group operations. A board chaired by the Chief Executive Officer is responsible for defining new targets for the Michelin Performance and Responsibility approach.

The employee, societal and environmental information presented respectively in sections 6.2, 6.3 and 6.4 below complies with Article L. 225-102-1 of the French Commercial Code – as completed by Article 225 of the Grenelle II Act of July 2010 and amended by the Warsmann IV Act of March 2012 – and with the application decree of April 24, 2012, which require all listed companies in France to publish information on the social and environmental impact of their activities and to set forth their commitment to sustainable development.

6.2. EMPLOYEE INFORMATION

HUMAN RESOURCES POLICIES THAT FOSTER THE SUSTAINABLE DEVELOPMENT OF BOTH EMPLOYEES AND THE COMPANY

Michelin bases its relations with employees on the Group's values, particularly respect for people, and on a firm belief in every employee's potential. As a result, the Group's human resources orientations have evolved over the years with two convictions in mind – that despite people's uniqueness and diversity, everyone should be treated with respect, and that all employees should be given the opportunity to realize their full potential. Convinced that a company's success and growth go hand in hand with its employees' fulfillment and personal development, Michelin has always endeavored to bring out the best in people. With its long-held values of respect for people, customers, shareholders, the environment and facts, it was only natural that Michelin would adopt a responsible approach to its role as an employer. In 2010, Michelin's determination to ensure positive relationships between the Company and its employees was formalized in a document entitled *Moving Forward Together: The Trademark of Mutual Commitment*. The reciprocal commitments described in this document in a clear, practical manner have been shared with all employees.

In 2012, Personnel Department teams defined the 50 strategic principles underpinning the Group's human resources practices. Backed by a determination to combine business performance with employee development and well-being, the Group's personnel policy aims to: (i) offer employment conditions in every host country that make Michelin an attractive place to work; (ii) ensure an outstanding level of commitment from employees worldwide; drive continuous progress in compliance with the corporate values and in the Group's quest for workforce diversity and (iii) to sustainably enable the company to deploy the necessary talent at the right time in the right place.

In all host countries, local Personnel Departments are responsible for expressing the Group's values in terms of the local culture and ensuring their application. Drawing on Group documents and guidelines, such as *Moving Forward Together,* guiding principles and Group objectives, the countries must develop policies that embody Michelin's approach to human resources while taking into account the local context.

Michelin is a signatory to the United Nations Global Compact, pledging to uphold its ten principles [(1)], and also adheres to the OECD Guidelines on Multinational Enterprises, which it endeavors to promote in all its host countries. It recognizes the Universal Declaration of Human Rights and the conventions of the International Labour Organization [(2)]. These principles and guidelines have provided inspiration for the Group's internal reference documents, particularly the *Michelin Performance and Responsibility Charter,* the *Michelin Code of Ethics, Moving Forward Together,* the *Manager's Guide* and the new *Michelin Purchasing Principles.* Widely promoted and distributed among employees worldwide, all of these documents have been translated into the Group's main business languages and are permanently available for consultation on the country organization intranets.

Six key personnel policy topics are addressed in the employee information section:

1. **Responsible employment practices**
2. **Life at work**
3. **100% Health and Safety**
4. **Managing, developing and empowering employees at every level**
5. **Enhancing dialogue**
6. **Driving innovation through diversity**

Note on the methodology used for employee indicators

When the Grenelle II Act came into effect, Michelin revamped its employee reporting methods, optimizing reporting tools, simplifying job categories and extending the reporting scope.

■ Data collection tools and reporting scope

PeopleSoft/Oracle human resources management software, in 13 different languages, has been used since 2000 to manage employees in the Group's consolidated companies. Most of the employee information for 2012 was extracted from the Chorus database associated with this software.

The information provided in compliance with the Grenelle II Act – employee numbers, working hours, payroll and occupational accident data – relates to all Group entities. The other employee and societal information was collected directly from companies with more than 300 employees on the payroll, covering 99.5% of the workforce.

Employees at Euromaster and TCI, the main European and North American dealership networks, have been included in some of the data presented below for the sake of completeness. In addition to the consolidated Group data, information has also been provided specifically for Manufacture Française des Pneumatiques Michelin (MFPM), which coordinates most of the manufacturing, sales and research operations based in France.

Sustainable development reporting is based on external references such as the guidelines published by the Global Reporting Initiative, which aims to provide a reporting framework that is standardized, reliable and credible. ISO 26000 has spurred the development of new corporate social responsibility policies, including the new Group health policy and the new Michelin Purchasing Principles.

■ Method for consolidating indicators

Data were supplied by the countries and companies in accordance with a guidance document issued by the Group. This guidance describes the process for compiling the social and societal indicators required by the Grenelle II Act for all Michelin host countries and companies as defined by law. It defines application procedures (implementation and external verification) to ensure that the process is managed efficiently and in a consistent manner across the Group. It also provides a list of reference documents in which the indicators are defined, or gives definitions directly. Each country is responsible for the fairness and accuracy of the data it provides. As part of a continuous improvement process, Group management audits the data monthly to ensure overall accuracy and consistency.

■ Sincere, verifiable data

For the seventh consecutive year, PricewaterhouseCoopers Audit was commissioned to review the procedures used to prepare the indicators presented in this document. Ten indicators were verified during the review and have been marked with two asterisks in the analyses and tables below. PricewaterhouseCoopers Audit looked at the divisions and departments involved in sustainable development reporting and reporting related to Article 225 of the Grenelle II Act, as well as at the distribution of responsibilities. The review opinion may be found in section 6.5.

(1) 1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

(2) Freedom of association and the effective recognition of the right to collective bargaining, see section 6.2.5; elimination of discrimination in respect of employment and occupation, see section 6.2.6.a); elimination of all forms of forced and compulsory labour; effective abolition of child labour, see section 6.3.4 and the position paper prepared in January 2007.

6.2.1. RESPONSIBLE EMPLOYMENT PRACTICES

6.2.1.a) Number of employees, breakdown by gender and geographic zone [(1)]

Number of employees at December 31, 2012

(employees on payroll, regardless of work contract)

	Europe	North America	South America	Asia (excluding India)	Africa, India, Middle East	Group Total
Number of employees**	67,785	22,209	6,037	15,307	2,105	113,443

** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).

MFPM France	*20,805*

Full-time equivalent employees at December 31, 2012

(regardless of work contract)

	Europe	North America	South America	Asia (excluding India)	Africa, India, Middle East	Group Total
Number of full-time equivalent employees**	63,033	21,432	5,458	15,291	2,088	107,302

** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).

MFPM France	*19,435*

Women as a percentage of employees on payroll at December 31, 2012**

(employees on payroll, all types of work contracts, excluding temporary)

	Europe	North America	South America	Asia (excluding India)	Africa, India, Middle East	Group Total
Production operators	8.4%	13.7%	8.7%	7.2%	2.7%	9.3%
Administrative and technical staff	28.7%	28.0%	27.1%	29.1%	19.7%	28.2%
Managers	18.6%	17.4%	20.8%	20.5%	11.9%	18.4%
TOTAL						**15.6%**

Scope: Group excluding dealership networks (85.7% total workforce).
** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).

	MFPM
Production operators	4.6%
Administrative and technical staff	28.1%
Managers	18.6%
TOTAL	**15%**

Excluding Euromaster and TCI, women accounted for 15.6% of total employees on payroll, a steady increase from 15.2% in 2011, 14.4% in 2010 and 14.0% in 2009. In the more male-dominated European and North American dealership networks, 11.3% of total employees on payroll were women. Michelin is committed to increasing the percentage of women employees to 20% by 2020, primarily by maintaining its recruitment targets of 15% women for production operators and 30% women for administrative and technical staff and managers. The Group has also undertaken to increase the percentage of women senior executives to 10% by 2015, by accelerating career advancement, hiring experienced women and continuing to deploy programs that support high potential female employees.

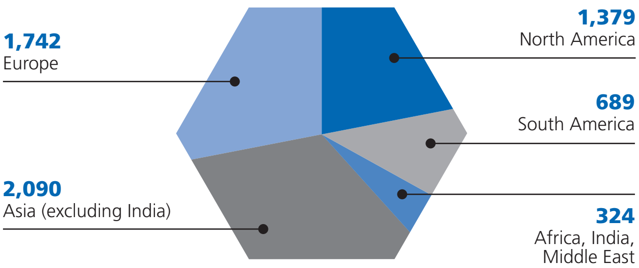
(1) Data by age and seniority are presented in table 6.2.7.

6.2.1.b) Employee movements

New hires in 2012 (work contracts with no set end date)

CONSOLIDATED GROUP

(excluding dealership networks)



Many of the new hires in 2012 related to the new plants and their need for additional talent. Combined with sales growth in its local markets, this resulted in Asia recording the greatest number of new hires. In Europe, where the market contracted for several product lines, plant recruitment was limited to critical needs and new hires only partially offset departures. As a result, Europe returned to 2010 workforce levels, after a year shaped by strong demand in 2011.

Michelin stepped up efforts to enhance its appeal to young people in 2012, in particular by creating a new global recruitment website and by increasing its presence on social networks.

MFPM played an important role and was recognized in early 2013 with a Randstad Award France in the automotive category, based on an extensive online survey to identify the most attractive employers.

MFPM

	Europe
New hires	934

The method for reporting new hires was redefined in 2012 and now refers exclusively to new hires on work contracts with no set end date. The adjusted total for 2011 is 9,611.

Employee terminations by type (work contracts with no set end date)

GROUP

	Resignations	Dismissals and terminations by mutual agreement	Retirements	Death	Total
Consolidated Group (excluding dealership networks)	2,218	2,197	1,853	125	6,393
MFPM	*114*	*197*	*757*	*32*	*1,100*

ATTRITION RATE (INCLUDING RETIREMENTS)

	2012	2011	2010
Group	6.8%	6.6%	7,8 %
MFPM	*5.5%*	*5.7%*	*8.6%*

Globally, terminations are fairly evenly distributed between three main types – retirements, resignations and dismissals. However, the percentages vary according to the region, with Europe accounting for most of the retirements followed by North America, and resignations occurring primarily in Asia.

In Europe, a significant decline in demand in several product lines forced plants to resort to short-time working hours and reduce the number of temporary workers. However, layoffs were avoided in all countries.

In France, **MFPM** also avoided layoffs and successfully maintained its apprenticeship program. Retirement was once again the primary cause of termination and the attrition rate including dismissals and resignations but excluding retirements fell below 2%. Including retirements, the rate was 5.5%.

Fixed-term contracts

In 2012, fixed-term contracts accounted for 1.54% of total Group payroll.

6.2.1.c) Compensation and employee benefits

	Total employee benefits expense in 2012 (in € millions)	Production operators	Administrative and technical staff	Managers	Fixed-term contracts	Provisions and provision reversals for pension obligations	Taxes, provisions and advances
Group	5,377	2,053	2,366	480	83	4	391
MFPM	*1,325*	*460*	*631*	*82*	*29*	*-4*	*127*

"Taxes, provisions and advances" includes taxes, provisions for pension obligations, advances on bonuses, stock-option advances and other long-term advances.

■ Compensation, payroll taxes and other employee benefits

Employee benefits expense amounted to €5,377 million or 25% of net sales in 2012, of which €1,109 million in employer payroll taxes.

The total may be analyzed as follows:

(in € millions)	
Wages and salaries - Group	3,927
MFPM	*880*
Employer payroll taxes	1,109
MFPM	*351*
Benefit contributions, pensions, severance and retraining costs	334
MFPM	*94*
Share-based payments	7
MFPM	*0*
TOTAL	**5,377**
MFPM	***1,325***

The Group's policy is to offer everyone tailored, fair and competitive compensation that reflects each person's performance and level of responsibility.

The Group's policy is to offer tailored compensation that reflects each employee's performance and level of responsibility and represents a fair and competitive offer in the local job market. Compensation policies are designed with a long-term approach, taking into account career development, evolving market conditions and local practices.

A range of profit-sharing and bonus systems have been introduced, which vary by country and employee category, and the individual bonus system is gradually being extended to all employees. These incentives encourage employees to deliver the results expected by the Company and to help Michelin achieve its objectives.

Employees above a certain level of responsibility may also receive a bonus based on the Group's results.

Discretionary and non-discretionary profit-sharing systems are also deployed, in accordance with each country's practices and regulations. For the sake of consistency, these systems are all governed by similar rules and procedures, using tools and calendars managed by the Group, and adapted in each host country to align them with local job markets and legislation. The profit-shares are also adapted so that Michelin remains competitive in the local market.

Because pay scales are pegged to criteria specific to each country, in particular to reflect local conditions (such as inflation ranging from a negative 0.9% in Japan to a positive 15.7% in Venezuela), the average pay rise for the year would not be a meaningful indicator and is therefore not calculated by the Group.

MFPM: In France, where inflation stood at 1.80%, pay increases in 2012 were as follows:

Production operators	2.5%
Administrative and technical staff	2.5%
Managers	3.5%

Data for France.

The Group's social responsibility commitment is reflected in its employee benefit policies, which primarily concern health care and insurance coverage and post-retirement benefits. Michelin's policy in this area is to supplement national systems to ensure that employees enjoy a similar level of benefits in all host countries.

Health care and insurance coverage

Michelin's policy is to ensure that all employees, as well as their spouses and children, are protected from the potentially significant financial consequences of an illness or an accident. This means setting up health care plans to cover medical expenses and providing employees with insurance coverage for short and long-term disability and death.

The Group is also committed to conducting proactive workplace health and safety initiatives (see section 6.2.3) and actively relaying public health campaigns on such topics as nutrition and vaccinations.

Post-retirement benefits

With life expectancy on the rise, a growing number of countries have national pension systems that may not be sufficient to meet employees' expectations. Michelin therefore believes it has a responsibility to implement systems that provide employees with additional post-retirement income, in accordance with the length of time they have spent with the Group.

At Michelin, 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. Certain host countries also have post-retirement benefit obligations relating to previous pension plans. At December 31, 2012, these obligations amounted to €2,390 million, of which €283.95 million for MFPM.

Wherever the legislation allows, Michelin also offers retirement savings plans with matching employer contributions.

In both cases, the funds are managed by a fund manager or insurance company that has been carefully selected for its solidity and financial performance.

In 2012, a retirement savings plan was set up for all Group employees in China. A relatively new concept in the Chinese job market, the plan attracted 95% of the workforce.

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 was increased to 100% of the employee investment. Another agreement introduced a new supplementary pension plan to be co-financed by the Company (in an amount equal to 1% of gross salary) and the employee (0.2%). Deployment of the plan will begin at Manufacture Française des Pneumatiques Michelin, Compagnie Générale des Établissements Michelin and Pneumatiques Kleber, with the possibility of other French companies joining in the future.

Other employee benefits

The other employee benefits on offer are strongly influenced by job market customs and practices in each country. The aim is to enhance employees' quality of life by taking into account their local context and specific needs (see section 6.2.2).

■ Discretionary and non-discretionary profit-sharing, employee savings plans and employee share issues

In addition to salary and performance-based bonuses (for meeting either personal 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-shares, non-discretionary profit-shares, contributions to supplementary health insurance, retirement savings plans and employee savings plans with matching employer contributions of up to 50%. Seventeen country organizations provide such programs, benefiting nearly 72,000 employees. The amounts awarded under these supplementary programs vary considerably from one country to another and can account for up to 30% of an individual's compensation.

At Manufacture Française des Pneumatiques Michelin, the new 2011-2013 discretionary profit-sharing agreement signed with the trade unions uses multiple indicators to calculate profit-shares, as follows: the number and success rate of Progress Ideas, the reduction in energy used, the frequency of occupational accidents and the achievement of production targets. The amount of the discretionary profit-share, which is paid in the first quarter of the following year, can account for up to 5% of salary.

In 2012, the amount paid to MFPM employees in respect of 2011 profit-shares came to €59 million, representing around 4% of total payroll and an average of one month's salary per employee.

In France, an agreement on non-discretionary profit-shares was signed in 2012 that improves on the existing agreement by allowing up to 15% of operating income to be paid out to employees of the companies concerned (Manufacture Française des Pneumatiques Michelin, Michelin Air Services, Société du Caoutchouc Synthétique Michelin, Pneumatiques Kleber, Michelin Travel Partner).

6.2.2. LIFE AT WORK

Michelin is committed to providing working conditions that favor all four key aspects of personal well-being – physical health, psychological balance, social fulfillment and a sense of personal achievement. It does this by undertaking projects to enhance the work environment and the organization of work schedules, by improving communication methods, by exploring solutions for a better work-life balance, and by promoting a high quality of life for everyone.

Country and site organizations are responsible for making progress on local priorities, in accordance with the needs expressed by employees. To support these initiatives, a cross-functional working group was set up in 2012 to define Group targets and recommendations, bringing together Personnel Department managers and experts in risk management, health and sustainable development.

6.2.2.a) Working hours

Working hours in the manufacturing plants and the research, logistics, sales and administrative facilities are strictly organized according to the applicable labor laws of the country concerned. For full-time non-shift employees, the annual work time varies from 211 days in Hungary to 278 days in Colombia, and 213 days in France to 260 days in the US and Mexico.

Working in shifts enables a plant to operate up to seven days a week and 360 days a year, thereby optimizing capacity utilization. If demand declines, adjusted working hours and temporary schedules can be implemented after consulting employee representatives. In 2012, an agreement was signed with trade unions at MFPM's Montceau-les-Mines plant to adjust working hours on a permanent basis. (For more details, see section 6.2.5 on social dialogue.) These adjustments enable the Group to respond to fluctuations in business activity, while enhancing its appeal as an employer.

Group-wide, most people work in shifts, primarily in three 8-hour shifts, but also in four 8-hour shifts, five 8-hour shifts, two 12-hour shifts and week-end shifts, reflecting different manufacturing requirements, prevailing legislation and local practices.

In non-production positions, working hours are usually flexible within defined limits.

Following on from a union agreement signed on May 12, 2009, regular telecommuting is now gradually being introduced at Manufacture Française des Pneumatiques Michelin. A review of the situation after nearly four years shows that the system can effectively enhance work-life balance but is still relatively unused. Just over a hundred employees currently work regularly from home. They include both men and women and more administrative and technical staff than managers. Among those attracted by the system are women in the early months of pregnancy and disabled employees. The benefits enjoyed by telecommuters include a reduction in the fatigue caused by travel and lower transportation costs. At facilities where employees have long commute times, such as dealerships or head offices in certain capital cities, telecommuting feasibility studies are being conducted.

6.2.2.b) Part-time work

Part-time contracts, which are common in many host countries, concerned 2.8% of the total workforce in 2012, across all job categories. Employees choose to work part-time to more effectively balance their personal and professional commitments.

PART-TIME EMPLOYEES BY GENDER AND JOB CATEGORY AS A PERCENTAGE OF TOTAL EMPLOYEES AT DECEMBER 31, 2012

Group *MFPM*	Women	Men	Total
Production operators	6.4%	2.3%	2.7%
MPFM	*10.4%*	*2.4%*	*2.8%*
Administrative and technical staff	8.2%	1.2%	3.2%
MPFM	*15.6%*	*3.9%*	*7.2%*
Managers	8.3%	0.3%	1.8%
MPFM	*16.5%*	*0.6%*	*3.6%*
TOTAL	**7.6%**	**1.9%**	**2.8%**
MPFM	*15%*	*2.7%*	*4.5%*

Scope: Consolidated Group excluding dealership networks.

6.2.2.c) Benefits that improve employees' quality of life

To improve the work environment and make employees' lives easier, Michelin contributes financially to a wide range of activities, services and other benefits for employees and their families, in every host country. Some of these benefits are mandated and defined by local legislation, while others are provided on a voluntary basis.

In addition to foodservices and transportation, Group companies are developing a growing number of cultural activities, exercise programs and health campaigns through works councils and similar local organizations. Michelin contributes several tens of millions of euros to financing these benefits every year. Some countries, such as Sweden, Hungary and the United Kingdom, are setting up flexible benefit plans that allow employees to choose the activities and services that best suit their specific needs.

Others have adopted an integrated approach, offering comprehensive programs to improve employee health and well-being. Examples include *Choose Well-Live Well* in the United States, *Balance* in Germany, *De Bem com a Vida* in Brazil and *Oxygène* in France, as well as the *Worklife Balance* project developed in Italy in 2012. These programs usually include a food and nutrition component, access to exercise equipment, and the opportunity to benefit from various additional services, such as daycare centers, employee assistance programs, tickets for cultural and sports events, and corporate concierge services.

Work-life balance is also targeted in host countries by numerous stress management initiatives, such as telecommuting, access to daycare, and financial assistance for childcare and education costs. Management practices and operating methods are also changing, with host countries undertaking a variety of measures that reflect local customs and concerns. An example is the implementation of guidelines on the use of open spaces.

6.2.3. 100% HEALTH AND SAFETY

Michelin has always taken an extremely diligent approach to protecting the health and safety of its employees and suppliers. The visibility of the Group's objectives in this area was enhanced in February 2011 *via* the 100% Health and Safety approach and then in 2012 with the creation of a policy on worklife quality. Developed jointly by the Group's main stakeholders, this policy has two primary objectives – to manage risks that could have a negative impact on employees' health, safety or ability to work, and to provide the working conditions and resources necessary for employee fulfillment. In addition to targeting health and safety, the policy therefore includes a wellbeing component, designed to encourage initiatives that improve working conditions. These initiatives are presented in section 6.2.2.

The definition of the 100% Health and Safety policy has been restructured and enhanced. In February 2011, the Managing Partners issued the Michelin Health and Safety Statement identifying the responsibilities, deliverables and resources associated with each level of management in the production facilities. The statement has now been posted in meeting rooms, cafeterias and other common areas throughout the Group.

Michelin Health and Safety Statement

Each person is unique. Health and safety are fundamental. Above all else, our wish is to ensure safe and healthy conditions for everyone working in our Company. That is why we implement in our facilities, right from the start, the best organizational standards and appropriate means to ensure everyone's health and safety while complying with the law. In the same manner, we establish appropriate directives for business travel. However, this alone is not enough. We require each individual to apply three essential principles every day for their own health and safety as well as that of others. First, good behavior begins with respect for the rules and active participation. Second, each person is responsible for their own health and safety and that of others. Third, individual commitment drives continuous progress. Through respect for people, each of us continuously supports the *Michelin Performance and Responsibility Charter* and *"Moving Forward Together"*.

A policy backed by a solid framework

Michelin's Environment and Risk Prevention Management System is based on OHSAS 18001 specifications, meets certification standards, and complies with the recommendations issued by the relevant international bodies, such as the World Health Organization, the United Nations Global Compact and the International Labour Organization (ILO).

Formally defined in the *Michelin Performance and Responsibility Charter,* the Michelin Manufacturing Way Best Practices, *Moving Forward Together* and the *Michelin Code of Ethics,* the principles underpinning Michelin's social responsibility commitment determine the Group's health and safety targets and objectives, which have been reaffirmed in the new 100% Health and Safety declaration.

The foundations for a Group-wide health policy were established in 2012, after a survey of health practices and polices within the Group, an analysis of best practices outside the Group, and a review of both the recommendations issued by key international organizations, such as the UN, the ILO and the OECD, and the relevant standards, laws and regulations, including ISO 26000 and Grenelle II. The aim is to identify the strategic avenues for safeguarding health and to update and harmonize existing practices within the Group. The policy covers workplace health, quality of life, stress management, harassment and violence, as well as health-related corporate social responsibility commitments. Deployment across all Group companies is scheduled to start in 2013.

A network for the health and safety of employees and suppliers

The number of employees needed to implement health and safety measures and the skills required for the task are defined by an internal standard (REF 019 EP) that is often more demanding than the legislation applicable in many of the Group's host countries. Expertise in environmental protection, occupational health and hygiene, ergonomics and safety is available at every site, in accordance with its size and type.

These risk prevention and health experts are organized into Group and zone/country networks, which are overseen by network coordinators. Their job is to effectively manage action plans, share best practices across the networks and leverage the experience acquired. In addition to enhancing the quality of the reporting process, this setup enables the system's performance to be measured at every level and facilitates continuous improvement.

6.2.3.a) Health

■ Workplace health services

Michelin redefined the duties and objectives of its workplace health services in 2012 and updated the job descriptions of its healthcare workers, who include occupational physicians, nurses and nursing assistants. The lines of communication among medical personnel were also clarified to achieve greater consistency in health and safety practices and to optimize the success of personal and collective preventive measures. A survey of medical surveillance and health care organization practices was carried out in 2012, in preparation for the development of a Group-wide health policy and new health standards.

Employee health is monitored *via* check-ups conducted either by Michelin medical teams, which represent 45% of cases, or by outside health care providers coordinated by a Group physician. Systematic check-ups are conducted for 60% of the total workforce and for 90% of employees in positions associated with specific risks, such as exposure to noise or chemicals, physical strain or night-time work.

Host countries use diverse methods for keeping medical records, making it difficult to monitor employee health at Group level. A pre-feasibility study was conducted in 2012 to test the idea of setting up a health data management system, which would enable the Group to generate employee health statistics and to identify priority areas. A feasibility study is scheduled for 2013.

■ A medical advisory committee

To effectively monitor health issues, Michelin leverages the expertise of a medical advisory committee, set up in 2010. Bringing together nine outside medical experts, the committee provides independent guidance that helps Group management identify and address the health risks specific to tire manufacturing. In 2012, the committee focused on noise exposure, addictions, strenuous working conditions and endocrine disruptors.

■ Occupational illnesses

Initiatives are regularly conducted to prevent and detect occupational illnesses, particularly those related to noise exposure, repetitive movements, physical exertion and chemical risks. The elimination of carcinogenic, mutagenic and reprotoxic (CMR) substances continued during 2012, primarily *via* the removal of asbestos. Chemical risks are assessed prior to implementing any new testing or production techniques, with the help of industrial health experts, toxicologists, Technology Center materials experts and occupational physicians. A program to improve workstation ergonomics is also being deployed, to reduce the risk of occupational illnesses associated with physical activity. To supplement these collective measures, employees wear personal protective equipment, such as hearing protectors, wherever necessary.

Data on occupational illnesses is currently available for France, Germany, Hungary, Italy, Poland, Romania, Spain and the United Kingdom. The objective for end-2013 is to align the Group's system for monitoring occupational illnesses with how they are recognized by the legislation applicable in each country.

Among the illnesses reported by these countries in recent years were musculoskeletal disorders, respiratory diseases, noise-related hearing problems.

Initiatives to manage workstation ergonomic risks or industrial hygiene risks are presented in section 6.2.3.b).

■ Stress

Two major initiatives have been undertaken by the Group to prevent and reduce workplace stress – the development of a program to improve worklife quality (section 6.2.2) and the formal definition of procedures for detecting and preventing stress. A variety of individual and collectives measures are deployed in the host countries, in accordance with the local culture and the resources available. Examples include:

- multidisciplinary risk assessment and corrective measures in Italy, France (adoption of a common method for all sites), Spain (20% of risk situations assessed *via* Psychomap questionnaire), Hungary (risk analyses conducted in compliance with local legislation) and the United States (Insight health risk assessment offered to all employees);
- training initiatives and awareness campaigns for employees and managers in France, Poland, Hungary and Brazil;
- coaching programs in Germany and group support sessions at Family Health Centers in the United States, as part of the Michelin Resiliency Program;
- relaxation initiatives in Germany, Brazil and the United States;
- individual consultations with onsite medical teams in France, Spain, Germany and Hungary; the Employee Assistance Program in the United States, which gives 15,000 employees access to mental health specialists from Optum Behavioral Health; and the offer of consultations with a psychologist for employees who express the need, in India and Poland.

■ Relaying public health campaigns

In every host country around the world, public health campaigns aligned with local needs and practices are conducted for Michelin employees and their families. Initiatives deployed as part of these campaigns include (i) training in lifting heavy loads, preventing back and joint pain, and avoiding the risks associated with a sedentary lifestyle; (ii) advice on healthy eating and wellness; (iii) anti-smoking and anti-alcoholism courses; and (iv) exercise programs.

In the United States, Michelin's third Family Health Center was inaugurated in 2012, following the opening of one in Greenville, SC, in 2010 and one at the Donaldson Center Industrial Air Park in 2011. The centers offer employees and their families high-quality, affordable and convenient check-ups, medical exams, analyses and treatment follow-up services.

At corporate headquarters in Clermont-Ferrand, France, the *Oxygène* program offers employees the opportunity to practice a variety of physical activities in the workplace (see section 6.2.2). Conferences on nutrition and health are also organized several times a year, with a dietician from the local ASM sports club.

In Poland, where a public health program is offered to personnel each year, 270 employees benefited from breast cancer and prostate screening and abdominal ultrasounds in 2011-2012.

■ Preventing HIV/AIDS

HIV/AIDS prevention programs continued to be deployed in 2012, with a focus on the worst hit countries. In addition, a large number of awareness campaigns are conducted for employees and host communities in areas where such awareness is lacking or denied.

■ Liaising with local public health care facilities

Whenever the quality of local public health care facilities is deemed inadequate, particularly at isolated locations in emerging countries, Michelin takes the necessary steps to improve them.

In China, for example, the Group is working with hospitals in Shanghai and Shenyang to organize better care for local employees and expatriates, with a particular emphasis on preventing health care-associated infections. In 2012, a contract was signed with an English-speaking medical service to eliminate comprehension issues for expatriates.

In Poland, a program has been implemented to provide employees with fast, convenient access to specialists in the private health care sector.

Michelin also has an agreement with International SOS to ensure that expatriates and employees traveling abroad have access to health care services wherever they are.

6.2.3.b) Risk assessment and prevention

Risk assessments are conducted for all workstations in accordance with common, standardized methods. These include ARM for equipment risks, EVANE for ergonomic risks, CR for chemical risks and ASAR for asbestos risks. The assessment results are used to identify priority areas for annual and multi-year action plans and to monitor the impact of preventive measures. In France, the results are consolidated into a single document covering all risks. An information system is currently being developed to enable Michelin to consolidate environmental, health and safety risks at Group level and to monitor individual employee exposure. Baptized SEREP, the system is expected to be fully operational in 2015.

■ Enhancing workplace safety

To achieve "100% Health and Safety", Michelin takes preventive measures that target human, technical and organizational factors.

Employee participation in the safety process

Internal communication plays a critical role in deploying workplace safety policies. Several campaigns were undertaken on every site in 2012, with an emphasis on the Group Safety Programs, preventing the four main causes of fire, and the cross-fertilization of best practices. More than 70% of all employees were involved in workplace safety programs in 2012.

A "100% Health and Safety" e-learning module has been deployed in all Group plants, describing the three avenues for action and defining the responsibilities of everyone involved. The training campaign will be followed up in 2013 with communication initiatives reiterating the key messages. The effectiveness of safety initiatives is heightened by the synergies among internal communication systems, which include on-site CCTV networks, bulletin boards, team meeting presentations, the managerial intranet and dedicated support documents.

Presented each year to outstanding teams and departments, the Michelin Safety Award encourages employees to achieve 100% Health and Safety, by showcasing the winners' best practices in articles, video reports and other internal communication media. Five plants and two logistics warehouses submitted initiatives for a Michelin Safety Award in 2012.

Employee involvement in the safety process is highlighted by the Progress Ideas system (see 6.2.4.f). Of the 20,834 Progress Ideas implemented by the Group in 2012, 32% related to safety and 26% to working conditions, reflecting a strong sense of ownership of these issues at all levels of the organization.

A major project to provide detailed, standardized accident prevention instructions for all workstations has been finalized for manufacturing positions and will be extended to maintenance positions in 2013 and then to offices in 2014. In every plant, shopfloor managers are trained to prevent accidents at their team's workstations.

To reduce occurrences of the most serious accidents, prevention programs have been implemented for six specific risks: in-plant traffic, working at heights, power distribution, lockout procedures during maintenance work, entanglement hazards and rollers used in manufacturing and laboratory processes.

TRACKING OCCUPATIONAL ACCIDENTS

		2012	2011
Group (including dealership networks)	LTIFR**	2.80	2.40*
	LTISR**	0.19	0.17*
MFPM	*LTIFR***	*6.19*	*3.1*
	*LTISR***	*0.31*	*0.22*

* *2011 data have been recalculated to reflect inclusion of the dealership networks.*

** *Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).*

The lost-time incident frequency rate (LTIFR) corresponds to the number of incidents resulting in more than one day's lost time per million hours worked. The lost-time incident severity rate (LTISR) corresponds to the number of working days lost to accidents resulting in at least one day's lost time per thousand hours worked.

A Group-wide safety performance survey conducted in 2002 revealed an unsatisfactory situation on the whole, with significant discrepancies between sites and an overall LTIFR of 18.65.

As a result of the many and varied measures undertaken since then, 24 sites had no lost-time incidents in 2012, compared with only 8 sites in 2005. Operations in North America went for two months without any accidents, in October and November, for a total of 22,545 employees on payroll. In Europe, LTIFR improved noticeably in Germany, Italy, Spain, Romania and the United Kingdom, and was stable or just slightly lower in other countries.

Safety performance improved in the sales and marketing operations, with an LTIFR close to 1, in part due to a dedicated occupational road safety program and the work carried out by technicians assigned to trucking companies.

The situation in France requires further explanation. Country management realized that the method of accounting for lost-time incidents varied depending on the facility. Clarifying these variances provided an opportunity to point out that, regardless of the indicator, the primary objective is obviously to ensure the overall safety of everyone in the workplace.

The resulting arithmetic increase in the lost-time incident frequency rate (LTIFR n°1) was solely due to the harmonization of the calculation method and does not in any way reflect a deterioration in employee safety in France (and at MFPM in particular). This is demonstrated by the stability of the total recordable incident frequency rate (LTIFR n°2), which stood at 20.6 at year-end 2012 versus 20.2 a year earlier, at constant MFPM scope of reporting.

In response to the shortcomings mentioned above and in an effort to achieve 100% Health and Safety, a new indicator will be introduced in all countries starting in 2013. Covering accidents, illnesses and temporary incapacity, the total case incident rate (TCIR) will provide a more holistic view of how the workplace affects employee health so that prevention programs can be prioritized accordingly. Michelin North America teams have been using this indicator for several years.

The improvement in the LTISR over the past ten years is equivalent to a workforce of more than 600 people. While accidents – even tragic ones – still occasionally occur, the progress made in this area and the results achieved across the Group are a source of great pride for all.

Three employees died in 2012, a worker at the Karlsruhe plant in Germany, a member of the sales team in Russia. A fatality was also reported by the TCI dealership network in North America and another by a subcontractor participating in the construction of the Chennai plant in India, bringing the total number of fatalities during the year to four. Investigations are underway to analyze the causes of these accidents and protective measures have been taken to improve safety.

Fire incidents were reduced by half between 2006 and 2012, thanks to the deployment of the High Protection Risk Michelin concept in the units most at risk.

Tracking production operator absenteeism

In 2004, Michelin developed and implemented a system for tracking foreseeable and unforeseeable absences among production operators, the Group's largest job category. Guidelines were prepared in 2003 and a monthly reporting process was introduced at site level. The system enables unscheduled absences to be divided into several categories so that targeted actions plans can be prepared. In 2012, absenteeism was stable overall compared to the previous year but varied significantly among geographic zones, with the United States and Asia reporting very low levels of 3.84% and 2.36% respectively and South America a high 13.43%. In Europe, the rate was lower than in similar industries, at 6.83%.

The denominator used to calculated absenteeism – scheduled hours worked – was harmonized in late 2011 by excluding annual leave and scheduled days off. For MFPM, this led to an automatic increase of more than 1%, to 7.26% in 2012 from 7.02% in 2011. Using the same calculation method, absenteeism remained stable from the previous year. The high level of absenteeism at MFPM is due to the significant percentage of long-term leave.

Sick leave and other short-term absences	Lost time due to occupational injury	Long-term leave	Group total (including dealership networks)
2.63%	0.19%	1.69%	4.51%
Sick leave and other short-term absences	**Lost time due to occupational injury**	**Long-term leave**	**Group total (excluding dealership networks)****
2.63%	0.18%	1.77%	4.58%

** *Data related to this indicator have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).*

Improving occupational road safety

Michelin has long been involved in initiatives to support road safety (see section 6.2.11), with a particular interest in meeting the challenges of work-related road safety.

Occupational road safety was a core issue discussed at the roundtables organized by the Global Road Safety Project during the 2010 Michelin Challenge Bibendum in Rio de Janeiro. These discussions led to the publication of the "White Paper for Safe Roads in 2050: Achieving Zero Work-Related Road Deaths", which was part of the Group's contribution to the United Nations Decade of Action for Road Safety 2011-2020.

Partner Jean-Dominique Senard publicly announced the Group's commitment to the Decade of Action for Road Safety at the Michelin Challenge Bibendum in Berlin in 2011.

The risk of accidents while commuting or in work-related driving is addressed *via* internal awareness-building campaigns to encourage safer driving practices and more efficient travel management.

On the training side, all new marketing and sales employees attend a half-day road safety course as part of their orientation program.

Information tools include a road safety awareness kit developed for plant employees worldwide, contests, safe driving campaigns, and reports on national road-safety campaigns in the *Forward* weekly news program before the summer vacation period and in early winter.

Michelin also offers eco-driving courses to employees in several countries. Combining several hours of classroom training and behind-the-wheel practice, they help to reduce the risk of an accident by encouraging drivers to think ahead and anticipate obstacles, while also enabling them to save fuel by using their cars more efficiently. In the United States, a program has been implemented to promote calm, responsible driving.

All of these initiatives embody the long-term commitments made by Michelin, both to the Decade of Action for Road Safety and in the Road Safety Charters signed with national and European bodies.

In 2013, an action plan will be prepared to bring Michelin into line with the ISO 39001 standard on road traffic safety management systems.

Monitoring the safety performance of temporary employment agencies

Safety data relating to subcontractors are being centralized with the help of a dedicated database known as GAIA and a best practices guide will be made available at all Group sites in 2013. Michelin is committed to aligning the LTIFR and LTISR of temporary employment agencies with its own performance, in particular by pursuing the workplace health and safety programs initiated with these agencies over the years. An action plan is being deployed based on:

- a workplace safety charter signed by Michelin and each temporary employment agency;
- self-assessments and action plans carried out in partnership with the local agencies on every site;
- best practices identified during on-site safety audits conducted in partnership with the local agencies;
- annual meetings between the Michelin manager and the managing directors of the temporary employment agencies, to track and supervise the process.

Results have been encouraging, with the lost-time incident frequency rate for temporary workers declining by two-thirds over the past four years.

■ Improving workstation ergonomics

Comprising one expert for every 2,000 production operators, the ergonomics expert network has demonstrated its capacity to improve production line working conditions, by reducing or eliminating physical stressors and environmental hazards such as poor lighting and excessive noise at production workstations.

Ergonomics is taken into account starting in the design phase. On-site, ergonomists work with local teams to identify and lead the deployment of measures to improve existing workstations. The Group ergonomics network enables the sharing of feedback and best practices across the organization.

Michelin's commitment to ergonomics has led to a number of cross-unit projects to resolve stressful working conditions, which led to significant improvements for more than 800 employees in 2012. These projects have resulted in the development of ergonomic production prototypes, such as extrusion lines and tire mold maintenance stations. A dedicated budget has been allocated for the deployment of these prototypes and the development of new solutions. The medium-term objective is to eliminate the most physically demanding workstations, to minimize the impact on employee health and make manufacturing positions accessible to a wider range of people.

■ Managing occupational health and hygiene risks

Supported by the network of Group Health Correspondents, Technology Center materials experts, toxicologists and occupational physicians, the corporate occupational health and hygiene department leads a program to manage risks in two main areas, workstation chemical risks and asbestos-related risks. It also prepares guidelines for analyzing risks and monitoring employee exposure.

To safeguard the health of its employees, Michelin deploys a chemical risk management process at all its units involved in manufacturing or research and development. Only chemicals that meet internal acceptance criteria and local HSE regulations are authorized within the Group. Employee exposure is analyzed and the risk levels are strictly defined, with unacceptable risks eliminated by using alternative, less hazardous chemicals or by taking personal or collective protection measures. Michelin invests in risk reduction initiatives every year. Almost all of the risk/exposure analyses were finalized in 2012, which means that the definition of priority avenues for effectively reducing these risks can begin in 2013.

Michelin tires have never contained asbestos and the Group does not use asbestos at any of its units worldwide. The program to remove asbestos containing materials has been completed for friable asbestos and is continuing for bonded materials. In order to control the risk to people and the environment, all asbestos-removal operations are supervised by a manager at corporate headquarters.

The centralized occupational health and hygiene expert information system continued to be rolled out in 2012. Based on Group best practices, the system enables the generation of standardized safety documents for all the semi-finished and finished products used worldwide. These documents, which comply with both local legislation and Group standards, include safety data sheets and instructions for the safe use of products at the workstation.

6.2.4. MANAGING, DEVELOPING AND EMPOWERING EMPLOYEES AT EVERY LEVEL

6.2.4.a) A dynamic and comprehensive approach to training

Around the world, Michelin continuously invests in training programs to enhance the skills of its teams. Every day, 4,200 employees receive training to enable the Group to meet the challenges of international growth, which demands the ability to deliver ever-greater technical performance and superior quality of service.

In 2012, the percentage of training hours per total hours worked [(1)] stood at 4.4% for the Group as a whole, unchanged from the previous year, and at 3.05% for MFPM. Indicative of the ongoing efforts made in this area, these rates reflect Michelin's balanced, dynamic approach to training and development. The aim is to give all employees the opportunity to realize their full potential, while also meeting the Company's skills requirements.

In China, for example, where construction work on the new plant in Shenyang forged ahead during the year, capital expenditure projects were accompanied by training initiatives, with the percentage of training hours per total hours worked rising to 7.3% in 2012 from 6.3% the previous year. For the past three years, teams from the plants in China, India and South America have attended training programs conducted by several departments and facilities in Europe and North America, covering such areas as production, sales and customer service, administrative skills, support services and employee training. In total, 1,200 employees from Brazil, China and India have been trained by their colleagues in other regions.

New training centers have also been established in countries where the Group's development is more recent. A good example is Thailand, where a center covering more than 9,000 square meters has been opened to provide training for technicians, engineers and other professionals in such areas as production, maintenance, management marketing and sales.

Excluding Euromaster and TCI, total training hours amounted to 7.28 million in 2012, for an average of 69 hours per employee on payroll and 78 hours per trainee, compared to 67 and 79 hours respectively in 2011. As a result, Michelin once again ranked above average among the world's 500 largest companies. The number of hours of training at MFPM exceeds one million. Training outlays amounted to 4.9% of payroll in 2012 (5.5% in 2011), for an average training expenditure per trainee of €2,520 (€2,650 in 2011). The Euromaster dealership network in Europe provides 40,000 hours of technical, administrative and sales training to its employees each year.

(1) Data related to this indicator have been reviewed by PricewaterhouseCoopers Audit (see section 6.5). These figures do not include the dealership networks.

TRAINING HOURS BY EMPLOYEE CATEGORY

Group	Production operators	Administrative and technical staff	Managers	Total
Number of training hours	5,107,095	1,839,599	332,161	7,278,854
Percentage	70%	25%	5%	100%

Job-specific courses accounted for 90% of the training program in 2012, in line with the Group's commitment to helping to develop people's skills and employability. Management courses accounted for another 6% of the program, compared to 4% the previous year. The significant increase reflects the initiatives undertaken by the Personnel Department to enhance the quality of management, as part of the "Moving Forward Together" approach. The remaining 4% were general training courses.

Environment and Prevention training represented 3% of the overall program.

6.2.4.b) A structured skills management process

A structured process has been implemented to manage skills within the Group. In each profession (marketing, finance or logistics, for example), a Competencies Director is responsible for deploying a Referential of metier competencies and skills assessment tools, with the help of employee experts in the profession and human resources personnel.

Reference jobs have been defined for each metier, totaling more than 700 across the Group. Considerable effort has been made since 2011 to harmonize the associated job descriptions. As a result, 90% of all administrative, technical and management reference job descriptions had been reviewed and updated by end-2012. Available *via* a shared database, the job descriptions identify the expected achievments, main tasks and skill requirements associated with each job. To ensure global consistency of the job map, the reference jobs are placed on a common matrix using the same, Hay Group method worldwide.

All positions are linked systematically to a reference job, giving employees a clear understanding of what is expected of them. A standard training plan covering individual and collective skills development activities is prepared for all jobs. In addition to describing the training required on taking up the position, it also sets out initiatives for maintaining and developing the skills required for the job.

All employees benefit from an annual process involving a performance appraisal, the definition of objectives for the year and a development action plan. They are also offered a more in-depth periodic development review every three years to discuss their development beyond their current position. In 2012, 50% of administrative and technical staff and managers had benefited from a development review within the previous three years, compared to 46% in 2011.

A strategic human resources planning process is gradually being deployed at Group level. The process will be led jointly by operations and personnel staff, with input from the professions and country organizations. The aim is to identify and analyze potential gaps between actual employee numbers and skills and strategic human resources needs, so that these gaps can be addressed.

6.2.4.c) A system for recognizing competency

Since 2011, all Group professions have been involved in implementing a global process for recognizing skills development and job competency. The process has been divided into two stages:

- validation, which means that the employee has completed the training required on taking up a new position;
- qualification, which means that the employee has demonstrated the ability to do their job independently.

The competency recognition process is primarily applied on two particular occasions:

- When employees take up a new position, they are given a job description and an individualized training plan based on the standard training plan for the reference job. Their competency for the position is validated once they have completed their training plan, and then certified by their manager once they have acquired the necessary level of independence.
- Managers are asked to conduct a periodic development review every three years to identify additional skills that the employee should develop, either for their current position or in preparation for a future position.

6.2.4.d) A new employee induction program

The Personnel Department has developed a comprehensive and customizable program to help new hires become familiar with Michelin and to guide them through their first days with the Group. Launched in 2011, the new induction program is designed for all employees and is gradually being deployed in all host countries.

Every new employee is welcomed by their manager and a member of the Personnel Department, who walk them through their individual induction program and support them as they get started at Michelin. As part of this individual program, new employees move into their position, take part in an onsite introductory course and participate in an induction seminar during their first year with the Company. The seminar may take one of several forms:

- The induction seminar for operators is held over a three-day period, two days when they join the Company and an additional day once they have been on the job for a year.
- Administrative and technical staff attend a three-day "A Better Way to Start" seminar held in their host country.
- For employees above a certain level of responsibility, a four-week program called "The Session" is organized three times a year in Clermont-Ferrand. A total of 300 engineers and managers from around the world participated in the program in 2012.

Once their induction has been completed, employees review the period with their induction monitor or career manager.

6.2.4.e) Career management for everyone

Michelin has always put great emphasis on internal promotion, which is why 80% of the Group's 600 main managers today have been promoted from within. This means that all employees are hired to pursue a career over the long term, not just for a specific position. The integration and continuous skills development initiatives mentioned earlier enable all employees to realize their full potential. After their induction period, employees are supported through the various stages of their career by a network of nearly 400 career managers.

Present worldwide and independent from the hierarchy, career managers are responsible for a particular site or country, or for managing international careers. They leverage a broad, long-term vision to enable employees to build a personalized career path and to seize new job opportunities, in accordance with their individual career aspirations and the needs of the Company.

Alongside career managers and the employees themselves, managers also play a key role in the career management process, helping employees to improve their performance and supporting their professional development. Managers are also tasked with determining their team members' capacity for advancement. Between 2010 and 2012, 2,500 managers – representing 40% of the total – were trained to identify employees with the potential to progress fast and/or far up the corporate ladder.

In 2012, 15% of all administrative and technical staff and managers, and 24% of those aged 20 to 30, were promoted during the year. Also in 2012, Michelin decided to help all of its plants worldwide ensure the dynamic management of production operators' careers, by preparing guidelines and Group recommendations on this topic. Indicators for tracking progress in this area will be introduced in 2013.

6.2.4.f) Harnessing employee ideas to drive performance and progress

Michelin was one of the first companies in the world to tap into employees' imaginations when it introduced Progress Ideas back in 1927. The aim is to offer all employees – regardless of their position – the opportunity to play an active role in the Company's management and growth by suggesting ideas for resolving problems or improving working methods. In addition to encouraging their team members to submit ideas, managers are asked to help process the ideas submitted and to ensure appropriate recognition is given to employees whose ideas have been implemented.

The number of employees participating in the process increases each year, with 20,520 employees worldwide submitting at least one idea in 2012, for a participation rate of 34.5%. The improvement was well above average in some countries. In Russia, for example, the number of employees who submitted ideas increased from 47 in 2011 to 622 in 2012, with a total of more than 900 Progress Ideas submitted throughout the year.

Worldwide, a total of 49,255 ideas were submitted in 2012 and 20,834 of them – 15% more than in 2011 – were implemented. These ideas drove progress in a wide variety of areas, including safety, quality and working conditions, and generated an annual net saving for the Group of an estimated €13.5 million.

At MFPM in France, the participation rate was slightly higher in 2012, at 43%. Close to 20,000 ideas were submitted during the year, of which more than 9,000 were implemented. Some were particularly effective, generating savings of more than €500,000.

At the 2012 Progress Idea awards ceremony held in June in Clermont-Ferrand, France, the Group Executive Committee presented awards for 33 Progress Ideas. The event brought together 200 employees, representing 48 different sites and 11 host countries.

6.2.4.g) "Moving Forward Together" by empowering organizations

One of the main objectives of the "Moving Forward Together" initiative is to ensure that all employees – regardless of their level or role in the Company – have the opportunity to exercise their full range of skills and capabilities so that they find fulfillment in their jobs. Initially deployed across the production base as part of the Michelin Manufacturing Way, the "Empowering Organizations" approach is designed to achieve that objective, with positive impacts on performance, personal development and employee wellbeing.

Two steps to impowerment have been defined so far and are being deployed in all host countries. By step 2, the business team must be multi-skilled, handle everyday issues and manage its own time sheets.

Deployment has been picking up speed since 2011, with all countries and sites appointing project leaders and organizing training and team building sessions to facilitate deployment. In 2012, a total of 300,000 hours of training and team building were devoted to empowering production team members. The return on investment was clear; by end-2012, more than 70 of the 146 manufacturing operations had been validated at step 2. These initiatives aim to empower employees at all levels of the manufacturing process – business unit, shop and plant.

The "empowering organizations" approach has delivered considerable benefits, in terms of job satisfaction, team spirit and performance. As a result, the Group now wishes to further its quest for independence and empowerment. A project to invent the empowering organizations of the future was therefore launched in late 2012, involving around 40 production teams and stations. The test project will be conducted throughout 2013, to determine all of the processes that can be managed by the teams and to offer solutions that have been proven effective.

6.2.5. ENHANCING DIALOGUE

6.2.5.a) A new era in social dialogue

Ongoing dialogue with employee representatives was stepped up in 2012. A total of 1,724 meetings were held with union representatives and 61 collective agreements were signed, covering the entire Group, including the dealership networks. Required health and safety training programs are presented in section 6.2.3.

In France, for example, discussions between MFPM and employee and union representatives led to the signature on January 8, 2013, of an agreement on enhancing the employee relations process, which will gradually come into effect during the year. The many agreements signed and implemented in recent years have related to supporting changes in the Company or meeting employee expectations. In this agreement, the parties have undertaken to enhance the employee relations process, by adapting and simplifying practices and procedures and by agreeing on operating principles, working methods, the career management of employee-elected representatives, and the operating methods and procedures used by employee representative bodies.

In Europe, discussions are underway with the European Works Council to prepare a framework agreement on the Company's corporate social responsibility commitment.

In China, the Michelin plants in Shanghai were awarded the "AAA Harmonious Enterprise" label from the local authorities, based on an assessment carried out by independent consultancy Horizon Consultation Group. Of the 27,000 eligible companies, 70% participated but only 60 were successful. Michelin has spent many years working to improvement employee relations and corporate social responsibility in China and was the only foreign company to obtain the label.

In addition to signing several agreements to support competitiveness and employment during the year, Michelin also launched a process to give new impetus to its employee relations, based on the United Nations Global Compact's ten universal principles, and more particularly on freedom of association and the right to collective bargaining. The new approach involves the international expansion of employee representative bodies and a vast project that gives employees the power to participate in managing the Group's performance. Details of this project are presented in section 6.2.4.g.

6.2.5.b) A wide variety of information and consultation processes

Michelin is deeply committed to fostering effective communication with employees and their representatives. To share and exchange information with employees, Group facilities have deployed a broad array of processes.

Today, around 30 distinct communication channels and a dozen different consultation processes are in general use across the Group. On average, each country uses 20 of these media, including the Intranet; site, country and unit publications; daily, weekly and monthly team meetings; the Group's *Forward* TV news program; the print *Bibnews* magazine sent to all employees in several countries; the Letter to Shareholders; meetings with employee representatives; surveys and polls; roundtables; forums; bulletin boards; and Family Day events.

A special document translated in around ten languages explains Michelin's *"New Phase of Dynamic Growth"* strategy for 2011-2015. All 113,000 employees also have access to a set of corporate reference documents that includes: the *Michelin Performance and Responsibility Charter,* which is the foundation of our sustainable development process; *Michelin Performance and Responsibility, A Better Way Forward; Moving Forward Together: The Trademark of Mutual Commitment,* which expresses our commitments as an employer; the *Manager's Guide;* the *Michelin Corporate Governance Manual;* the *Michelin Code of Ethics;* the *Security Charter;* the *Social Networks* and the new *Michelin Purchasing Principles.*

To mark the tenth anniversary of the Michelin Performance and Responsibility approach, an internal communication campaign called "What about you? What's your best way forward?" was launched worldwide in 2012. Employees reacted enthusiastically, with nearly 20,000 ideas submitted at team meetings, 2,000 selected and 435 posted on a dedicated intranet. These ideas have been quoted on the country intranets and on the Group intranet, as well as in *"Our Better Way Forward",* the 10-year review of the Michelin Performance and Responsibility approach, which has been widely distributed across the Group.

6.2.5.c) Measuring employee engagement

The Personnel Department conducted its first major employee engagement survey in 2011, covering 80% of the workforce over a two-year period and involving nearly every country where the Group has manufacturing and/or marketing operations. The survey proved a useful tool for listening to employees and the Group decided in 2012 to review the methodology used and adopt a more systematic approach. Starting in 2013, an "Moving Forward Together survey" will be conducted among all employees on an annual basis and deployed at the same time of year in all countries. This will give Michelin a better idea of how employees view the human resources policies implemented within the Group. Action plans will be prepared and implemented at different levels of the organization.

To enhance the overall survey process, Michelin is turning to a new service provider. Kenexa conducts five million surveys a year and has a strong presence worldwide. The data it provides will enable Michelin to compare its performance with other manufacturers, both locally and globally.

The Group's target employee engagement levels for 2012 were achieved: 73% for production operators and 85% for administrative and technical staff and managers. For the sake of comparison, overall employee satisfaction was 78% in 2010 and 79.3% in 2011, for differing survey scopes. Michelin's objective for 2020 is to achieve and maintain a global employee engagement level of 85%, with above-average engagement in at least 20 host countries.

6.2.6. DRIVING INNOVATION THROUGH DIVERSITY

At Michelin, diversity is considered a competitive strength that fuels and enhances the Group's capacity for innovation. Michelin's diversity policy is therefore designed to ensure equal opportunity for all employees and to promote workforce diversity and cross-cultural interaction as innovation drivers. The policy focuses on four priority areas – gender, physical abilities, age, and ethnic origin and nationality. It is inspired by one of the Group's five core values, respect for people, which acknowledges that every individual is unique.

The diversity process is led by a Group level manager and a steering committee comprising the geographic zone directors and the Group's Director of Personnel, who is also a member of the Group Executive Committee. The steering committee defines the Group's diversity objectives and sets specific targets for each zone. The diversity policy is also supported by a worldwide network of 600 correspondents and liaison officers based at every facility and in every business. Regularly measured by indicators at both Group and country level, progress in the four priority areas is being driven by action plans in every host country.

6.2.6.a) Preventing discrimination

Sensitivity campaigns and special training programs have been introduced to promote equal opportunity and competency-based hiring and promotion practices, with the goal of instilling an effective diversity culture throughout the organization and at every level of management. Between 2005 and 2012, diversity training courses were attended by executive committee members, managers, human resources teams and production operators.

All managers have an important role to play in the diversity process. A set of strategic principles underpinning the Group's personnel management practices was published in 2012, clarifying what is expected of career managers ("actively promote diversity") and all other managers ("recognize and develop diversity").

An action plan is underway to provide diversity training to the 25,000 employees in France by 2015. Combining theory, practice, individual assignments and role-playing, the courses are organized around small groups of ten to fifteen people. They help employees to recognize discriminatory situations and behavior, avoid stereotyping, become familiar with laws and regulations, and anticipate situations at risk. They are also designed to encourage participants to undertake meaningful initiatives to promote diversity in their units. In the United States, research on various diversity-related topics is regularly presented to the senior management team, as part of an awareness program that has been underway for over five years.

In addition to training and awareness initiatives to improve attitudes and practices, audits are also conducted on a regular basis to ensure that human resources processes are non-discriminatory. Four internal audits have been carried out in France and in the United States since 2007, ensuring action plans have been effectively implemented to address the risks identified. A final internal audit was conducted in 2011 to bring to light any remaining risk of discrimination during hiring and personnel management processes.

6.2.6.b) Fostering gender equality

Michelin wants to make manufacturing more appealing to women. Plant managers are encouraged to increase the percentage of women in their teams at all levels, including among production operators. To help them meet the defined targets, new resources were introduced in 2010, including a map of jobs more suitable for women, new organizational arrangements and adjustments to workstation ergonomics. In every plant, workstations have been inspected in detail. The medium-term objective is to eliminate the most physically demanding workstations, to minimize the impact on employee health and make manufacturing positions accessible to a wider range of people, including women. A program is also being deployed to help increase the number of women sales managers. Lastly, mentoring, as practiced in the United States, Germany and France, provides newly hired women with effective support.

While women still accounted for just 9.3% of production operators in 2012, they were more represented among administrative and technical staff (28.2%) and, to a lesser extent, in management (18.4%). The steady increase in the percentage of women employees reflects the Personnel Department's proactive approach, which starts during the recruitment stage. In 2012, women accounted for one-third of all administrative and technical staff and managers hired worldwide. At several facilities, personnel managers receive bonuses based on the percentage of women hired. In every country, newly hired managers receive diversity training through a new module included in their induction program since 2011.

■ Ensuring pay equality worldwide

Michelin applies a policy of non-discrimination and equal pay. This means that men and women with equivalent profiles and positions receive equivalent compensation. In 2012, the Group introduced a new calculation method for pay equality data that is both verifiable and more comprehensive, since it includes men and women in all job categories. The analysis conducted in 2012 covered 20% of the total workforce, excluding temporary employees and the dealership networks. The aim is to identify the reasons behind any existing pay gaps, so that corrective measures can be taken to close them.

In 2012, the geographic zones were examined one by one and a detailed analysis was undertaken for each profession.

Progress has already been made. The global average pay gap between men and women in middle management was narrower in 2012 than in 2011 and a plan has been adopted to ensure more balanced compensation for female employees in Thailand.

In 2013, the Group Personnel Department will step up initiatives aimed at reducing any remaining gender pay gaps in every region.

	2012	2011	2010
Percentage of women managers**	18.4%	17.6%	16.7%
MFPM	*18.6%*	*N/A*	*N/A*
Percentage of women among top managers (1)**	13.8%	12.6%	11.6%
MFPM	*12.6%*	*N/A*	*N/A*
Percentage of women among senior managers (2)**	8.2%	7.1%	7.0%
MFPM	*7.1%*	*N/A*	*N/A*
Percentage of non-French people among top managers (1)**	46.2%	46.3%	46.1%
MFPM	*14.1%*	*N/A*	*N/A*
Percentage of non-French people among senior managers (2)**	36.3%	35.3%	36.7%
MFPM	*12.3%*	*N/A*	*N/A*

Scope: Group excluding dealership networks (85.7% total workforce).
(1) A to I managers, according to the Hay method used by the Group.
(2) A to G managers, according to the Hay method used by the Group.
*** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see paragraph 6.5).*

6.2.6.c) Hiring and retaining the disabled

Defined in 2006, Group policies governing the employment of disabled people are designed to eliminate all forms of discrimination in hiring and to help retain people with disabilities throughout their career. In addition, Michelin is committed to meeting or exceeding legally mandated quotas wherever they exist. In every country, programs are underway to fight stereotyping and promote the hiring of disabled people.

In France, a guide for supporting disabled employees has been published and a committee has been set up within MFPM to explore avenues for retaining disabled employees, with input from career managers and occupational medicine teams. A contact person with training in disability management is also available at each plant to process requests from employees. Michelin's approach to disabled employment in France is based on six clearly defined avenues: (i) organizing training with recognized outside experts (AGEFIPH & MEDEF); (ii) selecting priority objectives, such as retaining disabled employees and strengthening ties with the protected employment sector; (iii) supporting cultural change through training and communication initiatives; (iv) participating in events organized by outside partners with expertise in this area (Capemploi, Sameth); (v) regularly gauging progress *via* scorecards (with four key performance indicators – percentage of disabled employees in the workforce, units subcontracted, fines paid, and subsidies received); (vi) designating specific employees as contact people for disability issues.

From a legal standpoint, hiring the disabled is governed by standards that vary widely by country. Some countries, 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, like Colombia and the Netherlands, have only incentive-based policies. Still others have imposed quotas, ranging from 0.5% of total employees in Thailand to 7% in Italy. These legal and cultural differences mean that almost every situation is unique and make it difficult to consolidate worldwide data on the employment of the disabled. In 2012, Michelin exceeded disabled employee quotas in two countries – in France, where disabled employees accounted for 9.1% of the workforce, and in Brazil, where the imposed quota is 5%.

6.2.6.d) Ethnic origins and nationalities

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, the distribution of performance appraisal results is established by ethnic origin to ensure equal opportunity for all. Anomalies are systematically analyzed and appropriate corrective measures are taken when necessary. However, Michelin's goal is not to practice affirmative action, but to hire and promote people on the basis of their capabilities. Wherever possible, Michelin is committed to encouraging the emergence of a highly skilled corps of local managers, while respecting local cultures. As a result, in 2012, nearly half (46.2%) of senior managers were non-French nationals. Around the world, local managers are contributing their cultural capital and understanding of regional issues. Michelin is actively integrating cultural and national differences, which are seen as a competitive strength and an advantage in attracting the best job applicants.

6.2.6.e) Combating age discrimination

In Western Europe, the average age of employees is trending upwards as the age pyramid shifts and people gradually have to work longer until retirement. Michelin is committed to pro-actively addressing this issue by improving workstation ergonomics, capitalizing on the experience acquired by older employees, and offering new job opportunities or temporary assignments in line with each person's situation. At the other end of the age pyramid, the Group supports the mentoring of new hires by more experienced employees, both to enable the transfer of skills and expertise and to facilitate intergenerational integration.

Since 2012, production facilities have access to a tool that can help them determine the distribution of workers by age, identify the risks associated with workstation ergonomics, gauge any loss of motivation among employees, and organize the transfer of knowledge and expertise. The tool will also be used to implement corrective and preventive measures.

Work-study contracts are part of the Group's youth employment policy and serve as a recruitment tool to help Michelin meet its future human resources needs. In 2012, work-study participants accounted for 6% of the workforce at MFPM, compared to the 4% required by French law. They included 275 apprentices working toward a professional diploma or degree.

6.2.7. SUMMARY TABLE OF 2012 EMPLOYEE DATA (1)

	2012	2011	2010	GRI
Employees on payroll at December 31** (including dealership networks, all types of work contracts, excluding temporary)	**113,443**	**115,000**	**111,090**	**LA1**
Europe	67,785	69,580	68,057	
MFPM	*20,805*	*20,731*	*19,411*	LA1
North America	22,209	22,545	21,778	LA1
South America	6,037	5,957	5,673	LA1
Asia (excluding India)	15,307	15,332	14,502	LA1
Africa, India, Middle East	2,105	1,586	1,080	LA1
Employees on payroll by gender** (excluding dealership networks)				
Men	84.4%	84.8%	85.6%	
MFPM	*85.0%*	*84.7%*	*85.0%*	LA13
Women	15.6%	15.2%	14.4%	
MFPM	*15.0%*	*15.3%*	*15.0%*	LA13
Employees on payroll by category (in %) (excluding dealership networks)				
Production operators	63.1%	63.9%	64.7%	
MFPM	*51.0%*	*51.0%*	*51.5%*	LA1
Administrative and technical staff	30.1%	29.7%	29.2%	
MFPM	*23.4%*	*24.0%*	*24.8%*	LA1
Managers	6.8%	6.4%	6.1%	
MFPM (as defined in the collective bargaining agreement)	*25.8%*	*25.0%*	*23.7%*	LA1
Employees on payroll by age (in %) (excluding dealership networks)				
24 and under	6.1%	6.7%	6.1%	
MFPM	*5.6%*	*6.2%*	*4.9%*	
25-34	27.3%	27.5%	26.7%	
MFPM	*21.0%*	*5.6%*	*5.6%*	
35-44	26.8%	26.1%	25.9%	
MFPM	*21.6%*	*20.5%*	*19.5%*	
45-54	23.4%	23.8%	25.4%	
MFPM	*26.6%*	*28.4%*	*32.8%*	
55-64	16.2%	15.7%	15.7%	
MFPM	*25.1%*	*23.9%*	*24.1%*	
Over 65	0.2%	0.3%	0.2%	
MFPM	0.0%	0.0%	0.0%	
Employees on payroll by length of service (in %) (excluding dealership networks)				
Less than two years	21.9%	20.5%	17.9%	
MFPM	*17.4%*	*11.3%*	*6.8%*	
2-5 years	10.3%	12.2%	13.1%	
MFPM	*6.5%*	*9.2%*	*8.7%*	
5-10 years	15.8%	16.5%	16.8%	
MFPM	*13.0%*	*14.0%*	*15.9%*	
10-15 years	14.9%	12.8%	13.0%	
MFPM	*11.9%*	*9.7%*	*11.6%*	
15-20 years	6.8%	6.3%	5.9%	
MFPM	*5.0%*	*4.1%*	*4.4%*	
More than 20 years	30.3%	31.6%	33.3%	
MFPM	*46.3%*	*51.7%*	*52.7%*	

(1) Several figures of 2010 and 2011 have been recalculated in order to include the dealership networks.

	2012	2011	2010	GRI
Employee movements (work contracts with no set end date, excluding dealership networks)				
New hires	6,224	9,611	7,613	
MFPM	*934*	*1,394*	*743*	LA2
Resignations	2,218	2,013	1,950	
MFPM	*114*	*159*	*149*	LA2
Dismissals and terminations by mutual agreement	2,197	2,260	2,590	
MFPM	*197*	*262*	*339*	LA2
Retirement	1,853	1,769	2,325	
MFPM	*757*	*661*	*1,081*	LA2
Death	125	141	127	
MFPM	*32*	*37*	*44*	LA2
Attrition rate (including retirements)	6.8%	6.6%	7.8%	
MFPM	*5.5%*	*5.7%*	*8.6%*	LA2
Part-time contracts (in %) (including dealership networks)	2.8%	2.5%	2.2%	
MFPM	*4.5%*	*N/A*	*N/A*	
Training (excluding dealership networks)				
Percentage of training hours per total hours worked**	4.4%	4.4%	4.2%	
MFPM	*3%*	*N/A*	*N/A*	LA10
Percentage of employees who received training	88%	85%	83%	
Number of training hours per employee per year	69	67	64	LA10
Training expenditure as a percentage of payroll	4.9%	5.5%	4.9%	
MFPM	*5.1%*	*7.4%*	*5.1%*	
Average training expenditure per person trained	€2,520	€2,650	€2,450	
MFPM	*€1,850*	*N/A*	*N/A*	
Training hours (Group excluding leadership networks)	7,278,854	7,231,466	6,559,534	
MFPM	*1,096,736*	*nd*	*nd*	
Type of training				
Job-specific training	90%	92%	91%	LA11
Management training	6%	4%	4%	
General training	4%	4%	5%	
	100%	**100%**	**100%**	
Environment and Prevention training (for all employees, excluding E&P personnel)	3%	3%	3%	
Language training	2%	2%	3%	
Absenteeism (production operators)** (not including dealership networks)	4.6%	4.3%	3.8%	
MFPM	*7.3%*	*7%*	*N/A*	LA7
Sick leave and other unforeseeable short-term absences	2.6%	2.1%	2.0%	
MFPM	*4.2%*			
Injury leave	0.2%	0.1%	0.1%	
MFPM	*0.4%*			
Long-term leave	1.8%	1.9%	1.7%	
MFPM	*2.6%*			
Occupational accidents (including dealership networks)				
Number of lost-time incidents, Group-wide	529	456	470	
Lost-time incident frequency rate**	2.80	2.40	2.53	LA7
Lost-time incident severity rate**	0.19	0.17	0.20	LA7
Number of plants with zero recordable incidents	24	26	24	

	2012	2011	2010	GRI
Diversity				
Percentage of women managers	18.4%	17.6%	16.7%	LA13
MFPM	*18.6%*	*N/A*	*N/A*	
Percentage of women among top managers (1)**	13.8%	12.6%	11.6%	LA13
MFPM	*12.6%*	*N/A*	*N/A*	
Percentage of women among senior managers (2)**	8.2%	7.1%	7.0%	LA13
MFPM	*7.1%*	*N/A*	*N/A*	
Percentage of non-French people among top managers (1)**	46.2%	46.3%	46.1%	LA13
MFPM	*14.1%*	*N/A*	*N/A*	
Percentage of non-French people among senior managers (2)**	36.3%	35.3%	36.7%	LA13
MFPM	*12.3%*	*N/A*	*N/A*	

(1) A to I managers, according to the Hay method used by the Group.
(2) A to G managers, according to the Hay method used by the Group.
*** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see paragraph 6.5).*
Scope: Group excluding dealership networks (85.7% total workforce).

6.3. SOCIETAL INFORMATION

6.3.1. THE TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE JOB CREATION AND REGIONAL DEVELOPMENT ACTIVITIES OF MICHELIN DEVELOPMENT IN EUROPE AND NORTH AMERICA

Michelin Development supports economic growth in host communities and helps to deploy our worldwide corporate social responsibility commitment. The only organization of its kind, Michelin Development takes a highly flexible approach in assigning Group specialists, on a case by case basis and for as long as necessary, to provide local project champions with expertise and highly qualified technical support in a wide variety of areas, such as information systems, workplace safety, energy efficiency, quality management, marketing, finance, hiring, tourism or international expansion. This advice and expertise can be backed by financial support in the form of 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 2012 covered a very diverse array of business segments, including: (i) a new compressed air recovery system in Italy; (ii) a micro-silo storage process in Spain; (iii) women cyclist apparel and the world's first digital bicycle rear-view mirror in the United States; and (iv) walkers for sick children in the United Kingdom. In more than twenty years, Michelin Development has helped to create over 26,500 jobs in France and eight other European countries, and 2,000 in Canada and the United States. It has also initiated 1,400 technical assistance programs designed to support the emergence of local businesses. Michelin Development also plays a particularly active role in the event of industrial reorganizations.

In France, Michelin Development has helped to create more than 17,000 jobs, amply exceeding compliance with French legislation requiring companies to support communities in revitalizing the local employment catchment area. In recent years, agreements have been signed with the French State and local authorities concerning the facilities in Bourges, Montceau, Seclin, Toul and Tours.

Since 2002, similar organizations have been set up in Germany, Hungary, Italy, Poland, Romania, Russia, Spain and the United Kingdom, involving a total of 36 Michelin facilities. These organizations often serve as catalysts for local initiatives. In Italy, for example, Michelin helped to found a *Réseau Entreprendre* chapter in the Piedmont region, which today comprises fifty volunteer CEOs who personally mentor new entrepreneurs who are setting up or acquiring businesses capable of creating new jobs.

Since 2006, Michelin North America has invested more than $7 million in a very wide variety of small local businesses as part of the Michelin Development Program. Deployed in Ontario, Alabama and South Carolina, the program is dedicated to creating sustainable, high-quality jobs, while effectively contributing to the economic prosperity of our host communities. It has already granted low-interest loans to 69 companies and helped to create 1,873 potential jobs.

6.3.2. RELATIONSHIPS WITH LOCAL COMMUNITIES, SCHOOLS AND ASSOCIATIONS

Wherever it operates, Michelin is committed to participating harmoniously in the life of our host communities, while fostering their sustainability. By nurturing close contacts with public authorities, schools, associations and other local organizations, we also participate in their activities, sharing our expertise or providing financial support, when appropriate. This interaction tends to focus on four areas: the mobility of people and goods, education, cultural and sports activities, and charitable initiatives.

To increase the effectiveness of this community outreach, in 2012, we pursued our collaboration with the London Benchmarking Group, an association of more than 300 multinational companies that has developed a methodology for measuring the value and impact of community investments.

During the year, employees were allowed to devote 17,649 days to community outreach activities, of which 46% concerned educational initiatives for young people and 15% mobility-related programs. In addition, the year saw Michelin plants publish, for the first time, a report structured according to London Benchmarking Group categories.

Of the Group's philanthropic investments, 78% are financial in nature. The total budget amounts to €18,880,079, of which 24% is allocated to charitable donations, 73% to community investments and 3% to community-related business initiatives.

In each region, annual philanthropic investment budgets are generally proportional to the number of local employees.

Community service programs are an extremely varied form of outreach. While this diversity makes an exhaustive overview very difficult, significant examples are given below. In addition, a special section describes our outreach programs in India.

■ North America

In the United States, all of our main facilities each sponsor a nearby public primary school as part of a program launched in 2009 called the Michelin Challenge Education. By forming a deep partnership, the facilities can meet the adopted school's needs through the active involvement of Michelin employees as volunteer tutors in reading, math and science for students encountering difficulty in these subjects. In 2012, the program was introduced in Canada. Other outreach projects contribute to local food banks, such as Meals on Wheels of Greenville, in South Carolina. Michelin North America provides financial and in-kind support for fire departments, volunteer organizations working to help the sick, advanced medical research, programs to help the disabled, elderly or needy, sports clubs and museums. In 2012, 900 children in Canada participated in the Michelin Junior Bike road safety event. In South Carolina, the 23rd Michelin Charity Golf Tournament held on October 1, 2012 raised $330,000 thanks to the 93 participating teams of Michelin suppliers, employees and retirees.

■ South America

As part of the Rio+20 Conference, Michelin Brazil partnered with CEBDS (the local WBCSD affiliate) to participate in an eco-friendly reurbanization project for Babilonia and Chapeu Mangueira, two disadvantaged Rio de Janeiro *favelas.* During the year, the *Ação Educativa* multi-faceted teaching initiative continued to be deployed to improve the prospects for educational achievement of young people living near Michelin plants in Campo Grande and Itatiaia in Rio de Janeiro State. Developed in partnership with National Industry Training Services (SENAI), the program offers remedial courses for teenagers and classes for adults, some of which are taught by Michelin volunteers, in such widely varying areas as mechanics, logistics and information technology. Other initiatives in Brazil include a program to support family farming in Bahia; funding for biodiversity research in Bahia that includes the upkeep of a 3,000-hectare primary forest reserve; tire donations to communities in northern Rio de Janeiro State; and funding for the educational *Na Pista do Melhor Caminho* road safety game in partnership with the Rio de Janeiro Urban Traffic Department (DETRAN) for use in vocational schools run by the National Industry Training Services throughout the State. In Cali and Bogota, Colombia, Michelin sponsors the *Fundación Dividendo por Colombia,* which organizes a fast-track remedial program designed to get needy children and teenagers back in school, and supports children through *Preventorio Infantil de Sibate.*

■ Europe

Michelin is leading a myriad of initiatives in Europe in a highly diverse array of areas, including sustainable mobility, training for young people to prepare them to enter the workforce, and the quality of economic and cultural development in our host regions. This involvement in local communities includes a variety of charitable donations, such as grants to local Red Cross organizations to support the homeless; blood drives; funding for offices for local non-profit organizations; the renovation of homes for the disabled; financial partnerships with institutions for the disabled; furniture donations to a children's hospital; tire donations to emergency and charity services; funding for medical equipment such as defibrillators and hospital vehicles; donations to non-profit sports programs for the disabled; job-search training for the unemployed; funding for Michelin choir concerts for charities; donations of computers and projectors; and donations of bicycles and helmets to improve road safety.

Sustainable mobility is supported with many other outreach programs, including road safety classes for schoolchildren; organization of road safety events with primary schools, such as *Vado a piedi e uso la testa* (Go on Foot and Use Your Head) in Italy; support for the *Pedibus* walking school bus program for Italian schoolchildren; sponsorship of road safety campaigns in cooperation with local automobile clubs; support for *Ta Route…Ta Sécurité* road safety day; anti-drunk driving campaigns; the *Securiz'mois* safety awareness month, a partnership to promote electric vehicles; and donations to the *Ligue Contre la Violence Routière* organization against road rage (details in section 6.3.3.c).

A multitude of initiatives are underway to encourage and support education and to attract young people to technical jobs. Examples include a week-long internship for French secondary school students; renovation of the playing field and playgrounds of a school; student career awareness outreach initiatives; support for schools by teaching classes, serving on examination boards and monitoring struggling students; participation in a Girls' Day campaign to encourage young women to pursue technical careers; partnerships with several European universities and schools to promote science courses; events with leading engineering and business schools to present Michelin's professions; and funding for local library books.

Many programs encourage personal growth through sports, such as support for sports clubs; financing for matches; the organization of sporting events; and renovation of the playing field and playgrounds of a school. In Clermont-Ferrand, Michelin supports the *Association Sportive Montferrandaise* (ASM) multi-sports club, both through funding and volunteers. ASM offers its 3,000 members access to three practice facilities and 15 sports programs led by 400 coaches and organizers, with a special emphasis on training young people while they continue their studies and on monitoring athlete health.

Asia-Pacific

In China, road safety classes were organized for 6-to-8 year olds, an especially vulnerable population, whose parents have migrated from disadvantaged regions.

In Thailand, Michelin provided funds to match employee donations to victims of the catastrophic 2012 floods, while in remote areas, we helped to renovate 16 flood-damaged schools.

In India, a vocational training center opened in 2011 offers residents of 31 villages around the Thervoy-Kandigai industrial park, where the Michelin plant is being built, classes in English, mechanics, plumbing, carpentry and cellphone repair and baking. The goal is to spur the creation of local jobs by facilitating the start-up of small businesses in surrounding communities, where many people live in extreme poverty. With the AID India association, the center also conducts after-school classes attended by hundreds of children from the neighboring villages. In August 2011, Michelin opened a French school for the children of expatriate employees and local families in Chennai, in partnership with an Indian school and the French *Lycée* in Pondicherry. In the area of health care, mobile clinics have been organized to provide a range of medical treatments, notably in general medicine, gynecology and eye care. Some 2,800 people have been examined, more than 970 have been fitted with glasses and 158 have been successfully operated for cataracts. On the environmental side, a natural resource management program helped to renovate wells, retention basins and 34 kilometers of crop irrigation canals, representing 4,000 person-days in all. Designed with NGP SKG Sanga, the Biogas program is driving the development of renewable energy sources, with 100 households equipped in 2012. The Care Earth association has been asked to revitalize interest in 77 traditional medicinal plants neglected by local residents. With increased mobility comes a greater risk of road accidents and in response, an action plan was prepared in association with State Highways Department to improve road safety with training and new highway equipment. Because many villagers are too poor to defend their rights, paralegal facilitation units have been set up with FORRAD, an Indian NGO, to help the needy receive social benefits to which they are entitled. To date, the units have already assisted 310 people. Conducted with 13 Indian NGOs, all of these initiatives are proceeding in constant liaison with the villagers, representatives of local communities and the 23 governing local, regional and national administrative authorities. Separately, there has been an ongoing dispute since 2007 between a small group of residents from Thervoy, one of the 31 villages concerned by the creation of the industrial park, and the public corporation that is developing the park. Rejected by the Indian Supreme Court, the project opponents, the two French associations that are assisting them and France's CGT trade union notified the OECD National Contact Point for France in July 2012 of a "specific instance" accusing Michelin of violating the OECD's Guidelines for Multinational Enterprises. The notification is currently being reviewed.

Relations with environmental protection associations

Whenever appropriate, Michelin fosters close ties with environmental protection associations or organizations working to safeguard the environment.

In France, every year since 2008, the CEPA nature conservancy has conducted a census of species living in the continental salt meadow located on the grounds of our Ladoux Testing and Research Center near Clermont-Ferrand. The partnership has been officially structured by an agreement.

In North America, Michelin's commitment to environmental stewardship has been recognized by the US Environmental Protection Agency, which selected ten plants to take part in the National Environmental Performance Track public-private partnership from 2005 until the program ended in 2009. To be eligible, a plant had to demonstrate that it had (i) adopted and implemented an environmental management system (EMS); (ii) demonstrated specific past environmental achievements; (iii) recorded sustained compliance with environmental requirements; (iv) committed to continued environmental improvement; and (v) committed to public outreach and performance reporting.

Michelin North America is also continuing to work in partnership with a wide range of associations and public authorities, particularly those active in the area of energy savings (such as the Alliance to Save Energy) and the reduction of transportation-related emissions (such as the EPA's SmartWay Transport Partnership).

With respect to implementation of the renewable energy policy in Europe and the United States, Michelin has been a member since 2007 of the Green Power Market Development Group, led by the World Resources Institute (WRI), a non-governmental organization.

6.3.3. FAIR, HONEST BUSINESS PRACTICES

6.3.3.a) Encouraging, ethical behavior

In 2010, the *Performance and Responsibility Charter* and the Group's guidelines and policies were extended with the publication of a *Code of Ethics,* which expresses our commitment to the values of respect and responsibility. It defines standards of behavior to help employees make the right decisions when confronted with an ethical issue in 15 different areas: Compliance with Laws and Regulations; Conflicts of Interest; Gifts and Entertainment; Government Relations and Anti-Corruption; 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; Protection of Employees' Privacy. Available in 13 languages, the Code has been sent to everyone in the Company *via* the intranet and directly in hard copy to managers.

To manage and monitor deployment of the Code in our host countries, Ethics and Compliance Committees have been formed at the corporate level and in each of the regions, ensuring that the Code's general ethical principles are properly adapted to local conditions. These Committees include representatives from the Audit, Finance, Legal Affairs, Personnel, Safety and Sustainable Development Departments, as well as regional managers.

At the same time, in 2011 and 2012, two other initiatives were undertaken. First, information and training sessions were organized on-site and/or online, depending on the country, to instill the *Code of Ethics' Principles* in every employee's mindset. In North America, for example, the Legal Affairs department held 85 training sessions concerning compliance with anti-corruption guidelines. Second, whistleblowing procedures are in place to enable employees to anonymously and securely alert their direct managers, local legal departments, career managers, occupational physicians or the ethics hotline concerning any potential violations of the *Code of Ethics* or any possible failure to apply the *Michelin Performance and Responsibility Charter.*

When failures to observe ethical guidelines are reported, they are analyzed and corrective measures or disciplinary action are taken as necessary. Between June 2011 and May 2012, 142 incidents of non-compliance were reported Group-wide, either directly through the notification system or employee surveys, or indirectly *via* the ethics hotline. Surveys conducted by the Personnel Department led to disciplinary action against 36 employees, some of whom were dismissed for gross misconduct. This was the first year that compliance data was centralized for each region.

Annual ethics objectives have been set for the legal affairs network, which is primarily responsible for supervising deployment of the *Code of Ethics.* The degree to which these objectives are met is a factor in determining the bonuses of the employees involved in the process.

In addition, internal control procedures are being gradually extended to the rules of conduct for each of the Code's issues or general principles, thereby further ensuring strict compliance with each one. Every year, internal audits are performed in some of these areas

Compliance with robust ethical standards helps to build and nurture trust in the Michelin Group and enhance its appeal. The application of demanding ethical standards goes hand in hand with a commitment to performance. Ethical behavior is everyone's business. It is one of the pathways to improvement for everyone, as noted by Jean-Dominique Senard in a message posted on the corporate intranet in September 2012.

6.3.3.b) Preventing corruption

The principle underpinning Michelin's anti-corruption process was defined in 2002 in the *Michelin Performance and Responsibility Charter* as follows: "Wherever we operate, throughout the world, we are firmly against any and all forms of corruption, irrespective of the organizations and bodies concerned, whether public or private. We refuse any and all remuneration to third parties if such remuneration does not correspond to an actual service, for a justified amount, duly posted in our accounts."

The anti-corruption process covers a variety of initiatives, including information, training, prevention, inspection and discipline as necessary. Every employee around the world is informed of this process and provided with the appropriate training. Examples include:

- Employees in the North American Sales Department and others in charge of import-export contracts and government procurement bids have been trained in anti-corruption practices.
- Recommendations for sales representatives have been prepared concerning the approval and compensation of agents or intermediaries in Africa, Asia, Europe and the Middle East.
- Prior to initiating the approval process, the Company may be audited to ensure that it engages in fair business practices.
- Governed by strict guidelines, compensation for agents or intermediaries must be reasonable and may be paid only under certain specific conditions.
- Anti-corruption clauses inspired by OECD principles are included in the standard contracts signed with agents or intermediaries.
- Due diligence may be performed for certain companies as necessary or at Michelin's option before investing in a joint venture or forming a partnership. This process focuses in particular on the Company's reputation.
- Contracts are negotiated with the legal departments and may include appropriate anti-corruption clauses.

The Purchasing Department is regularly audited as part of the internal control process (for more details see section 6.3.4 below).

Specific measures have been undertaken by the Purchasing Department:

- Ethical and anti-corruption guidelines are posted on the Purchasing Department website and sent to all of the Department's employees and contacts.
- In case of a dispute with Michelin, suppliers may report it *via* a mediator or request information on the Michelin Purchasing Code's principles or implementation using the email form on the Purchasing Department's website. In Thailand, for example, suppliers can also call the same ethics hotline used by Michelin employees to report possible compliance issues.

- A system has been deployed to report and centralize violations of anti-corruption guidelines, so as to identify suppliers with whom Michelin should terminate the business relationship.
- A process is in place to assess supplier performance, based on social responsibility audits performed by EcoVadis, an independent company. The findings are then consolidated in an application that combines such criteria as the environment, fair business practices, job principles and practices and supplier management. Following the audit, certain suppliers may be asked to deploy a Michelin-approved improvement plan.
- In 2012, a dedicated database was set up to enable Michelin to collect, store and track all of this supplier information.

To support this anti-corruption commitment, in early 2013, the Internal Control process was extended to compliance with anti-corruption guidelines. Over the year, the Group Audit and Risks Department will publish an ethical risks map for all of the operating regions.

6.3.3.c) Protecting consumer health and safety

■ Quality commitment

Expressed in the *Michelin Performance and Responsibility Charter,* our quality commitment is demonstrated in every aspect of our business through a customer-centric organization and a quality management system designed to drive continuous improvement in product and service quality and the way we do things.

To satisfy our customers and improve business performance, the Michelin Quality Process has defined a number of basic practices, which are integrated into employee training so that they are understood and diligently applied by everyone in his or her area of responsibility. Each product or service is defined in specifications that include information concerning, at the least, all of the countries where marketed, all of the conditions of use, all of the applicable standards and regulations, and all of the customer requirements.

Every manager is expected to promote and implement the Michelin Quality Process. They are responsible for their unit's quality performance and have to guarantee that customers receive high-quality products and services that are safe, suitable for the intended use and compliant with applicable regulations.

■ Mandatory labeling of consumer and environmental information

Since November 2012, all new car, van and truck tires sold in the European Union must display a consumer label, whose information favors tires offering the highest performance in the environment (with ratings for energy efficiency and noise) and in user safety (with ratings for wet grip). The European labeling system is the third in the world, after Japan in 2010 and South Korea in 2011, where voluntary tiremaker labels grade each tire on its fuel efficiency and wet grip (which is directly related to user safety).

The European label informs buyers of the tire's grade in three areas: its impact on fuel efficiency as measured by its rolling resistance (graded A to G), its braking on wet pavement (graded A to G) and its outside rolling noise (measured in decibels). This regulation sets minimum performance standards in each category and phases in a ban on the sale of any tire that fails to meet all three. In this way, the new labeling system is designed both to offer consumers objective tire performance information and to drive steady improvement in tire performance as a whole.

In the United States, the same type of legislation has been passed by Congress and signed by the President. Scheduled to come into effect in 2014, it grades tires according to three criteria: rolling resistance, wet grip and treadlife.

Other countries considering the passage of similar legislation include Australia, Brazil, China, Russia and Thailand.

Michelin strongly supports the introduction of these regulations that keep users better informed and help them to understand how their choice of tires impacts their personal safety and environmental footprint. In the United States, the independent International Council on Clean Transportation (ICCT) has estimated that choosing lower rolling resistance tires could avoid the release of some 100 million tonnes of CO_2 per year and that selecting the highest performance tires would reduce the world's fuel bill by €40 billion a year.

In France, Michelin is actively participating in the introduction of energy-savings certificates, one of the measures mandated by the Grenelle Environmental Summit, with the goal of helping to reduce carbon emissions by improving consumer information. The Group also distributes "Action Recommendations" concerning both tire use and such related services as outsourced tire management, which when applied have a double impact. First, they enable consumers, as well as trucking companies and other fleet operators, to save fuel by using more energy efficient tires and their related maintenance services. And second, they deliver significant environmental benefits by making it possible to reduce a vehicle's fuel consumption by 6% to 8%.

■ Helping to improve road safety

In line with the commitment pledged when it signed the European Road Safety Charter in 2004, Michelin is helping to improve road safety by communicating directly with road users. In 2011, awareness-building and educational campaigns were undertaken in sixteen European countries – Austria, Belgium, Finland, France, Germany, Hungary, Italy, Luxembourg, the Netherlands, Poland, Portugal, Serbia, Spain, Sweden, Switzerland and the United Kingdom – as well as in certain parts of Africa, the Americas and Asia. Road safety initiatives are conducted both in cooperation with global organizations and independently.

In the European Union, we initiated the Road Safety for Young People in Europe (ROSYPE) project to reach young road users. Launched in 2009, the three-year project was supported by a grant from the European Commission's Directorate-General for Mobility and Transport, as well by Michelin's more than €4.5 million investment and deep commitment to making it a success. In collaboration with local partners like ADAC in Germany, the FESVIAL Foundation in Spain and the *Prévention Routière* association in France, more than 1,130,000 young Europeans, aged 6 to 25, were educated about the importance of road safety through around fifty hands-on activities in 15 countries, including Belgium, Finland, France, Germany, Poland, Romania, Spain and the United Kingdom. Each program was tailored to needs of a given age group, with "Discovering Mobility" for 6 to 12 year olds, "Learning Road Safety Rules" for 13 to 16 year olds, and "Responsible Driving" for young drivers aged 17 to 25. Teaching methods focused on diversity, originality, interactivity and the use of new technologies, including two state-of-the-art driving simulators. The project enabled Michelin to help protect young people, the leading victims of road accidents, while exercising a sustainable influence on future road safety by pro-actively raising awareness among the drivers of tomorrow.

Michelin is a founding member and supports the activities of the non-governmental organization Youth for Road Safety (YOURS), created with the help of the World Health Organization in 2009. Based on a network of nearly 400 young people from 100 countries, YOURS organizes local road safety initiatives with the help of public and private partners.

The "Fill Up With Air" awareness campaign continued in several countries, encouraging motorists to check tire pressure regularly by providing free tire inflation stations. In addition to reducing fuel consumption and thereby saving motorists money, maintaining the correct tire pressure also improves grip, which makes driving safer.

In 2012, we partnered France's *Sécurité Routière* association during the month-long *Securiz'mois* campaign, which got local and national road safety stakeholders involved in the issue in June, ahead of the peak vacation traffic season.

The Group also contributed to local projects in host countries where road safety is of particular concern, including Brazil, China, Hungary, Kuwait, Poland, Romania, South Africa, Thailand and Vietnam. In Brazil, we participated in prevention initiatives in the state of Rio de Janeiro, with playing cards and video games enabling a large number of young participants to have fun learning about road safety.

In addition, Michelin is the official partner to the International Automobile Federation's "FIA Action for Road Safety" program, for which we created the international "Golden Rules" campaign. The campaign uses 10 visuals showing motorists in typical driving situations to demonstrate that responsible driving can also be fun, thereby illustrating the basic safety rules that everyone should know.

Lastly, Michelin supports and chairs the Global Road Safety Partnership (GRSP) and participates in educational and prevention programs in China, India and a number of countries in North Africa and the Middle East, as well as Qatar and the United Arab Emirates. Represented by its Managing General Partner Michel Rollier, Michelin participated in the first global ministerial conference on road safety, which was held in Moscow in November 2009. Following on directly from the conference, the Group actively contributed to the preparation of a "New Decade of Action for Road Safety" during 2010 and 2011. At the 2010 Challenge Bibendum, an international event organized by Michelin to promote clean, safe, connected mobility that was held in Rio de Janeiro that year, several roundtables on road safety issues helped to open new thought avenues, particularly on how to make work-related travel safer. As a result of these discussions, the Road Safety Task Force published two white papers, the *White Paper for Safe Roads in 2050* in July 2010 and the *White Paper for Road Safety Investment* in July 2011, which reviewed all the initiatives to be undertaken by the public and private sectors in this area. Widely distributed by international institutions and country organizations, the *White Paper for Safe Roads in 2050* inspired the World Health Organization's action plan for 2011-2020.

In 2012, Michelin received the "Prince Michael International Road Safety Award" in recognition for its outstanding global commitment to road safety.

6.3.4. SUBCONTRACTOR AND SUPPLIER RELATIONSHIPS

Michelin believes that it has a responsibility to demonstrate its sustainable development principles in dealings with suppliers, particularly in light of its extensive purchases, which represent 64% of revenue.

The Purchasing Quality Unit, in charge of deploying the Michelin Performance and Responsibility (PRM) approach across the Group Purchasing Department, has prepared a sustainable purchasing roadmap designed to make Michelin an industry benchmark by 2015. It is organized around five initiatives:

A sustainable purchasing governance system

Program deployment is led and supported by the Purchasing Quality Director, who is a member of the Michelin Performance and Responsibility Operating Committee.

Supported by the Purchasing management team and a global network, he ensures that the objectives set by the PRM Council (of which the Chief Purchasing Officer is a member) are met.

Team training

To enable the purchasing community to take the full measure of the social responsibility and sustainable development issues involved in their activities, a sustainable purchasing training module is offered as part of the training dedicated to the Purchasing process. The module is now mandatory for all buyers, technical specifiers and key internal customers. Since 2011, 195 buyers have taken the module and nine country correspondents have been trained to deploy it in their units.

Supplier social responsibility and environmental assessment

In 2012, the Purchasing Department issued *Michelin Purchasing Principles,* a set of global guidelines built around our core values and such fundamental international commitments as the conventions of the International Labour Organisation. They provide a foundation for establishing the crucial relationships of trust that must exist between the Group, its purchasing teams and its suppliers worldwide. As a core component of the contract between the Company and its suppliers, the Principles clearly state:

- ethical guidelines for Purchasing teams and the rules of professional conduct in supplier relations;
- the supplier approval process;
- the Group's quality standards;
- the environmental, social and ethical performance expected of Michelin suppliers.

At the same time, every supplier's compliance with our social responsibility standards is now assessed using a segmenting application based on the following criteria:

- the impact of the product or service on the end-customer;
- revenue;
- business criticality;
- supplier dependence;
- the supplier relationship;
- the supplier's CSR environment (operations, size and country).

The 700 key suppliers were segmented along these lines in 2012, prompting us to commission a desktop review of 66 of them by EcoVadis, an independent CSR expert. The findings led to the deployment of 26 corrective action plans and 27 improvement plans, as well as the termination of a supplier whose CSR performance fell short of our standards.

Any new supplier's CSR performance is now segmented and, depending on the score, audited by EcoVadis before signing any contracts with the Group. This same process is applied for contract renewals.

Supporting the risk management process, 71% of raw-material supplier facilities representing more than 80% of purchasing volume have been certified to ISO 14001 standards, or 6% more than in 2011.

Integrating sustainable development criteria into tenders

To help meet the Group's environmental, ethical and social responsibility objectives, the Purchasing Department has mapped out opportunities for sustainable procurement. Prior to any purchase decision, total cost of ownership studies are conducted based on a variety of sustainable criteria, including energy savings, a reduction in greenhouse gas emissions, a reduction in waste and improvements in working conditions. These same criteria are integrated into specifications and later into tenders submitted to suppliers. The resulting gains are divided into two categories: creation of financial value and creation of CSR value.

In 2012, for example, these preliminary TCO studies enabled Michelin to:

- combine manufacturing performance and energy performance:
  - rooftop solar power panels installed at the Puy-en-Velay plant in France, gas cogeneration facilities at the Fossano, Cuneo, Turin and Alessandria plants in Italy and a gas-fired boiler at the Itatiaia plant in Brazil,
  - production processes improved, for example, by (i) redefining a drain wire that uses 25% less material and enables less frequent cleaning of the calender machines and (ii) insulating valves in 14 countries to avoid heat loss;
- more generally shrink its environmental footprint. In Europe and North America, for example, transportation procurement is focusing on providers committed to reducing their carbon emissions. In another area, equipment has been purchased to optimize printing and to store data on servers;
- to improve ergonomics and general working conditions:
  - all employees have been provided, on an as-needed basis, with molded earplugs and ergonomic masks. Specific safety clauses have been included in contracts governing the construction of our new production plants;
- promote diversity in our tenders in North America and encourage it in our organization, with, for example, forklift truck training for women in India and the transfer of buyers from one region to another;
- introduce new vegetable-based plasticizers and monomers (e.g. isoprene).

Communication

In accordance with the *Michelin Purchasing Principles,* the results of the supplier CSR audits and other outcomes of the sustainable procurement policy will be released to the public. Since 2012, the Purchasing Quality Director may be contracted *via* the Purchasing website:

- if someone wishes to report any alleged or observed violation of the guidelines in the *Michelin Purchasing Principles;*
- if a supplier wishes to request mediation with the Purchasing teams after having failed to resolve an issue with their usual contacts.

6.4. ENVIRONMENTAL INFORMATION

6.4.1. ENVIRONMENTAL STRATEGY

Respect for the environment is one of Michelin's five core values. To assess the environmental impact of our operations, independent organizations are regularly commissioned to perform detailed impact studies, whose findings help to shape our environmental stewardship. In this regard, life-cycle assessments have shown that most of a tire's environmental impact occurs during use, with the manufacturing and end-of-life recovery phases having a much weaker impact. Impact studies conducted in 2001 for the Passenger car and light truck tire business and in 2003 for the Truck tire business, which also included health-related indicators, were updated in 2009 and 2010 respectively by Pré Consultants (see the 2010 Annual and Sustainable Development Report, p. 80). Paths to improvement have been defined in two directions, the products themselves and the production plants. This section presents the outcomes of the environmental strategy deployed in Compagnie Générale des Établissements Michelin (hereinafter "the Group") in compliance with French Decree 2012-557 of April 24, 2012 specifying the disclosure obligations concerning a company's social and environmental information. The scope of reporting is limited to Manufacture Française des Pneumatiques Michelin (hereinafter "MFPM"). The Group's other legal entities, which do not have any manufacturing operations and have an estimated limited impact on the environment (less than 1%) on the main indicators (water consumption, energy consumption, CO_2 and waste emission), are not covered in the section below.

Controlling the impact of Michelin products

Life cycle assessments have shown that, based on a standard 40,000 kilometers traveled, more than 92% of a car tire's health and environmental impact occurs during use, primarily as a result of its rolling resistance. This proportion rises to 95% for a truck tire, based on a standard functional unit of 600,000 kilometers. In normal conditions of use, tires account for a significant proportion of a vehicle's fuel consumption, which is currently estimated at 20% for passenger cars and more than 30% for trucks. Michelin's primary objective is to increase the energy efficiency of tires while simultaneously improving the product's other performance factors, especially safety, rolling noise and durability. Reducing a tire's rolling resistance also improves a vehicle's fuel efficiency, which in turn reduces both harmful exhaust emissions, such as NOx and VOCs, and CO_2 emissions during use. In addition, extending tread-life enables more intensive use of process raw materials and amortizes the energy used during the manufacturing process over a larger number of kilometers travelled.

Invented in 1992 and now on their fourth generation, Michelin's highly energy-efficient Energy™ Saver car tires are delivering further progress in the reduction of rolling resistance. Compared to the preceding generation, for example, they improve fuel consumption in an average European car by 0.2 liter/100 km, for an average 4 g/km reduction in carbon emissions. Thanks to this performance, which has been widely recognized by the market, the Energy™ Saver tires have been certified as original equipment on more than 210 vehicles.

In truck tires, the technological innovations collectively known as Michelin Durable Technologies offer a wide range of benefits, including a sustained improvement in fuel efficiency and therefore carbon emissions. These technologies also increases the weight carrying capacity and the lifespan of the tire which has roughly doubled concerning truck tires since 1980. The millionth MICHELIN X One tire was sold in the United States in 2010. Since 2000, fleets equipped with X Ones have reported up to a 10% improvement in fuel efficiency. For 1,000 heavy trucks, this represents a potential saving of 17,000 tonnes of CO_2, which is equivalent to the average emissions generated by 3,400 American cars in a year.

The MICHELIN X® LINE™ Energy™ range is fully in line with the expectations of long-haul truckers as it allows them to reduce their fuel consumption while also providing them with superior longevity. To design the new offer, the truck product line leveraged the expertise acquired directly from trucking companies. In 2011, Group field experts carried out 320,000 visits to transport companies in more than 20 European countries, in order to identify and accurately define customer needs. With the MICHELIN X® LINE™ Energy™, truckers can save up to 515 liters of fuel over a distance of 130,000 km. This reduces their operating budget by €644 while lowering their CO_2 emissions by 1,371 kg.

All told, by the end of 2012, the Michelin fuel-efficient tires sold since 1992 had saved nearly 16 billion liters of fuel and avoided the emission of almost 40 million tonnes of CO_2. Calculated using a UTAC-certified method, these figures are displayed in real-time in the "Green Meters" on our corporate website.

Michelin researchers are still deeply committed to reducing tire rolling resistance, while maintaining or enhancing other performance factors, like safety, grip and noise. Progress on this objective can be assessed by the Tyre Advisor, which compares the rolling resistance, tread-life and grip performance of Michelin tires with the average results of competing tires.

The following table presents an example of a Tyre Advisor comparison, based on data from independent organizations.*

	Size	Michelin tire	Tread life	Rolling resistance	Grip
Mid-Range	195/65 R 15 H	ENERGY SAVER +	23.5%	17.5%	5.2%
Light trucks	235/65 R 16 C	AGILIS +	40.1%	21.2%	4.8%
High performance winter	245/40 R 18 V	MICHELIN Pilot Alpin	22.3%	6.7%	7.0%

For each segment studied in 2012, Michelin's most recent tire was compared with a representative sample of European competitors comprising five to eight recent tires from different brands. The size selected was one of the best-selling sizes in each segment. The tests were conducted by independent organizations, such as TÜV Sud Automotive in Germany and the Czech Republic and DEKRA in France.

The overall score for the competitor tires was based on an arithmetic mean. For tire life, the results of tests on MICHELIN tires were compared directly with that mean. Energy efficiency was measured on the basis of rolling resistance.

For example: if the MICHELIN tire's rolling resistance was 8 kg/t and the competing tires had a mean score of 10 kg/t, the energy efficiency of the MICHELIN tire was 25% greater [(10-8)/8 = .25].

* *Positive numbers indicate Michelin's outperformance compared with the market average.*

Lastly, Michelin is very actively involved in deploying and operating effective end-of-life tire recovery solutions, primarily based on either recovering material for reuse in such areas as synthetic surfaces, draining sub-layers, molded objects and backfill, or else energy recovering by burning scrap tires as fuel in cement plants or steel mills.

Organization of the Company to address environmental issues and, if applicable, steps taken to carry our environmental audits or earn certification

■ Ensuring compliance through certification processes and audits

The robustness of Michelin's strategy for managing the environmental footprint of its manufacturing facilities is underpinned by (i) the Michelin Environmental Management System (MEMS), which is designed to enable each plant to manage both its day-to-day and long-term environmental impact, and (ii) the Group Environmental Standards (EEG), which define the performance levels that a Michelin facility is expected to achieve, which must at least comply with local regulatory requirements. The MEMS serves as the basis for deploying the Environmental and Risk Prevention Management System (SMEP), which is designed to address the full range of health, safety and security issues in addition to the environment.

In particular, the MEMS comprises a process to verify compliance with legislation and Michelin standards, as well as an obligation to define and meet, every year, improvement targets aligned with local challenges. It also specifies procedures to prevent accidental pollution.

Further progress towards the goal of environmental excellence on every site is also being driven in two ways: (i) by applying Group Environmental Standards to all new and upgraded installations and (ii) by auditing existing production plant and Technology Center installations for shortfalls against these Standards in order to define and implement remedial actions.

Another key aspect of the Michelin continuous improvement process is earning ISO 14001 certification, to provide outside validation of our ability to effectively address environmental issues.

Michelin is committed to having the MEMS deployed in every facility acquired more than five years ago, and as of 2012, it was up and running in 98.6% of the production facilities, Technology Centers and offices.

As of year-end 2012, 99.8% of MICHELIN-brand tires were made in ISO 14001 certified plants**.

The certification process is now being introduced in the logistics centers.

■ Environmental governance and internal organization

Tasked with addressing a full range of environmental, industrial hygiene, workplace safety and industrial risk prevention issues, the Environment and Prevention (EP) network helps to keep the risk analysis process robust and ensures that the resulting solutions are effective.

The network comprises some one hundred specialists based in the different country organizations and product lines, as well as a dedicated team on each site. It has its own budget and the manager reports directly to the Group Executive Council.

To drive continuous improvement, the environmental performance of Group facilities has to be measured as a whole. That's why in 2005, the Michelin site Environmental Footprint (MEF) indicator was defined to measure the six environmental performance criteria deemed to be the most important for meeting the Group's medium-term challenges. Each site inputs its information quarterly into the networked GAIA application, which enables the data to be validated at each local level, in each region and on a consolidated basis. In addition to the MEF criteria, GAIA also supports tracking of lost-time accident frequency and severity rates and other indicators, as well as analyses by business segment or geography once the data have been verified and validated.

** *Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).*

The MEF measures water and energy consumption, carbon dioxide (CO_2) and volatile organic compound (VOC) emissions, total weight of waste generated and total weight of waste landfilled. Each component is weighted according to its impact (see diagram below) and calculated per tonne of tire produced.

COMPONENTS AND WEIGHTING OF THE MICHELIN SITE ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR

MEF site

Objective:
-45% reduction by 2016, compared with 2005

	Component	Weighting
Resource consumption	Energy	15
	Water	15
Air emissions	VOCs*	25
	CO_2	15
Waste	Total weight generated	15
	Total weight landfilled	15
		100

** VOC: Volatile organic compounds.*

Every year, the Annual Plan defines a target for improvement in the MEF indicator, which has been steadily and systematically deployed across the various production operations since 2005. Its effectiveness has been amply demonstrated by the results obtained over the years.

After the initial target of a 20% reduction by 2011 compared with 2016 was met in 2008, a new target of a 45% reduction by 2015, still compared with 2005, was defined in 2012. In a commitment to continuously improving our environmental performance and as part of the 10th anniversary of the Michelin Performance and Responsibility approach, these targets are currently being thoroughly revised for a 2020 timeframe. The new targets will be formally defined and announced in 2013.

In 2012, the MEF was unchanged from 2011, despite a more than 7% contraction in output over the year. However, there was sustained improvement in the components least related to production volumes, such as VOC emissions and landfilled waste.

Moreover, compared with 2010, when output was virtually the same as in 2012, the MEF has been reduced by 4% in two years, led by improvements in almost every component. Energy use declined by 4%, carbon dioxide emissions by 6%, VOC emissions by 8% and landfilled waste by 9%. Only waste generated, which is highly correlated to production output, showed a limited decline of more than 1%.

On an absolute value basis as well, all of the environmental impacts have declined from 2010 levels. In 2012, the gain helped to save 2,323 terajoules of energy and 138,000 cubic meters of water. It also helped to avoid the emission of 810 tonnes of VOCs and 304,835 tonnes of CO_2 , as well as the generation of 1,763 tonnes of waste and the landfilling of 3,509 tonnes.

The following table shows the performance of the six MEF components since 2005.

PERFORMANCE OF THE MICHELIN SITE ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR FOR THE GROUP, 2005 TO 2012

	2016 objective compared with 2005	2005	2006	2007	2008	2009	2010	2011	2012	Change 2005-2012
MEF**	-45%	100	92.9	83.6	78.6	78.1	70.0	67.2	67.4	- 32.6%

Group	2012 ratio	Unit	Change 2005-2012	2012 Absolute value	Unit	Change 2005/2012
Energy consumption**	13.8	GJ/t TP	-21%	43,259	x10^3 GJ	-10,924
Water consumption**	11.9	cu.m/t TP	-21%	37,184	x10^3 cu.m	-9,525
VOC emissions**	2.67	kg/t TP	-38%	8,344	t	-4,953
CO_2 emissions**	1.20	t/t TP	-21%	3,763	x10^3 t	-1,001
Waste generated**	110.9	kg/t TP	-21%	346,698	t	-89,254
Waste landfilled**	9.29	kg/t TP	-72%	29,052	t	-73,708
GROUP MEF**	**67.4**		**-33%**			

*** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).*

Performance by MEF component – GROUP	UNIT	2005	2006	2007	2008	2009	2010	2011	2012
Energy consumption**	GJ/t TP	17.4	17.2	15.6	15.3	16.1	14.4	13.6	13.8
Water consumption**	cu.m/t TP	15.0	14.9	13.3	12.8	13.3	11.8	11.6	11.9
VOC emissions**	kg/t TP	4.27	3.97	3.48	3.13	3.04	2.89	2.73	2.67
CO_2 emissions**	t/t TP	1.53	1.48	1.37	1.35	1.43	1.28	1.21	1.20
Waste generated**	kg/t TP	140	130	128	127.5	121.2	109.5	109.1	110.9
Waste landfilled**	kg/t TP	33	26	20	16.2	13.3	10.2	9.38	9.29

PERFORMANCE OF THE MEF INDICATOR FOR MANUFACTURE FRANÇAISE DES PNEUMATIQUES MICHELIN

MFPM	2016 Group objective compared with 2005	2005	2006	2007	2008	2009	2010	2011	2012	Change 2005/2012
MEF**	-45%	94.1	84.6	71.3	70.5	67.1	65.1	58.7	60.5	-35.6%

Performance by MEF component – MFPM	Unit	2012	Change 2005/2012
Energy consumption**	GJ/t TP	18.3	-21%
Water consumption**	cu.m/t TP	9.8	+7%
VOC emissions**	kg/t TP	2.33	-41%
CO_2 emissions**	t/t TP	0.81	-21%
Waste generated**	kg/t TP	125	-22%
Waste landfilled**	kg/t TP	0	-100%
MFPM MEF**		**60.5**	**-35.6%**

** *Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).*

SUMMARY TABLE OF ENVIRONMENTAL DATA FOR THE GROUP AND MFPM

group MFPM	2012	2011	2012/2011	2010	2009	2008	2007	2006	2005	GRI Indicator
Water consumption** (cu.m/t)	11.9	11.6	+3%	11.8	13.3	12.8	13.3	14.9	15.0	
MFPM	*9.8*	*8.4*	*+17%*	*9.1*	*9.9*	*8.1*	*8*	*9*	*9.2*	*EN8*
Energy consumption** (GJ/t)	13.8	13.6	+2%	14.4	16.1	15.3	15.6	17.2	17.4	
MFPM	*18.3*	*17.3*	*+6%*	*19.6*	*21.3*	*18.9*	*21.1*	*22.6*	*23.1*	*EN3-EN4*
Michelin stationary installations	7.6	7.1	+7%	8.0	9.0	8.5	9.0	10.5	10.6	
MFPM	*9.1*	*8.2*	*+11%*	*11.3*	*12.3*	*11.3*	*13.2*	*14.5*	*15*	*EN3*
Steam purchased	1.0	1.4	-29%	1.2	1.2	1.3	1.2	1.1	1.0	
MFPM	*1.7*	*0.9*	*+88%*	*0.1*	*0.2*	*0.1*	*0.1*	*0.3*	*0.3*	*EN4*
Electricity purchased	5.2	5.2	0%	5.2	5.9	5.5	5.4	5.6	5.7	
MFPM	*7.5*	*8.2*	*-8.5%*	*8.2*	*8.8*	*7.5*	*7.8*	*7.8*	*7.8*	*EN4*
Greenhouse gas emissions** (t/t)	1.20	1.21	-1%	1.28	1.43	1.35	1.37	1.48	1.53	
MFPM	*0.81*	*0.66*	*+23%*	*0.83*	*0.91*	*0.84*	*0.94*	*1.03*	*1.04*	EN16
of which:										
Direct emissions from Michelin stationary installations	0.55	0.51	+10%	0.58	0.64	0.60	0.64	0.73	0.75	
MFPM	*0.52*	*0.82*	*+13%*	*0.63*	*0.71*	*0.63*	*0.75*	*0.82*	*0.85*	*EN16*
Indirect emissions, steam generation	0.10	0.14	-29%	0.12	0.13	0.15	0.13	0.12	0.11	
MFPM	*0.01*	*0.01*	*0%*	*0.02*	*0.02*	*0.01*	*0.01*	*0.03*	*0.03*	*EN16*
Indirect emissions, electricity generation	0.55	0.55	0%	0.58	0.66	0.60	0.59	0.63	0.66	
MFPM	*0.28*	*0.19*	*+47%*	*0.18*	*0.18*	*0.20*	*0.19*	*0.18*	*0.16*	*EN16*
Total Michelin direct and indirect emissions avoided (in tonnes of CO_2)	31,200	36,630	-15%	24,000	23,300	31,200	12,400			EN18
Sulfur dioxide emissions** (kg/t)	0.97	0.84	+16%	0.96	1.17	1.08	1.27	1.22	1.65	
MFPM	*0.04*	*0.02*	*+100%*	*0.04*	*0.05*	*0.04*	*0.01*	*0.07*	*0.13*	*EN20*
Nitrogen dioxide emissions** (kg/t)	0.72	0.74	-3%	0.83	0.82	0.82	0.89	0.85	1.01	
MFPM	*0.52*	*0.48*	*+ 8%*	*0.57*	*0.64*	*0.59*	*0.66*	*0.79*	*0.75*	*EN20*
Volatile Organic Compound Emissions** (kg/t)	2.67	2.73	-2%	2.89	3.04	3.13	3.48	3.97	4.27	
MFPM	*2.33*	*2.42*	*-4%*	*2.48*	*2.64*	*2.65*	*3.08*	*3.69*	*3.98*	*EN20*
Total weight of waste produced** (kg/t)	110.9	109.1	+2%	109.5	121.1	127.5	128	130	140	
MFPM	*125*	*137*	*- 9%*	*144*	*153*	*144*	*144*	*149*	*161*	*EN22*
Total weight of waste landfilled** (kg/t)	9.3	9.4	-1%	10	13	16	20	26	33	
MFPM	*0*	*1*	*-100%*	*2*	*3*	*3*	*5*	*19*	*31*	*EN22*
Environmental management (% of finished products manufactured in ISO 14001 certified facilities)**	99.8%	98.9%		99.1%	99.5%	99.5%	99.5%	99.4%	94.8%	
MFPM	*100%*	*100%*		*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	

*** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).*

Employee environmental protection training and information

Dedicated training courses to support MEMS deployment have raised environmental awareness among the more than 100,000 employees working on certified sites. 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.

Expenditure allocated to preventing environmental risks and pollution

As analyzed in the table below, nearly €16 million was committed in 2012 to projects to enhance the environmental performance of the production facilities. In the case of Manufacture Française des Pneumatiques Michelin, these outlays totaled €5.4 million for the year.

This amount was calculated 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).

Group	Total expenditure		
(in € thousands)	2012	2011	2010
Air pollution prevention	6,372	4,760	4,888
Surface water pollution prevention	2,153	3,803	1,696
Soil and subsurface water pollution prevention	4,071	3,883	2,514
Other	3,814	9,660	11,691
TOTAL	**16,411**	**22,106**	**20,790**

MFPM	Total expenditure		
(in € thousands)	2012	2011	2010
Air pollution prevention	547	312	601
Surface water pollution prevention	367	108	120
Soil and subsurface water pollution prevention	2,733	206	742
Other	1,785	3,107	955
TOTAL	**5,432**	**3,733**	**2,418**

Provisions and guarantees for environmental risks, provided such information would not be seriously prejudicial to the Company in pending litigation

As of December 31, 2012, aggregate provisions for environmental risk amounted to €16.6 million for the Group and zero for Manufacture Française des Pneumatiques Michelin.

6.4.2. POLLUTION AND WASTE MANAGEMENT

Measures to prevent, abate or remediate air, water and soil releases having a serious impact on the environment

■ Greenhouse gas emissions

Group

Total CO_2 emissions for the Group amounted to 1.20 tonne per tonne of finished product in 2012, a decrease of 21% compared to 2005.

Direct emissions from Group boilers stood at 0.55 tonne per tonne of finished product, down 27% *versus* 2005.

In European Union countries, these carbon emissions are subject to allowances issued under the EU's Emissions Trading System. As in previous years, carbon emissions from Michelin's facilities in Europe were below allocated allowances.

Indirect CO_2 emissions through the purchase of electricity and steam are estimated at 0.65 tonne per tonne of finished product, unchanged from 2010.

Optimized operations management and deployment of the Group's best manufacturing practices drove a reduction in the use of electricity, which declined by close to 4% in gigajoules per tonne of tire produced compared with 2010, when tire output was more or less the same as in 2012.

MFPM

A review of greenhouse gas emissions as of end-2012 demonstrated that the production plants accounted for almost all of MFPM's CO_2 emissions.

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS BY MFPM UNIT

Tire production facilities	Logistics facilities, research and headquarter centre	Vehicles and all mobile sources belonging to the MFPM
90.60%	7.30%	2.10%

The review also showed that direct emissions from fuel use represented 80% of total MFPM greenhouse gas emissions, with indirect emissions from the purchase of electricity accounting for the rest.

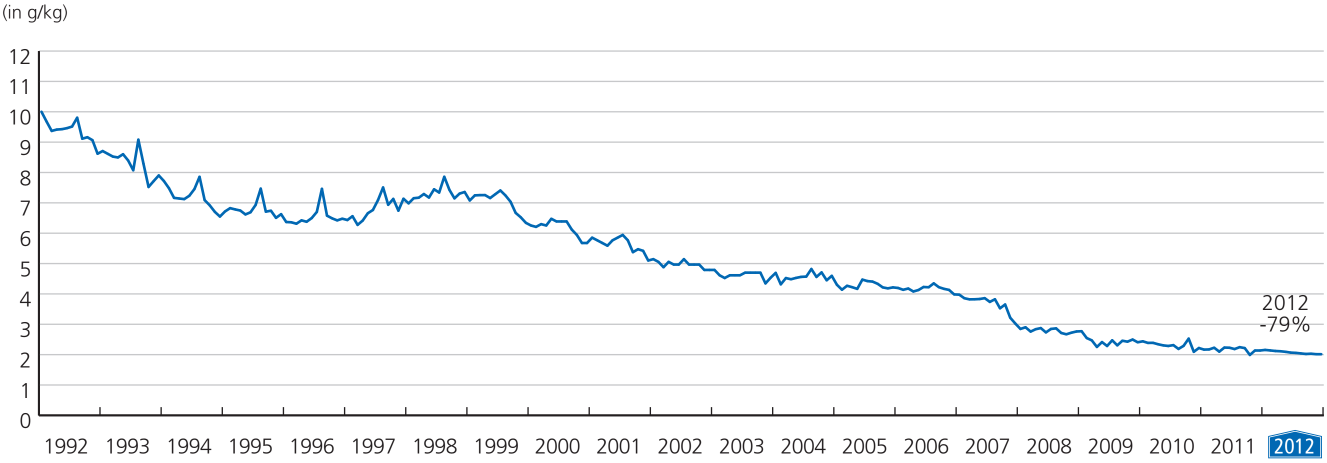
■ Other air emissions(1)

Volatile organic compounds (VOCs)

Despite the slowdown in business, VOC emissions declined by 2% to 2.67 kg per tonne of finished product in 2012, which saw sustained deployment of innovative new production processes and the publication of a guide to best practices, which both helped to reduce the use of solvents and therefore VOC emissions.

The following chart illustrates the major 79% decrease in solvent use by the European Passenger Car and Light Truck tire manufacturing operations since the reduction project was implemented in 1992.

SOLVENT USE IN EUROPEAN PASSENGER CAR AND LIGHT TRUCK TIRE MANUFACTURING OPERATIONS



MFPM

In 2012, three plants performed gap analyses compared with the guide to best practices, thereby helping to identify pathways to progress in reducing VOC emissions. Despite the slowdown in business, MFPM's VOC emissions declined by 4% to 2.33 kg per tonne of finished product in 2012, representing a total 55% reduction in VOC emissions per tonne of finished product over the past ten years.

*Nitrogen oxides (NO_x)***

Specific NO_x emissions from Group boilers stood at 0.72 kg per tonne of finished product in 2012, compared with 0.74 kg per tonne in 2011 and 0.83 kg per tonne in 2010.

These data vary widely from year to year, because they are calculated based on the periodic (often quarterly) measurement of emission concentrations. In addition, given that purchased steam is not included in the calculation, the mix between produced and purchased steam can have a major impact on the final figure.

*Sulfur oxides (SO_x)***

SO_x emissions rose to 0.97 kg per tonne of finished product from 0.84 kg per tonne in 2011 and 0.96 kg per tonne in 2010.

These data vary widely from year to year, because they are calculated based on the periodic (often quarterly) measurement of emission concentrations. In addition, given that purchased steam is not included in the calculation, the mix between produced and purchased steam can have a major impact on the final figure.

■ Discharges to water

The main substances likely to be released in process water discharged by the tire plants are total suspended solids (TSS) and residual hydrocarbons, which are inherent in most industrial processes and not specific to Michelin. In the case of water used in processes to treat metal cords and produce synthetic elastomers, which may contain respectively metals (copper, zinc) and residual hydrocarbons, each plant is equipped with appropriate treatment facilities. After proper treatment, this water is discharged either to the environment or to local wastewater treatment plants.

(1) Corresponding to substances contributing to acidification or photochemical pollution as defined by French ministerial order of April 30, 2002.

*** Data related to these indicators have been reviewed by PricewaterhouseCoopers Audit (see section 6.5).*

■ Ground water discharge

Michelin's operations do not result in any continuous discharge into ground or subsurface waters.

The Michelin Environmental Management System (MEMS) includes a dedicated process to prevent the risk of accidental spills. It comprises both physical systems, for soil protection and leak prevention, and standard operating procedures for activities at risk and in the event of an accident.

The Group Environmental Standards require that all new plant and equipment comply with the highest levels of soil protection, in line with the strictest regulatory standards in particular the European ones and often exceeding local legislation.

Waste prevention, recycling and elimination

Programs to reduce the total amount of generated and landfilled waste were pursued in 2012, so that the gross weight of waste generated per tonne of tire produced rose by less than 1% over the year, to 110.9 kg, even as the weight of landfilled waste declined to around 9.3 kg per tonne of tire. In all, since 2005, the weight of waste generated per tonne of tire produced has been reduced by around 20% to around 110 kg from 140 kg and the weight of landfilled waste has fallen by nearly 72% to 9.3 kg from 33 kg.

Over the 2005-2015 period, Michelin is still committed to reducing the weight of generated waste by 30% and of landfilled waste by 95%.

MFPM

In 2012, MFPM reduced the weight of waste generated per tonne of tire produced by 9% over the year. None of the waste was landfilled, so that MFPM has already met the 2015 target of recycling or reusing all of its generated waste.

Managing noise and other forms of pollution specific to the business

■ Odors and noise

Although entirely innocuous, odors are a concern for our plants, in as much as they are located in urban areas. These odors are generated by the process used to produce certain types of natural rubber components indispensable for tire manufacturing.

A standard solution, based on the thermal oxidation of effluents, is now being applied in six European plants and is being steadily deployed across the Group. Research is continuing into new, even more environmentally friendly techniques.

More generally, on-site teams, supported by corporate experts, are implementing a variety of solutions to abate odors, noise and other nuisances that manufacturing operations may cause local residents.

6.4.3. SUSTAINABLE USE OF RESOURCES

Water consumption and supply depending on local conditions

■ Water consumption

Michelin plants mainly use water to cool installations and transfer heat.

In 2012, water consumption stood at 11.9 cubic meters per tonne of finished product, a 21% decrease on 2005. This primarily reflected the assertive programs deployed by the three facilities that use the most water, which have driven a more than 30% reduction in their use since 2005.

Production facilities are supplied with water in compliance with local legislation. When requested by authorities, the plants scale back their withdrawal to guarantee fair use of water resources. To proactively address water resource issues, a vulnerability study of sources currently in use will be initiated in 2013. Its findings will help to direct efforts in this area either towards reducing consumption or towards using less vulnerable sources.

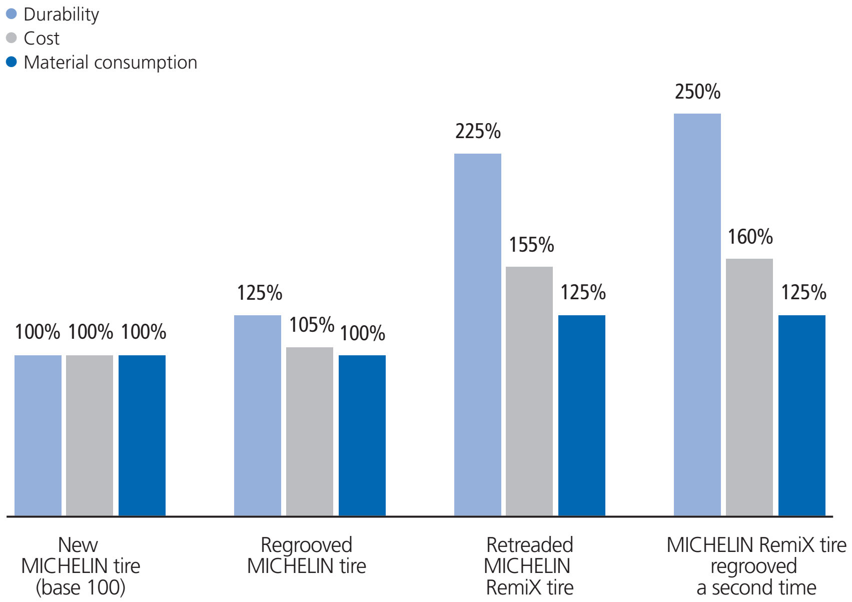
Raw materials consumption and measures taken to make more efficient use of them

Raw materials consumption is being optimized in several ways:

- The amount of wastage and scrap is being reduced across the production process, while the Prevention and Industrial Performance Department is deploying a wide range of waste reduction programs. These initiatives have proven highly effective, with a close to 30% decline in wastage and scrap in 2012 compared with 2005. In particular, the Michelin Manufacturing Way program is making it easier to share and deploy the best practices identified in the various production plants.
- In designing tires, Michelin optimizes raw materials use by consistently seeking to deliver the same or better performance than previous generations, while using less material and without compromising on safety and quality standards. In truck tires, for example, Michelin tires can be regrooved when the tread is worn, mold-cure retreaded using the Remix process, regrooved

a second time before the components are reused in end-of-life tire recovery solutions. Assuming a theoretical lifespan of 100 units for a heavy truck tire, regrooving can add 25 units without any more 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 heavy truck tire can last 2.5 times longer than a new Michelin tire with just an additional 25 units of material.

The following chart illustrates these benefits:



In the same way, the durability of Michelin passenger car tires compared with the European market reflects optimized materials use, as shown in the Tyre Advisor above.

Energy consumption, measures taken to improve energy efficiency and use of renewable energies

The Group's energy consumption per tonne of tires produced has decreased by more than 4% over the past two years, to 13.8 GJ in 2012. Despite the decline in production volumes in 2012, this result confirms the steady improvement in energy efficiency initiated in recent years.

This progress has primarily been led by the effectiveness of the cross-functional Energy organization, which is tasked with improving the energy efficiency of our plants by applying its energy diagnostic method, identifying best practices, and sharing them by incorporating them in a Group standards manual.

Each facility has appointed an Energy Performance Leader to drive faster on-site deployment of energy management tools, methods and best practices.

By the end of 2011, all of the plants had performed an audit, followed by an action plan. After this initial diagnosis, plants are subject to follow-up audits every three years, with 17 facilities already on their fourth procedure in 2012.

As described in section 6.4.4 "Climate change – greenhouse gas emissions" below, Michelin is continuing to deploy a variety of renewable energy projects, in a commitment to improving both environmental and financial performance.

Land use

Michelin's production operations occupy much the same surface area as facilities in any other manufacturing industry. Our plants are generally located in pre-existing industrial parks and when they are not, environmental impact studies are performed in order to obtain both the operating license and construction permit. In most cases, these permit applications are the subject of public hearings.

The only activities that use a larger surface area are the rolling test tracks like those in Ladoux, France and Almeria, Spain. They do not conflict with any other land uses and even have a beneficial impact on the environment, thanks to the programs undertaken by the facilities to support biodiversity (see section 6.4.5 below).

6.4.4. CLIMATE CHANGE

Greenhouse gas emissions

Michelin is assertively contributing to global efforts to reduce greenhouse gas emissions in the overland transportation and manufacturing industries. For example, carbon emissions from all of the Group's manufacturing operations, per tonne of product, have now been reduced by 21% compared with 2005.

Energy efficiency programs are being pursued across the Group through the deployment of action plans based on the energy audits conducted in the production facilities. Michelin is committed to reducing energy use per tonne of tire produced by 20% between 2010 and 2015.

Since 2008, production facilities have been developing new renewable energy projects each time that they offer the possibility of improving the site's environmental and financial performance.

Although these biomass, solar power and wind power projects have long maturity cycles, they are already helping to sustainably reduce our carbon footprint.

Rated output of the photovoltaic roof panels installed on several facilities in Germany (in Bad Fallingbostel, Bad Kreuznach, Bamberg, Homburg, Karlsruhe, Landau and Ulm) has risen from 9 MWp in 2006 to 16.5 MWp in 2010 and 19 MWp at year-end 2011. In Valladolid, Spain, 21,000 square meters of solar panels with peak capacity of 2 MWp were commissioned in 2010, followed by start-up of a new 1 MWp unit in 2011.

Since 2007, wind turbines have been generating around 20% of the electricity used by the Dundee plant in Scotland.

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 13,000 tonnes of CO_2 in 2011.

Also in France, the rooftop solar power panels on the Puy-en-Velay plant began generating their first electricity in September 2011. Covering three hectares, or three-quarters of the roof's surface, the panels are producing more than 3,000 MWh of clean power a year.

Since late 2010, a solar wall has replaced heavy fuel as a source of heat for the Waterville plant in Canada. Other projects include the ongoing installation of two wind turbine units in Ballymena, Northern Ireland and studies to determine how to use the heat generated by a household waste incinerator at the Dundee plant.

On-site renewable energy installations avoided the emission of more than 31,000 tonnes-equivalent of CO_2 in 2012. This was less than the 35,000 tonnes avoided in 2011 because until May the Bassens plant could not be supplied with the steam generated from the waste incinerator used since 2007, due to erosion along the road where the steam piping was laid.

Facility	Technology	Tonnes of CO_2 emissions avoided in 2012 (1)
Bassens, France	Heat recovery from CHP incinerators located 1 km away	4,500 (direct CO_2)
Cholet, France	Biomass-fired boiler	8,000 (direct CO_2)
Bourges, France	Biomass-fired boiler	6,400 (direct CO_2)
Waterville, Canada	Solar wall	100 (direct CO_2)
Dundee, Scotland	Wind turbines	3,000 (indirect CO_2)
Germany, seven facilities	Photovoltaic panels	7,400 (power sold back to the grid)
Valladolid, Spain	Photovoltaic panels	1,550 (power sold back to the grid)
Le Puy, France	Photovoltaic panels	250 (power sold back to the grid)

(1) Based on national emissions factors published by the International Energy Agency in CO_2 Emissions from Fuel Combustion 2011 Edition.

Today, 17 facilities use renewable energy solutions, of which three came on stream in late 2012: two wind-turbine installations at Ballymena, Northern Ireland; the purchase of biomass heat from an outside provider at the Combaude facility in Clermont-Ferrand, France; and the purchase of household waste methanation heat from an outside provider at Vannes, France.

MFPM makes the greatest use of renewable or alternative energies of any Group company, with five facilities using such solutions and renewables accounting for 4% of the Company's energy use in 2012.

Adapting to the impact of climate change

Michelin's 69 production plants are located in 18 countries. In line with recommendations issued by our risk managers, risks associated with climate change have been reviewed and business continuity plans in the event of extreme weather events have been assessed. A flood risk analysis led us to build dikes to protect a facility in Thailand that was particularly exposed to flooding. Over the past ten years, one Group plant has been damaged by a tornado in North America. This type of weather phenomena concerns only a few facilities and has been integrated into the appropriate business continuity plans. An analysis of the Group's sensitivity to energy supply is also studied. Climate change is estimated to have only a moderate impact, because of the geographic distribution of the facilities, but also because of their number.

A large amount of natural rubber is required to produce Michelin tires. It is produced in a limited part of the planet, in a region with certain weather and soil characteristics. The changing climate could make these resources more difficult to access or use, or else endanger them by facilitating the emergence of new diseases. They could be countered by new, more resistant and more productive species being studied by Group agronomists.

In the case of sourced raw materials, certain suppliers deemed to be exposed to possible climate-related problems have been asked to take steps to protect their operations from any extreme weather events.

6.4.5. PROTECTING BIODIVERSITY

Measures undertaken to preserve or enhance biodiversity

Michelin benefits from local ecosystems and is acutely aware of both the important role they play and their fragility. In particular, around 40% of the rubber we use is natural rubber, which is a renewable resource that comes from trees.

To sustainably secure our ecosystem benefits and protect biodiversity, steps are being taken in a variety of areas to abate the impact of our operations. For many years, programs have been in place to preserve fragile environments around certain facilities (see below). In addition, this issue has been integrated into the Michelin Performance and Responsibility approach. Awareness of the interactions between production facilities and their local ecosystems is being gradually instilled across the Group. We consistently comply with local ecosystem protection legislation and apply Group Environmental Standards where they are more demanding. New processes and equipment are being installed to limit water consumption. Lastly, we are designing lighter tires, which use fewer raw materials for their production, are more energy efficient and last longer.

■ A deep commitment to biodiversity

In 2008, the plant in Nyiregyhaza, Hungary conducted a pilot Ecosystem Services Review (ESR), which is designed to reveal a facility's dependence on its environment. Performed by a specially trained Michelin engineer, the process is based on an assessment method developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) and adapted to the tire industry. In particular, the review showed that the plant could be at risk under certain situations that were possibly beyond its control, such as air pollution, and remedial actions are now underway. To improve the Group's understanding, a different method for measuring the facility's dependence and impact on the environment was trialed in late 2010 with an independent organization. These pilot programs are part of Michelin's commitment to exploring a variety of tools and resources, so that the plants' potential interactions with surrounding ecosystems can be measured, thereby enabling the deployment of more effective preservation techniques. The initial objective is to identify, by 2013 or 2014, all of the protected areas located near each production facility. As of December 31, 2012, this process had been completed for 57 facilities.

Supporting biodiversity at the Almería test center

Initiatives underway at the Almería Test Center (CEMA) were presented by the World Business Council for Sustainable Development at the International Union for Conservation of Nature (IUCN) Congress devoted to preserving biodiversity and ecosystems, held in Jeju, South Korea, in September 2012.

Michelin's objectives for the CEMA were not only to build and efficiently use its capabilities, but also to preserve the site's ecosystems by including conservation and environmental targets into the center's day-to-day operating indicators. Later, 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.

Michelin's efforts on the Almeria site are regularly commended by the government and in academia. Working hand in hand with local authorities – even well before the official agreement was signed in 1995 – Michelin successfully achieved a balance between its manufacturing operations and its commitment to environmental stewardship.

From the beginning, the CEMA has been very assertively involved in preserving the local environment, and the authorities have recognized both Michelin's engagement and its understanding of local conditions.

Created in 1973 and certified ISO 14001 since 2005, the Almería 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, which was created in 1987, 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 actions have helped to preserve a specimen of the Canary Islands Dragon Tree *(Dracaena Draco)* that is more than 500 years old.

Preserving biodiversity on the Bahia plantation

As part of the *Ouro Verde* (Green Gold) project conducted on the experimental farm in Bahia, Brazil, Michelin has been working since 2003 to preserve a rare and threatened portion of the primary Atlantic Forest that is exceptionally rich in biodiversity.

Located on the plantation is a Center for the Study of Biodiversity that offers scientists from around the world an open-air laboratory on the Atlantic Forest. The Center can accommodate up to 16 researchers at the same time, with the equipment necessary for their work. Michelin is helping to finance some of the Center's research programs, including 36 biodiversity studies.

Educational walking trails have been prepared for visitors and particular attention has been paid to raising awareness of environmental issues in the local community. The Understanding the Atlantic Forest program, for example, offers guided tours of the protected area for small groups or field trips for school children. In addition, the Michelin Environmental Reference Center provides detailed information on the Atlantic Forest.

Creating wildlife refuges at the Louisville, KY plant in the United States

At the Louisville, Kentucky facility in the United States, Michelin joined forces with a local firm of wildlife biologists to transform two closed landfills it co-owns into a wildlife refuge with forests, prairies, wetlands and wildflowers. Volunteers from both companies 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.

Protecting a special habitat at the Ladoux Testing and Research Center

In July 2011, an agreement was signed with the Auvergne Regional Nature Conservancy to ensure protection of a 3.5-hectare continental salt meadow located on the grounds of the Ladoux Testing and Research 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.

6.5. ATTESTATION AND ASSURANCE REPORT OF ONE OF THE STATUTORY AUDITORS ON SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

This is a free translation into English of the Statutory Auditor's review report issued in the French language and is provided solely for the convenience of English speaking readers. The review report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2012

Pursuant to your request and in our capacity as independent verifier of Compagnie Générale des Établissements Michelin, we hereby report to you on the consolidated social, environmental and societal information presented in the management report issued for the year ended December 31, 2012 in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code *(Code de commerce)*. We also have carried out a review for the purpose of enabling us to express moderate assurance on the processes used to compile certain of the Information marked (**).

■ Management's responsibility

The Managing Chairman is responsible for the preparation of the management report including the consolidated social, environmental and societal information (the "Information") in accordance with the requirements of Article R. 225-105-1 of the French Commercial Code *(Code de commerce),* presented as required by the entity's internal reporting standards (the "Guidelines") and available at the entity's premises.

■ Our independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession *(Code de déontologie)* and Article L. 822-11 of the French Commercial Code *(Code de commerce)*. In addition, we maintain a comprehensive system of quality control including documented policies and procedures to ensure compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

■ Independent verifier's responsibility

It is our role, on the basis of our work:

- to attest whether the required Information is presented in the management report or, if not presented, whether an appropriate explanation is given in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code *(Code de commerce)* and Decree No. 2012-557 dated April 24, 2012 (Attestation of presentation);
- to provide limited assurance on whether the other Information marked (**) is fairly presented, in all material respects, in accordance with the Guidelines (Limited assurance).

We called upon our Corporate Social Responsibility experts to assist us in the performance of our work.

1. Attestation of presentation

Our engagement was performed in accordance with professional standards applicable in France:

- We compared the Information presented in the management report with the list as provided for in Article R. 225-105-1 of the French Commercial Code *(Code de commerce)*.
- We verified that the Information covers the consolidated perimeter, namely the entity and its subsidiaries within the meaning of Article L. 233-1 and the controlled entities within the meaning of Article L. 233-3 of the French Commercial Code *(Code de commerce)*.
- In the event of the omission of certain consolidated Information, we verified that an appropriate explanation was given in accordance with Decree No. 2012-557 dated April 24, 2012.

On the basis of our work, we attest that the required Information is presented in the management report.

2. Assurance report

Nature and scope of the work

We conducted our engagement in accordance with ISAE 3000 (International Standard on Assurance Engagements) and French professional guidance.

We performed the following procedures to obtain a limited assurance that nothing has come to our attention that causes us to believe that the Information marked (**) and presented in Section 6 of the management report is not fairly presented, in all material respects, in accordance with the Guidelines.

- Social information includes indicators for "Frequency rate" and "Severity rate" for workplace accidents, "Headcount", "Full-time equivalent", "Women rate in headcount", "Absenteeism", "Training access rate", "Male/female distribution by status and geographic zone", "Women rate in top management", and "Non-French in top management";
- Environmental indicators include all indicators shown in the "Summary table of environmental data".

Our work consisted in the following:

- We assessed the appropriateness of the Guidelines as regards their relevance, completeness, neutrality, clarity and reliability, taking into consideration, where applicable, the good practices in the sector.
- We verified that the Group had set up a process for the collection, compilation, processing and control of the Information to ensure its completeness and consistency. We examined the internal control and risk management procedures relating to the preparation of the Information. We conducted interviews with those responsible for social and environmental reporting.
- Concerning the quantitative consolidated information that we deemed to be the most important:
  - at the level of the consolidating entity and the controlled entities, we implemented analytical procedures and, based on sampling, verified the calculations and the consolidation of this information;
  - at the level of the sites that we selected (Aranda, Ballymena, Bourges, Campo Grande, Greenville, Laem Chabang TME, Olsztyn, Vitoria and Waterville) based on their business, their contribution to the consolidated indicators, their location and a risk analysis:
    - we conducted interviews to verify that the procedures were correctly applied,
    - we performed tests of detail based on sampling, consisting in verifying the calculations made and reconciling the data with the supporting documents.

  The sample thus selected represents between 15% to 19% of the selected quantitative social information and between 20% to 30% of the selected quantitative environmental information.

Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Information marked (**) is not fairly presented, in all material respects, in accordance with the Guidelines.

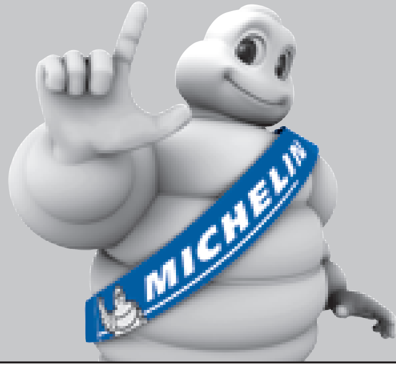
Neuilly-sur-Seine, February 26, 2013

PricewaterhouseCoopers Audit

Éric Bulle Partner Statutory Auditor	Sylvain Lambert Partner Sustainable Development Department

7

Consolidated Financial Statements



7.1. CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2012

DETAILED SUMMARY OF THE NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2012	Year ended December 31, 2011
Net sales	5	21,474	20,719
Cost of sales		(14,764)	(14,821)
Gross income		**6,710**	**5,898**
Sales and marketing expenses		(2,068)	(1,942)
Research and development expenses		(622)	(592)
General and administrative expenses		(1,468)	(1,385)
Other operating income and expenses	8	(129)	(34)
Operating income before non-recurring income and expenses	**5**	**2,423**	**1,945**
Non-recurring income and expenses	9	46	-
Operating income/(loss)		**2,469**	**1,945**
Cost of net debt	10	(155)	(206)
Other financial income and expenses	10	(22)	236
Share of profit/(loss) from associates		15	21
Income/(loss) before taxes		**2,307**	**1,996**
Income tax	11	(736)	(534)
NET INCOME/(LOSS)		**1,571**	**1,462**
• Attributable to the shareholders of the Company		1,570	1,462
• Attributable to the non-controlling interests		1	-
Earnings per share (in €)			
• Basic	12	8.62	8.14
• Diluted		8.41	7.97

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Note	Year ended December 31, 2012	Year ended December 31, 2011
Net income/(loss)		**1,571**	**1,462**
Post-employment benefits	27.1	(1,053)	(722)
Tax effect – Post-employment benefits	18	314	242
Other items of comprehensive income that will not be reclassified to income statement		**(739)**	**(480)**
Available-for-sale financial assets – change in fair values	15.1	(27)	122
Tax effect – available-for-sale financial assets – change in fair values	18	-	(4)
Available-for-sale financial assets – (gain)/loss recognized in income statement		-	(258)
Currency translation differences		(141)	(79)
Other		1	-
Other items of comprehensive income that may be reclassified to income statement		**(167)**	**(219)**
Other comprehensive income		**(906)**	**(699)**
COMPREHENSIVE INCOME		**665**	**763**
• Attributable to the shareholders of the Company		664	763
• Attributable to the non-controlling interests		1	-

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(in € million)	Note	December 31, 2012	December 31, 2011
Goodwill	13	414	415
Other intangible assets	13	403	390
Property, plant and equipment (PP&E)	14	8,579	7,889
Non-current financial assets and other assets	15	298	404
Investments in associates	17	204	120
Deferred tax assets	18	1,530	1,352
Non-current assets		**11,428**	**10,570**
Inventories	19	4,417	4,602
Trade receivables	20	2,802	3,075
Current financial assets	21	371	366
Other current assets	22	706	682
Cash and cash equivalents	23	1,858	1,593
Current assets		**10,154**	**10,318**
TOTAL ASSETS		**21,582**	**20,888**
Share capital	24	365	360
Share premiums	24	3,508	3,396
Reserves	25	4,626	4,343
Non-controlling interests		2	2
Equity		**8,501**	**8,101**
Non-current financial liabilities	26	2,023	2,478
Employee benefit obligations	27.1	4,679	3,825
Provisions and other non-current liabilities	29	855	804
Deferred tax liabilities	18	87	79
Non-current liabilities		**7,644**	**7,186**
Current financial liabilities	26	1,274	1,361
Trade payables		1,991	2,024
Other current liabilities	30	2,172	2,216
Current liabilities		**5,437**	**5,601**
TOTAL EQUITY AND LIABILITIES		**21,582**	**20,888**

The notes 1 to 36 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, 2011	**353**	**3,215**	**3,899**	**3**	**7,470**
Net income/(loss)	-	-	1,462	-	1,462
Other comprehensive income	-	-	(699)	-	(699)
Comprehensive income	**-**	**-**	**763**	**-**	**763**
Issuance of shares	7	181	-	-	188
Dividends and other allocations	-	-	(327)	-	(327)
Share-based payments – cost of services rendered	-	-	7	-	7
Other	-	-	1	(1)	-
At December 31, 2011	**360**	**3,396**	**4,343**	**2**	**8,101**
Net income/(loss)	-	-	1,570	1	1,571
Other comprehensive income	-	-	(906)	-	(906)
Comprehensive income	**-**	**-**	**664**	**1**	**665**
Issuance of shares	5	112	-	-	117
Dividends and other allocations	-	-	(388)	(1)	(389)
Share-based payments – cost of services rendered	-	-	7	-	7
Other	-	-	-	-	-
AT DECEMBER 31, 2012	**365**	**3,508**	**4,626**	**2**	**8,501**

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in € million)	Note	Year ended December 31, 2012	Year ended December 31, 2011
Net income		1,571	1,462
Adjustments			
• Cost of net debt	10	155	206
• Other financial income and expenses	10	22	(236)
• Income tax	11	736	534
• Amortization, depreciation and impairment of intangible assets and PP&E	6	1,022	933
• Non-recurring income and expenses	9	(46)	-
• Share of loss/(profit) from associates		(15)	(21)
EBITDA before non-recurring income and expenses	**3.7.2**	**3,445**	**2,878**
Other non-cash income and expenses	31	4	(24)
Change in provisions, including employee benefit obligations	31	(217)	(132)
Cost of net debt and other financial income and expenses paid	31	(146)	(189)
Income tax paid	18.2	(703)	(443)
Change in working capital, net of impairments	31	543	(894)
Cash flows from operating activities		**2,926**	**1,196**
Purchases of intangible assets and PP&E	31	(1,920)	(1,668)
Proceeds from sale of intangible assets and PP&E		149	49
Equity investments in consolidated companies, net of cash acquired		(88)	(11)
Disposals of equity investments in consolidated companies, net of cash sold		-	9
Purchases of available-for-sale financial assets		(5)	(3)
Proceeds from sale of available-for-sale financial assets		3	405
Cash flows from other financial assets	31	72	506
Cash flows from investing activities		**(1,789)**	**(713)**
Proceeds from issuances of shares	24	28	12
Dividends paid to the shareholders of the Company	24	(289)	(138)
Cash flows from financial liabilities	31	(587)	(343)
Other cash flows from financing activities		(20)	(15)
Cash flows from financing activities		**(868)**	**(484)**
Effect of changes in exchange rates		**(4)**	**4**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**265**	**3**
Cash and cash equivalents at January 1		**1,593**	**1,590**
Cash and cash equivalents at December 31	**23**	**1,858**	**1,593**

The notes 1 to 36 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 7, 2013.

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 (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.

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, 2012

None of the new standards, amendments and interpretations to existing standards, which have been published and which are applicable for the accounting periods beginning on or after January 1, 2012, are relevant to the Group operations or have a significant impact for the Group.

2.4. Newly published standards, amendments and interpretations to existing standards that are not yet effective

IAS 1, "Presentation of financial statements" was amended in June 2011. It requires essentially the Group to change the presentation of its statement of comprehensive income in order to distinguish the items that will be reclassified subsequently to the income statement (when specific conditions are met) from the items that will not. The amendment is effective for the accounting periods beginning on or after July 1, 2012. The Group has however decided to anticipate the adoption of this amendment in 2011.

IAS 19, "Employee benefits" was amended in June 2011. The impact on the Group will be as follows: to immediately recognize all past service costs and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). Furthermore, the Group has elected to exclude the net interest from the operating income. The Group will adopt retroactively this amendment during the accounting period beginning on January 1, 2013. The estimated impacts on the main 2012 indicators are:

- an increase of equity as at December 31, 2012 of €34 million; and
- a decrease of the 2012 net income of €80 million with respectively an increase of the operating income of €55 million and a decrease of the income before taxes of €120 million.

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015, providing its adoption by the European Union. The Group will also assess the impact of the remaining phases of IFRS 9 upon issuance by the IASB.

IFRS 10, "Consolidated financial statements", builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2014.

IFRS 12, "Disclosures of interests in other entities", includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2014.

IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

There are no other new standards, amendments and interpretations to existing standards, which have been published and which are applicable for the accounting periods beginning on or after January 1, 2013, that are expected to have a material impact on the Group operations.

2.5. Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires that management should use assumptions and estimates reflected in the value of assets and liabilities at the balance sheet date and in the amount of income and expenses for the reporting period. The 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 3.15 "Impairment of non-financial assets") are derived from the Group rolling ten-year business plan. The construction of the business plan 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. Therefore, the actual cash flows may differ from the estimates used in the calculation of value in use.

Quantitative information is provided in note 13.1 "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 Company, 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 plans reflecting their history or some legal obligations.

The valuation of these benefits is carried out annually by independent actuaries. The actuarial method used is the Projected Unit Credit Method.

According to this method, 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 long term salary increase rate, the expected rate of return on plan assets 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 by Group management in charge of employee benefits 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. These rates are compared with other sources of information such as IBoxx, Reuters or Bloomberg and from the Group's actuaries own benchmarks. When unexplained large spreads exists between these sources, the rates indicated by the actuaries can be adjusted.

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 are determined using several sources of information to cross check data such as information from Central banks which publish their inflation target. They can also be determined 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.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, invalidity) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The expected returns on plan assets are determined for each portfolio taking into account market conditions, asset allocations as well as long-term returns for each asset class and sub-class, including a premium for fund manager's performance, net of management and performance fees.

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.

There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for tax positions which could be challenged during audits by the local authorities.

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 company, such as:

- the origin of the historical tax losses (generally exceptional and non-recurrent: restructuration, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Consolidation

The Group consolidated financial statements include all subsidiaries and associates of Compagnie Générale des Établissements Michelin.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Shareholdings in companies which are not subsidiaries or associates are not consolidated. They are accounted for as non-derivative financial assets (note 3.16 "Non derivative financial assets").

3.1.1. Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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. Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method and are initially recognized at cost. The Group investment in associates includes goodwill identified at acquisition date and are presented net of any accumulated impairment losses.

The Group share of its 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 equals or exceeds its interest in the associate, the Group does not recognize future losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group interest in the associates. 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 and to make resources allocation decisions.

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 reserves in equity until the investment is sold.

3.3.3. Translation

The financial statements of 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 balance sheet date, 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 as a separate component of equity.

Cash flows are also translated at the average rate of the period. When an entity is disposed of, the translation differences accumulated in equity are recycled in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments recognized on the acquisition of an entity 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 €:	2012	2011	2012	2011
US dollar (USD)	1.325	1.294	1.286	1.393
Canadian dollar (CAD)	1.317	1.321	1.285	1.377
Mexican peso (MXN)	17.188	18.140	16.905	17.253
Brazilian real (BRL)	2.707	2.415	2.501	2.323
British pound (GBP)	0.822	0.840	0.811	0.868
Chinese yuan (CNY)	8.255	8.157	8.113	8.998
Indian rupee (INR)	72.646	68.975	68.557	64.773
Thai baht (THB)	40.583	40.956	39.964	42.451

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 equity. The ineffective portion of the gain or loss is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the period when the hedged item affects the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized in the income statement when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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 balance sheet date. 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 the asset or liability 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 balance sheet date, 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).

3.7. Performance indicators

3.7.1. Net debt

Net debt is made up of current and non-current financial liabilities as they appear in the balance sheet less:

- cash and cash equivalents as they appear in the balance sheet;
- derivative instruments included in the captions Current financial assets and Non-current financial assets of the balance sheet;
- cash management financial assets included in the caption Current financial assets of the balance sheet (these assets are highly liquid, little affected by the interest rate risk and not affected at all by the foreign currency risk); and
- borrowing collaterals included in the captions Current financial assets and Non-current financial assets of the balance sheet.

3.7.2. EBITDA before non-recurring income and expenses

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

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 balance sheet date, 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. Non-recurring income and expenses

In accordance with the recommendation No. 2009-R-03 of the French Accounting National Council, unusual, abnormal or non-frequent significant items of income and expenses are separately disclosed in the income statement. They are fully described in the note 9 "Non-recurring income and expenses".

3.12. Income tax

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

Current tax is based on the results of Group companies and is calculated according to local rules, including any adjustments to tax payable in respect of previous years.

Deferred tax is 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 utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.13. Intangible assets

■ 3.13.1. Goodwill

Goodwill is computed at acquisition date as the difference between:

- the sum of the consideration transferred (if need be, the previously held interests in the acquired entity), and
- the fair value of the identifiable acquired assets and liabilities.

Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the acquisition in which the goodwill arose.

■ 3.13.2. Other intangible assets

Other intangible assets are capitalized to the extent that the future economic benefit related to these assets will flow to the Group and their costs can be reliably identified.

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

3.14. 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 revenue 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 — 5-12 years
- Computer and telecommunication equipment — 5 years
- Vehicles — 5 years
- Other — 2-12 years

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

When assets are sold or otherwise disposed of, the difference between the net proceeds and the net carrying amounts of the assets is recognized in other operating income and expenses.

Property, plant and equipment which are financed by leases giving the Group substantially all of the risks and rewards of ownership are capitalized at the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease. The leased assets are depreciated over the shorter of the lease term and the useful life of the leased assets if the transfer of ownership of the leased assets is uncertain.

The obligations arising from future finance lease payments are discounted and recognized as a financial liability in the balance sheet. The payments related to operating leases are expensed on a straight line basis over the lives of the contracts.

3.15. Impairment of non-financial assets

When there is any indication that the recoverable amount of an asset (intangible assets and property, plant and equipment) may be less than its carrying amount, the recoverable amount of the asset is measured and an expense is potentially accounted for.

At individual asset level, such indications 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 to have CGUs with cash flows that are separately identifiable from cash flows of other CGUs.

CGUs are tested annually as long as a goodwill is allocated to them. 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, 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 based on the CGU's ten-year cash flow forecasts plus a terminal value, measured by dividing projected cash flows by the WACC. The discount rate is based on the cost of equity capital derived from the market-expected return on the Company's shares, the cost of debt capital and a risk premium reflecting the risks of the countries where the assets are located. Those rates are adjusted in order to determine a pre-tax discount rate, consistent with the pre-tax cash flow forecasts. 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 assets, based on their net carrying amounts at the closing date.

When the circumstances which previously caused non-financial assets to be impaired no longer apply, the impairment losses are reversed accordingly. However, goodwill impairment can never be reversed.

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

3.16. Non derivative financial assets

3.16.1. 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 have been acquired as well as its nature. Management 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 balance sheet date.
- 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 balance sheet date.
- 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 Management. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

3.16.2. 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.

3.16.3. 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 equity 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.

3.16.4. Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments cannot be reversed.

3.17. 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 Group is currently under transition in order to move its inventory's measurement method from weighted-average cost to a standard cost.

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.

3.18. 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 payments, 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 allowance account. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

3.19. 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.

3.20. 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.

3.21. Non-derivative financial liabilities

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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.

3.22. 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 Group employees.

Where long-term employee benefits, such as pension and other post-employment benefits, are provided by the Group, a liability or an asset and the related costs are recognized.

3.22.1. Pension and other post-employment benefits

Post-employment benefits are benefits payable after the completion of employment. Group companies provide retirement benefits for most of their employees, either directly or by contributing to independently administered funds. The benefits provided by the Group vary according to the legal, tax and economic 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.

Group companies provide 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 guidelines regarding post-employment benefits have led to the transformation towards defined contribution benefit plans since early 2000's. Nevertheless most of the current post-employment benefit plans are **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 provided by independent actuaries. Actuarial assumptions primarily discount rates, projected rates of remuneration growth, expected growth of healthcare costs and expected long-term rates of return on plan assets are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. They take into account any unrecognized past service costs and 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 country 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 a new defined benefit plan is set up or changes to benefits payable under an existing defined benefit plan are introduced. They are recognized immediately in the income statement if the benefits are vested. They are amortized on a straight-line basis over the average period until the benefits become vested if the benefits are not yet vested.

The Group net benefit plan cost recognized in the operating income consists of current service cost, interest cost, expected return on assets, curtailments and settlements, past service costs as well as actuarial gains and losses to the extent that they are recognized.

3.22.2. 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.

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.

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 maximum discount of 20%. The benefit to 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.

3.23. Provisions

Provisions are recognized when a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated.

Restructuring provisions are recognized when the Group has a detailed formal plan that has been announced.

Provisions are recorded at the net present value of the estimated cash outflows.

3.24. Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTE 4 FINANCIAL RISK MANAGEMENT

4.1. Financial risk management policy

4.1.1. Organization of financial risk management

Financial risk control, measurement and supervision are carried out under the responsibility of the Corporate Financing Department, at the subsidiary, geographic zone level as well as at the Group level. It reports directly to the Group Financial Department.

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

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

A Financial Risks Committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The Financial Risks Committee meets on a monthly basis and includes members of the Group Financial Department and of the Corporate Financing Department.

4.1.2. Liquidity risk

4.1.1.1. Risk factors

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

4.1.1.2. Risk management processes

The Corporate Financing Department is responsible for the Group's financing and liquidity at the lowest cost. The Group raises financing on the capital markets through long-term financial instruments (bond issues), as well as through bank resources (loans and credit lines), commercial paper programs and securitization of accounts receivable. The Group has also negotiated committed back-up credit lines and maintains cash reserves that are calibrated in order to ensure the refinancing of the short term debt. Long term financing and committed back-up credit lines are essentially concentrated at the level of the financial holding companies, in particular the Compagnie Financière du groupe Michelin, "Senard et Cie" (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 Group companies 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 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 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 exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts, the majority of which has short term maturities of around 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 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, 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 monitoring rules on investments. 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 fulfill 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.

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 region and Group level. A monthly credit reporting system operates within the Group.

In 2012, the Group Credit Department continued to promote actions to progressively shorten the terms of payment.

4.2. Financial risk data

4.2.1. Liquidity risk

At December 31, 2012, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2013	2014	2015	2016	2017	2018	2019 and beyond
Bonds	453	546	16	16	876	16	565
Loans from financial institutions and other	851	20	75	5	5	5	118
Obligation under finance lease	14	33	13	8	3	5	9
Derivative instruments	8	(13)	6	3	1	-	(14)
Repayment schedule of financial debts	**1,326**	**586**	**110**	**32**	**885**	**26**	**678**
Long-term undrawn confirmed credit lines	**-**	**-**	**-**	**40**	**1,460**	**-**	**-**

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 last column (2019 and beyond) includes the super-subordinated notes (TSDR) issued by CGEM in 2003 and redeemable in cash for a nominal amount of €79 million. The notes are redeemable in December 2033. However CGEM is entitled, at its discretion, to redeem early all the notes in cash at par in December 2013, and thereafter at quarterly intervals until the maturity date of the notes in December 2033.

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 (€1,858 million) as well the cash management financial assets (€292 million).

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, 2012						December 31, 2011					
(in € million)	JPY	RON	MXN	PLN	USD	Other	JPY	RON	MXN	PLN	USD	Other
Monetary assets	393	48	176	49	4,444	3,063	469	63	162	60	5,151	3,583
Monetary liabilities	(362)	(37)	(246)	(40)	(3,266)	(2,225)	(415)	(40)	(198)	(76)	(3,634)	(2,796)
Net position before hedging	**31**	**11**	**(70)**	**9**	**1,178**	**838**	**54**	**23**	**(36)**	**(16)**	**1,517**	**787**
Hedges	(46)	(19)	77	2	(1,163)	(839)	(55)	(25)	37	9	(1,532)	(766)
NET POSITION AFTER HEDGING	**(15)**	**(8)**	**7**	**11**	**15**	**(1)**	**(1)**	**(2)**	**1**	**(7)**	**(15)**	**21**

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 €1 million (2011: €1 million) in the consolidated income statement for every cent change.

A favorable change would have a totally symmetrical impact. This relatively low sensibility 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, 2012	December 31, 2011
EUR	5,063	4,980
BRL	911	1,039
CNY	498	382
USD	496	361
THB	414	304
INR	199	81
MXN	195	144
CAD	152	183
Other	573	627
TOTAL	**8,501**	**8,101**

4.2.3. Interest rate risk

Net debt at December 31, 2012 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	1,744	(1,209)	**535**	(1,863)	1,744	(3,072)	**(1,328)**	(975)	975	769	(2,097)	**(1,328)**
USD	-	345	**345**	693	-	1,038	**1,038**	377	(377)	377	661	**1,038**
THB	-	115	**115**	223	-	338	**338**	246	(246)	246	92	**338**
CNY	-	53	**53**	240	-	293	**293**	84	(84)	84	209	**293**
BRL	-	(16)	**(16)**	258	-	242	**242**	65	(65)	65	177	**242**
AUD	-	-	**-**	150	-	150	**150**	-	-	-	150	**150**
Other currencies	-	30	**30**	299	-	329	**329**	-	-	-	329	**329**
Total before derivatives	**1,744**	**(682)**	**1,062**	**-**	**1,744**	**(682)**	**1,062**	**(203)**	**203**	**1,541**	**(479)**	**1,062**
Fair value of derivatives included in net debt			**(9)**				**(9)**					**(9)**
NET DEBT (NOTE 26)			**1,053**				**1,053**					**1,053**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2012:

(in € million)	Annualized cash impact booked in income statement	Fair value impact: Booked in income statement (1)	Fair value impact: Booked in equity (2)	Fair value impact: Not booked (3)	Total
1-point downward shift	(5)	(16)	(3)	(37)	(56)
1-point upward shift	5	11	2	37	50

(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, 2012	December 31, 2011
Carrying amount (note 15.1)	181	211
Impact on equity of a 10% unfavorable change in the price of the Group investment portfolio	**(14)**	**(17)**

4.2.5. Counterparty risk

At December 31, 2012, 69% 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 with a credit rating equivalent or exceeding the credit rating of the Group.

Furthermore, most of the derivatives are contracted with the same banking groups.

4.2.6. Credit risk

At December 31, 2012, net receivable balances from the ten largest customers amounted to €466 million (2011: €498 million). Five of these customers are located in Europe and five in North America. At the same date, 50 customers (2011: 59) have been granted credit limits in excess of €10 million. Out of these, twenty-six are located in Europe, nineteen in North America, two in Asia, two in Middle-East and one in South America. There was no significant collateral received to limit credit risk. In 2012, credit losses represented 0.13% of sales (2011: 0.08%).

4.2.7. Commodities derivatives

In 2012, 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.

The monitoring of the gearing ratio is essentially done through the optimization of the net debt as well as through occasional capital transactions such as the capital increase done in October 2010.

The gearing ratios are as follows:

(in € million)	December 31, 2012	December 31, 2011
Net debt (note 26)	1,053	1,814
Total equity (as shown in the balance sheet)	8,501	8,101
Gearing ratio	**0.12**	**0.22**

4.4. Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2012 and 2011 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total 2012
Cash and cash equivalents	1,722	136	-	1,858
Cash management financial assets	-	292	-	292
Deposits borrowing collaterals	-	32	-	32
Derivatives (note 16.1)	-	62	-	62
Available-for-sales financial assets	95	-	86	181
TOTAL ASSETS	**1,817**	**522**	**86**	**2,425**
Derivatives (note 16.2)	-	53	-	53
TOTAL LIABILITIES	**-**	**53**	**-**	**53**

(in € million)	Level 1	Level 2	Level 3	Total 2011
Cash and cash equivalents	1,333	260	-	**1,593**
Cash management financial assets	-	333	-	**333**
Deposits borrowing collaterals	-	52	-	**52**
Derivatives (note 16.1)	-	47	-	**47**
Available-for-sales financial assets	123	-	88	**211**
TOTAL ASSETS	**1,456**	**692**	**88**	**2,236**
Derivatives (note 16.2)	-	80	-	**80**
TOTAL LIABILITIES	**-**	**80**	**-**	**80**

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, 2012:

(in € million)	
At January 1, 2012	**88**
Additions	5
Disposals	(6)
Transfers from other level to level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in the net income	-
Gains or losses for the year included in the other comprehensive income	-
Others	(1)
AT DECEMBER 31, 2012	**86**

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 and Michelin Lifestyle.

The operating segment performance is evaluated based on operating income before non-recurring income and expenses, consistently with operating income before non-recurring income and expenses in the Group consolidated financial statements.

This measurement basis excludes the effects of non-recurring income and expenses 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 and other 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 other intangible assets.

No operating liabilities are allocated to the segments in the Group internal reporting.

The segment information is as follows:

	2012				2011			
(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	11,098	6,736	3,640	**21,474**	10,780	6,718	3,221	**20,719**
Operating income before non-recurring income and expenses	1,033	444	946	**2,423**	1,018	233	694	**1,945**
In percentage of net sales	*9.3%*	*6.6%*	*26.0%*	**11.3%**	*9.4%*	*3.5%*	*21.5%*	**9.4%**
Depreciation and amortization	(525)	(303)	(179)	**(1,007)**	(499)	(288)	(157)	**(944)**
Impairment	(4)	(9)	(2)	**(15)**	15	(3)	(1)	**11**
Segment assets								
Intangible assets and PP&E	4,895	2,882	1,619	**9,396**	4,451	2,736	1,507	**8,694**
Finished products inventories	1,374	973	479	**2,826**	1,416	991	464	**2,871**
Trade receivables	1,420	1,004	378	**2,802**	1,551	1,068	456	**3,075**
Total of segment assets	**7,689**	**4,859**	**2,476**	**15,024**	**7,418**	**4,795**	**2,427**	**14,640**
Other information								
Capital expenditure	1,033	618	345	**1,996**	889	523	299	**1,711**

Sales between segments are carried at arm's length. The sales to external parties reported to the Managing Chairman are measured in a manner consistent with that in the consolidated income statement.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	December 31, 2012	December 31, 2011
Segment assets	**15,024**	**14,640**
Non-current financial assets and other assets	298	404
Investments in associates and joint ventures	204	120
Deferred tax assets	1,530	1,352
Other net inventories (raw materials and supplies, work in progress)	1,591	1,731
Current financial assets	371	366
Other current assets	706	682
Cash and cash equivalents	1,858	1,593
TOTAL GROUP ASSETS	**21,582**	**20,888**

The geographic information is broken down by zone hereunder:

(in € million)	2012 Europe	2012 North America	2012 Other	2012 Total	2011 Europe	2011 North America	2011 Other	2011 Total
Net sales	8,499	7,745	5,230	**21,474**	8,832	6,942	4,945	**20,719**
Intangible assets and PP&E	4,692	1,832	2,872	**9,396**	4,577	1,658	2,459	**8,694**
Capital expenditure	721	482	793	**1,996**	711	256	744	**1,711**

Europe includes western and eastern European countries. North America comprises Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in Other.

The Group sales information is based on the location of the customer.

The net sales in France amounted to €2,048 million (2011: €2,107 million). The intangible assets and PP&E located in France amounted to €1,970 million (2011: €1,759 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 2012 and 2011.

NOTE 6 EXPENSES BY NATURE

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

(in € million)	Year ended December 31, 2012	Year ended December 31, 2011
Raw materials and consumables used and changes in finished products inventories	(9,051)	(9,529)
Employee benefit costs (note 7)	(5,377)	(5,021)
Transportation of goods	(1,058)	(1,076)
Depreciation, amortization and impairment charges	(1,022)	(933)
Other expenses	(2,543)	(2,215)
EXPENSES BY NATURE	**(19,051)**	**(18,774)**

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, 2012	Year ended December 31, 2011
Wages and salaries	(3,927)	(3,743)
Payroll taxes	(1,109)	(1,031)
Defined benefit plan costs (note 27.1)	(207)	(146)
Defined contribution plan costs (note 27.2)	(127)	(94)
Share-based payments – cost of services rendered (note 25)	(7)	(7)
EMPLOYEE BENEFIT COSTS	**(5,377)**	**(5,021)**

The average number of employees in 2012 is 114,394 (2011: 113,839).

NOTE 8 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses are recognized within in the income statement:

(in € million)	Year ended December 31, 2012	Year ended December 31, 2011
Gain/(loss) on disposal of intangible assets and property, plant and equipment	(9)	14
Net restructuring costs	(15)	2
(Charge)/reversal on impairment of intangible assets and property, plant and equipment	(15)	11
Retiree benefit costs	(28)	(24)
Share-based payments – cost of services rendered (note 25)	(7)	(7)
Other operating income/(expenses)	(55)	(30)
OTHER OPERATING INCOME AND EXPENSES	**(129)**	**(34)**

NOTE 9 NON-RECURRING INCOME AND EXPENSES

9.1. Real estate disposal

In March 2012, the Group sold the property complexes at 46, 48 and 50, avenue de Breteuil in Paris' seventh arrondissement, at 3, 5 and 7, Villa de Ségur in Paris' seventh arrondissement as well as at 116, rue de la Tour in Paris' sixteenth arrondissement. The proceeds from the sale, amounting to €111 million, gave rise to a gain before tax of €97 million.

9.2. Impairment

The local government of Shenyang in China required Michelin to move its current factory to a nearby location because the land will be no longer eligible for industrial purposes. The Group expects to vacate the existing site by the end of 2015. Therefore, an impairment loss amounting to €51 million has been recorded based on management's best estimate of the recoverable amount of the property, plant, and equipment to be disposed.

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, 2012	Year ended December 31, 2011
Interest expenses	(193)	(233)
Interest income	22	21
Interest rate derivatives	2	6
Other	14	-
COST OF NET DEBT	**(155)**	**(206)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets) (note 10.3)	15	270
Currency remeasurement (including currency derivatives)	1	(13)
Other	(38)	(21)
OTHER FINANCIAL INCOME AND EXPENSES	**(22)**	**236**

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 increase in fair value during the year amounted to €5 million (2011: increase of €5 million) and is included in the line Interest rate derivatives (Cost of net debt).

10.2. Ineffective hedges

The ineffective portion of fair value hedges is an expense of €3 million (2011: profit of €1 million) is included in the line Interest rate derivatives (Cost of net debt). No cash flow hedge ineffectiveness has been recognized in the income statement (2011: nil).

10.3. Sale of Hankook shares

In November 2011, the Group sold its equity investment in Hankook Tire, which was previously accounted for as an available-for-sale financial asset (note 15.1 "Available-for-sale financial assets"). The transaction generated net proceeds of €402 million as well as a net capital gain of €256 million, which is included in the Net income from financial assets (Other financial income and expenses).

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2012	Year ended December 31, 2011
Current tax expense (note 18.2)	(621)	(420)
Deferred tax income/(expense) (note 18.1)	(115)	(114)
INCOME TAX	**(736)**	**(534)**

Current tax includes €45 million of withholding tax on royalties and distribution of retained earnings between Group companies (2011: €41 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2012	Year ended December 31, 2011
Income before tax	**2,307**	**1,996**
Tax calculated using domestic tax rates applicable to income in the respective countries	**(680)**	**(526)**
Tax effect from:		
• untaxed transactions	32	(14)
• changes in unrecognized temporary differences	(7)	16
• changes in unrecognized tax losses	(26)	(6)
• changes in tax rates	(3)	25
• tax credits and withholding tax (and related deferred tax liabilities)	(40)	(43)
• other items	(12)	14
INCOME TAX	**(736)**	**(534)**

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 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, 2012	Year ended December 31, 2011
Net income/(loss) (in € million), excluding the non-controlling interests	1,570	1,462
• Less, estimated grants to the General Partners	(10)	(10)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,560**	**1,452**
• Plus, interest expenses on convertible bonds	29	29
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,589**	**1,481**
Weighted average number of shares (in thousands of shares) **outstanding used in the calculation of basic earnings per share**	**181,009**	**178,302**
• Plus, adjustment for share option plans	349	283
• Plus, adjustment for convertible bonds	6,866	6,985
• Plus, adjustment for performance shares	658	288
Weighted average number of shares used in the calculation of diluted earnings per share	**188,882**	**185,858**
Earnings per share (in €)		
• Basic	8.62	8.14
• Diluted	8.41	7.97

Since the convertible bonds, as described in the note 26.1 “Bonds and commercial paper”, are dilutive in 2012, they have been considered in the calculation of diluted earnings per share. Taking into account the evolution of the average share price in 2012, the stock option plans of May 2007, May 2008, May 2011 and June 2012, as described in the note 28.1 “Stock option plans” are antidilutive.

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 2012 reporting period.

NOTE 13 INTANGIBLE ASSETS

Changes in intangible assets are as follows:

(in € million)	Goodwill	Other intangibles	Total
Gross carrying amounts at January 1, 2011	**436**	**1,099**	**1,535**
Translation adjustments	-	7	7
Additions (including new emission rights: €10 million)	-	118	118
Disposals	-	(24)	(24)
Changes in scope of consolidation	-	-	-
Transfers and other	-	(10)	(10)
Gross carrying amounts at December 31, 2011	**436**	**1,190**	**1,626**
Translation adjustments	(1)	(8)	(9)
Additions (including new emission rights: €5 million)	-	107	107
Disposals	-	(34)	(34)
Changes in scope of consolidation	-	1	1
Transfers and other	-	6	6
Gross carrying amounts at December 31, 2012	**435**	**1,262**	**1,697**
Amortization and impairment at January 1, 2011	**(20)**	**(739)**	**(759)**
Translation adjustments	(1)	(4)	(5)
Amortization	-	(68)	(68)
Net impairment	-	-	-
Disposals	-	12	12
Changes in scope of consolidation	-	-	-
Transfers and other	-	(1)	(1)
Amortization and impairment at December 31, 2011	**(21)**	**(800)**	**(821)**
Translation adjustments	-	5	5
Amortization	-	(78)	(78)
Net impairment	-	-	-
Disposals	-	14	14
Changes in scope of consolidation	-	-	-
Transfers and other	-	-	-
Amortization and impairment at December 31, 2012	**(21)**	**(859)**	**(880)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2012	**414**	**403**	**817**
Net carrying amounts at December 31, 2011	**415**	**390**	**805**

13.1. Goodwill

The amounts allocated to the CGUs are as follows:

(in € million)	December 31, 2012	December 31, 2011
CGU Passenger car and light truck tires North America	106	108
CGU Passenger car and light truck tires Southeast Asia / Australia	116	115
CGU Passenger car and light truck tires Europe	66	67
CGU Truck tires Europe	75	75
Other CGUs	51	50
GOODWILL	**414**	**415**

The impairment tests have been done taking into account the two main following assumptions:

- The terminal value measured with a 1.5% annual growth rate for the CGUs located in mature countries, and a 3.0% annual growth rate for the CGUs located in emerging countries.
- The discount rate used to discount the future cash flows of the CGUs is based on the WACC (Weighted Average Cost of Capital) before tax, which is calculated based on the Capital Asset Pricing Model (CAPM). The rates range between 11.6% and 12.5% and include a specific premium risk for each country. The main market data used to calculate the WACC are: a beta of 1.1, a market premium of 6.4% and a risk free interest rate of 3.6%.

Since the amount of goodwill is low compared to its total balance sheet or to its net equity, the Group does not disclose any sensitivity analysis to the main key assumptions.

13.2. Other intangible assets

There are no other intangible assets with an indefinite useful life.

In 2012, additions to intangible assets, amounting to €108 million (2011: €118 million) break down into the following categories:

- Software €96 million
- Emission rights – allowances granted €5 million
- Other €7 million

13.2.1. Software

The net carrying amount of software at December 31, 2012 was €306 million (2011: €286 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.

13.2.2. 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, 2012 amounts to 1.7 million metric tons (2011: 1.9 million metric tons) representing a value of €16 million (2011: €16 million). The liability related to actual emissions in 2012 amounts to 0.8 million metric tons (2011: 0.8 million metric tons) representing a value of €6 million (2011: €13 million). It will be offset by the delivery of the allowances granted.

13.2.3. Development costs

In 2012 and 2011, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfill six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

13.3. Impairment of intangible assets

Accumulated impairment losses on intangible assets at December 31, 2012 amounted to €34 million (2011: €36 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, 2011	**4,394**	**12,708**	**1,390**	**18,492**
Translation adjustments	8	60	2	70
Additions (including finance leases: €7 million)	427	1,107	77	1,611
Disposals	(51)	(270)	(64)	(385)
Changes in scope of consolidation	1	1	1	3
Transfers and other	5	-	(19)	(14)
Gross carrying amounts at December 31, 2011	**4,784**	**13,606**	**1,387**	**19,777**
Translation adjustments	(73)	(182)	(15)	(270)
Additions (including finance leases: €1 million)	438	1,353	104	1,895
Disposals	(118)	(285)	(49)	(452)
Changes in scope of consolidation	-	-	-	-
Transfers and other	20	(2)	(4)	14
Gross carrying amounts at December 31, 2012	**5,051**	**14,490**	**1,423**	**20,964**
Depreciation and impairment at January 1, 2011	**(2,158)**	**(8,116)**	**(1,025)**	**(11,299)**
Translation adjustments	(13)	(59)	(4)	(76)
Depreciation	(119)	(697)	(60)	(876)
Net impairment	7	5	(1)	11
Disposals	43	248	56	347
Changes in scope of consolidation	-	(1)	(1)	(2)
Transfers and other	2	1	4	7
Depreciation and impairment at December 31, 2011	**(2,238)**	**(8,619)**	**(1,031)**	**(11,888)**
Translation adjustments	20	83	9	112
Depreciation	(129)	(735)	(64)	(928)
Net impairment	(22)	(23)	-	(45)
Disposals	83	251	43	377
Changes in scope of consolidation	-	-	-	-
Transfers and other	(13)	(2)	2	(13)
Depreciation and impairment at December 31, 2012	**(2,299)**	**(9,045)**	**(1,041)**	**(12,385)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2012	**2,752**	**5,445**	**382**	**8,579**
Net carrying amounts at December 31, 2011	**2,546**	**4,987**	**356**	**7,889**

PP&E under construction amounted to €2,418 million (2011: €1,973 million).

Accumulated impairment losses amounted to €149 million (2011: €109 million).

The borrowing costs capitalized in 2012 in PP&E amounted to €26 million (2011: €8 million).

PP&E held under finance leases amounted to €82 million (2011: €94 million). The gross carrying amounts of these assets totaled €123 million (2011: €136 million).

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

(in € million)	December 31, 2012		December 31, 2011	
	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	11	13	11	15
Between one and five years	40	50	47	53
More than five years	21	33	26	40
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**72**	**96**	**84**	**108**

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, 2012	December 31, 2011
Available-for-sale financial assets (note 15.1)	181	211
Loans and deposits (note 15.2)	71	140
Derivative instruments (note 16.1)	39	40
Other	7	13
Financial assets	**298**	**404**
Other non-current assets: Defined benefit plans – plan surpluses (note 27.1)	**-**	**-**
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**298**	**404**

15.1. Available-for-sale financial assets

Available-for-sale financial assets consist essentially of a portfolio of shares, which are mostly quoted on a stock exchange.

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

(in € million)	2012	2011
At January 1	**211**	**493**
Translation adjustments	(1)	2
Additions	5	-
Disposals	(7)	(406)
Fair value changes	(27)	122
AT DECEMBER 31	**181**	**211**

2011 disposals essentially relate to the sale of investment in Hankook Tire mentioned in note 10.3 "Sale of Hankook shares".
No significant available-for-sale financial asset has a book value below its historical cost.

15.2. Loans and deposits

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2012	December 31, 2011
Gross loans and deposits	111	210
Impairments	(40)	(70)
TOTAL	**71**	**140**

The balance includes bank deposits and loans to employees and customers.

The breakdown by currency and maturity is presented in the table below:

	December 31, 2012			December 31, 2011		
(in € million)	Between one and five years	More than five years	Total	Between one and five years	More than five years	Total
EUR	36	11	**47**	107	4	**111**
USD	5	-	**5**	7	-	**7**
GBP	5	-	**5**	5	-	**5**
Other currencies	14	-	**14**	17	-	**17**
TOTAL	**60**	**11**	**71**	**136**	**4**	**140**

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

(in € million)	December 31, 2012		December 31, 2011	
	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	38	915	38	741
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	1	10	-	-
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	-	-	2	49
• Interest-rate derivatives	-	-	-	-
• Other derivatives	-	-	-	-
Non-current derivative instruments (note 15)	**39**	**925**	**40**	**790**
Interest-rate derivatives qualifying as fair value hedging instruments	3	60	-	-
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	1	34	1	20
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	19	2,184	6	686
• Interest-rate derivatives	-	-	-	-
• Other derivatives	-	-	-	-
Current derivative instruments (note 21)	**23**	**2,278**	**7**	**706**
TOTAL ASSETS	**62**	**3,203**	**47**	**1,496**

16.2. Derivatives recognized in liabilities

(in € million)	December 31, 2012 Fair values	December 31, 2012 Contractual amounts	December 31, 2011 Fair values	December 31, 2011 Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	1	74	-	-
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	10	306	20	239
• Interest-rate derivatives	10	376	26	1,055
• Other derivatives	-	-	-	-
Non-current derivative instruments (note 26)	**21**	**756**	**46**	**1,294**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	1	18	1	24
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	20	739	30	2,537
• Interest-rate derivatives	11	663	3	305
• Other derivatives	-	-	-	-
Current derivative instruments (note 26)	**32**	**1,420**	**34**	**2,866**
TOTAL LIABILITIES	**53**	**2,176**	**80**	**4,160**

16.3. Derivative contractual amounts

The contractual amounts of the currency derivatives are presented by currency in the table below. The maturity of these contracts does not generally exceed one year.

	December 31, 2012						December 31, 2011					
	Currencies purchased forward						Currencies purchased forward					
(in € million)	EUR	JPY	USD	THB	Other	Total	EUR	JPY	USD	THB	Other	Total
Currencies sold forward												
USD	745	30	-	140	99	**1,014**	1,119	11	-	159	6	**1,295**
EUR	-	28	8	9	404	**449**	-	27	18	11	341	**397**
THB	92	246	37	-	-	**375**	63	263	42	-	-	**368**
JPY	318	-	6	1	-	**325**	339	-	-	1	-	**340**
CNY	163	-	73	-	1	**237**	136	-	68	-	-	**204**
BRL	142	-	13	-	1	**156**	84	-	87	-	1	**172**
AUD	151	-	-	2	-	**153**	112	-	-	1	-	**113**
Other	556	-	98	-	2	**656**	553	-	99	-	14	**666**
TOTAL	**2,167**	**304**	**235**	**152**	**507**	**3,365**	**2,406**	**301**	**314**	**172**	**362**	**3,555**

The contractual amounts of other derivative financial instruments are presented by currency and by maturity in the table below:

(in € million)	December 31, 2012				December 31, 2011			
	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	60	515	400	**975**	-	60	681	**741**
• USD	491	302	-	**793**	232	618	193	**1,043**
• THB	172	74	-	**246**	73	171	73	**317**
Interest-rate derivatives	**723**	**891**	**400**	**2,014**	**305**	**849**	**947**	**2,101**
• EUR	-	-	-	**-**	-	-	-	**-**
• USD	-	-	-	**-**	-	-	-	**-**
• Other currencies	-	-	-	**-**	-	-	-	**-**
Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**723**	**891**	**400**	**2,014**	**305**	**849**	**947**	**2,101**

At December 31, 2012, the Group has outstanding short term futures contracts with an asset market value of €3 million (2011: liability of €2 million) which has been fully cashed in through the daily margin calls.

NOTE 17 INVESTMENTS IN ASSOCIATES

Investments in associates of €204 million (2011: €120 million) include essentially Double Coin Group (Anhui) Warrior Tire Co. (investment made in 2012), Ltd in China, E.A. Juffali & Brothers for Tyres in Saudi Arabia (investment made in 2012), MC Projects B.V. in the Netherlands and SIPH Group in France.

The associates' financial statements include the following amounts:

(in € million)	2012	2011
Assets	1,040	732
Liabilities	389	322
Net sales	1,072	861
Net income	51	83

NOTE 18 TAXES

18.1. Deferred taxes

Deferred taxes in the balance sheet are as follows:

(in € million)	December 31, 2012	December 31, 2011
Deferred tax assets	1,530	1,352
Deferred tax liabilities	(87)	(79)
NET DEFERRED TAX ASSET	**1,443**	**1,273**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2012	December 31, 2011
Intangible assets	18	24
Financial instruments	115	125
Inventories	101	85
Receivables/payables	483	205
Employee benefits	1,153	1,159
Provisions	65	110
Unused tax losses	78	157
Unused tax credits	23	15
Deferred tax assets by type of temporary difference	**2,036**	**1,880**
Property, plant and equipment	(593)	(607)
Deferred tax liabilities by type of temporary difference	**(593)**	**(607)**
NET DEFERRED TAX ASSET	**1,443**	**1,273**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2012	2011
At January 1	**1,273**	**1,130**
Translation adjustments	(28)	18
Deferred tax income/(expense) (note 11)	(115)	(114)
Tax recognized in the comprehensive income	314	238
Other	(1)	1
AT DECEMBER 31	**1,443**	**1,273**

The deferred tax asset utilization in 2012 comes essentially from the reversal of temporary differences in the United States of America and the use of losses carried forward in France.

The deferred income tax recognized in equity is as follows:

(in € million)	December 31, 2012	December 31, 2011
Post-employment benefits	921	607
Available-for-sale financial assets	(15)	(15)
Compound financial instruments (convertible bond)	(15)	(16)
TOTAL DEFERRED TAX INCOME RECOGNIZED IN EQUITY	**891**	**576**

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2012	December 31, 2011
Deductible temporary difference	**60**	**56**
Tax losses		
• of which expiring in less than one year	5	2
• of which expiring between one to five years	20	66
• of which expiring in more than five years	60	38
• of which with no expiration	142	114
Total tax losses	**227**	**220**
Tax credits	**17**	**27**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**304**	**303**

18.2. Current taxes

Current taxes in the balance sheet are as follows:

(in € million)	2012	2011
Taxes receivables (note 22)	89	94
Taxes payables (note 30)	(91)	(120)
Net total at January 1	**(2)**	**(26)**
Current tax expense (note 11)	(621)	(420)
Income tax paid	703	443
Translation adjustments and other	(2)	1
Total changes	**80**	**24**
Taxes receivables (note 22)	175	89
Taxes payables (note 30)	(97)	(91)
NET TOTAL AT DECEMBER 31	**78**	**(2)**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2012	December 31, 2011
Raw materials and supplies	1,257	1,357
Work in progress	370	405
Finished goods	2,882	2,949
Total gross inventory	**4,509**	**4,711**
Write-downs on raw materials and supplies	(34)	(30)
Write-downs on work in progress	(2)	(1)
Write-downs on finished goods	(56)	(78)
Total write-downs	**(92)**	**(109)**
NET INVENTORY	**4,417**	**4,602**

Movements in inventory write-downs were as follows:

(in € million)	2012	2011
At January 1	**(109)**	**(106)**
Translation adjustments and other	-	-
Write-downs of inventories recognized as an expense in the period	(112)	(95)
Reversals of write-downs	129	92
AT DECEMBER 31	**(92)**	**(109)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2012	December 31, 2011
Gross trade receivables	2,901	3,176
Impairment	(99)	(101)
TRADE RECEIVABLES	**2,802**	**3,075**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2012:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,578**	**(21)**	**2,557**
Overdue			
• from less than three months	216	(6)	210
• between three and six months	33	(7)	26
• from more than six months	74	(65)	9
Overdue trade receivables	**323**	**(78)**	**245**
TRADE RECEIVABLES	**2,901**	**(99)**	**2,802**

Movements in impairment are broken down in the table below:

(in € million)	2012	2011
At January 1	**(101)**	**(109)**
Translation adjustments	-	2
Impairment charges	(44)	(28)
Impairment reversals	46	34
AT DECEMBER 31	**(99)**	**(101)**

Impairment reversals in 2012 include write-offs of €28 million (2011: €16 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, 2012	December 31, 2011
Loans and deposits	56	26
Cash management financial assets (note 26)	292	333
Derivative instruments (note 16.1)	23	7
CURRENT FINANCIAL ASSETS	**371**	**366**

The characteristics of the cash management financial assets, although being highly liquid, little affected by the interest rate risk and not affected at all by the foreign currency risk (fully invested in euros), do not strictly meet those of cash and cash equivalent (note 3.19 "Cash and cash equivalents"). They are therefore accounted for at fair value through profit or loss (note 3.16 "Non derivative financial assets").

NOTE 22 OTHER CURRENT ASSETS

The carrying amount of other current assets is broken down in the table below:

(in € million)	December 31, 2012	December 31, 2011
Suppliers – advances	108	94
Current tax – advance payments	175	89
Other taxes receivable	221	343
Other	213	164
Less impairment	(11)	(8)
OTHER CURRENT ASSETS	**706**	**682**

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, 2012	December 31, 2011
Cash at bank and in hand	226	301
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)	1,632	1,292
CASH AND CASH EQUIVALENTS	**1,858**	**1,593**

The average effective interest rate on short-term bank deposits was 0.98% in 2012 (2011: 1.38%).

Cash and cash equivalents are denominated in the following currencies:

(in € million)	December 31, 2012	December 31, 2011
EUR	1,659	1,366
USD	118	112
BRL	17	5
VEF	11	6
Other	53	104
CASH AND CASH EQUIVALENTS	**1,858**	**1,593**

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2011: 176,607,845 shares outstanding	**353**	**3,215**	**3,568**
Issuance of 3,128,066 shares from the partial payment of dividend in shares	6	171	177
Issuance of 282,972 shares from the exercise of share options	1	10	11
Other (14 shares)	-	-	-
At December 31, 2011: 180,018,897 shares outstanding	**360**	**3,396**	**3,756**
Issuance of 1,883,606 shares from the partial payment of dividend in shares	4	85	89
Issuance of 654,210 shares from the exercise of share options	1	27	28
Other	-	-	-
AT DECEMBER 31, 2012: 182,556,713 SHARES OUTSTANDING	**365**	**3,508**	**3,873**

The par value per share amounts to €2 (2011: €2). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2012, the dividend payable for the year 2011 to the shareholders was €2.10 per share (2011: €1.78 per share). The shareholders had the possibility to receive their dividend in cash or the equivalent value in shares. It was settled as follows:

- cash payment of €289 million (2011: €138 million);
- issuance of new shares for a net amount of €89 million (2011: €177 million).

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €2.40 per share in 2013 for the year 2012.

NOTE 25 RESERVES

(in € million)	Translation reserve	Other reserves	Retained earnings	Total
At January 1, 2011	**158**	**361**	**3,380**	**3,899**
Dividends and other allocations	-	-	(327)	(327)
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	7	7
Other	-	1	-	1
Transactions with the Shareholders of the Company	**-**	**1**	**(320)**	**(319)**
Net income/(loss) attributable to the shareholders of the Company	-	-	1,462	1,462
Post-employment benefits	-	-	*(722)*	*(722)*
Tax effect – Post-employment benefits	-	-	*242*	*242*
Other items of comprehensive income that will not be reclassified to income statement	-	-	(480)	(480)
Available-for-sale financial assets – change in fair values	-	*122*	-	*122*
Tax effect – available-for-sale financial assets – change in fair values	-	*(4)*	-	*(4)*
Available-for-sale financial assets – (gain)/loss recognized in income statement	-	*(258)*	-	*(258)*
Currency translation differences	*(79)*	-	-	*(79)*
Other	-	*2*	*(2)*	-
Other items of comprehensive income that may be reclassified to income statement	(79)	(138)	(2)	(219)
Comprehensive income	**(79)**	**(138)**	**980**	**763**
At December 31, 2011	**79**	**224**	**4,040**	**4,343**
Dividends and other allocations	-	-	(388)	(388)
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	7	7
Other	-	-	-	-
Transactions with the Shareholders of the Company	**-**	**-**	**(381)**	**(381)**
Net income/(loss) attributable to the shareholders of the Company	-	-	1,570	1,570
Post-employment benefits	-	-	*(1,053)*	*(1,053)*
Tax effect – Post-employment benefits	-	-	*314*	*314*
Other items of comprehensive income that will not be reclassified to income statement	-	-	(739)	(739)
Available-for-sale financial assets – change in fair values	-	*(27)*	-	*(27)*
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	*(141)*	-	-	*(141)*
Other	-	*(5)*	*6*	*1*
Other items of comprehensive income that may be reclassified to income statement	(141)	(32)	6	(167)
Comprehensive income	**(141)**	**(32)**	**837**	**664**
AT DECEMBER 31, 2012	**(62)**	**192**	**4,496**	**4,626**

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2012	December 31, 2011
Bonds	1,744	1,577
Loans from financial institutions and other	197	782
Finance lease liabilities	61	73
Derivative instruments	21	46
Non-current financial liabilities	**2,023**	**2,478**
Bonds and commercial paper	391	841
Loans from financial institutions and other	840	475
Finance lease liabilities	11	11
Derivative instruments	32	34
Current financial liabilities	**1,274**	**1,361**
FINANCIAL LIABILITIES	**3,297**	**3,839**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2012	December 31, 2011
Financial liabilities	3,297	3,839
Derivatives recognized as assets (note 16.1)	(62)	(47)
Borrowing collaterals – non-current portion (note 32.3.2)	-	(52)
Borrowing collaterals – current portion (note 32.3.2)	(32)	-
Cash management financial assets (note 21)	(292)	(333)
Cash and cash equivalents (note 23)	(1,858)	(1,593)
NET DEBT	**1,053**	**1,814**

Cash and cash equivalents as well as cash management financial assets are essentially managed by the Group central treasury team. A portion of cash and cash equivalents (€292 million at December 31, 2012) is however managed directly by the Group companies. This can mainly be explained by:

- capital increases made in some companies to finance the capital investments planned in 2013;
- constraints (foreign exchange control or others) in some countries preventing the immediate availability of the cash held; and
- prudential rules in Ireland specific to captive insurance companies.

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, 2012	December 31, 2011
Bonds	1,918	1,613
Loans from financial institutions and other	197	782
Finance lease liabilities	61	73
Derivative instruments	21	46
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**2,197**	**2,514**

26.1. Bonds and commercial paper

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

(in € million)	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Subordinated bonds issued by Compagnie Générale des Établissements Michelin • nominal value of €79 million (2011: €128 million) • issued in December 2003 and due in December 2033, unless the Group elects to redeem them earlier between December 2013 and maturity • nominal interest rate of 6.375% until December 2013 and 3-month Euribor +2.95% thereafter • effective interest rate of 6.60% (2.94% after hedging) at December 31, 2012 • option to defer coupon payments when the Company does not distribute dividends • partially hedged through a €60 million interest rate swap (2011: €60 million) expiring in December 2013 (fair value hedge) (note 16)	-	82	-	130
Bonds issued by Michelin Luxembourg SCS • nominal value of €400 million (2011: nil) • issued in June 2012 and due in June 2019 • nominal interest rate of 2.75% (0.36% after hedging) • hedged through a € 400 million interest rate swaps (2011: nil) expiring in June 2019 (fair value hedge) (note 16)	-	413	-	-
Liability component of zero-coupon convertible bonds (Océanes) 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% at December 31, 2012 • 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: €870 million	-	722	-	746
Bonds issued by Michelin Luxembourg SCS • nominal value of €515 million (2011: €681 million) • issued in April 2009 and due in April 2014 • nominal interest rate of 8.625% • effective interest rate of 8.88% (6.46% after hedging) at December 31, 2012 • step-up of 125bp if downgraded below investment grade by at least one rating agency • hedged through a € 515 million interest rate swaps (2011: €681 million) expiring in April 2014 (fair value hedge) (note 16)	-	527	-	701
Bonds issued by Michelin Luxembourg SCS • issued in April 2002 and due in April 2012 • nominal interest rate of 6.50%	-	-	437	-
Commercial paper issued by Compagnie Générale des Établissements Michelin • nominal value of €200 million (2011: €404 million) • effective interest rate of 0.08% at December 31, 2012	200	-	404	-
Commercial paper issued by Compagnie Générale des Établissements Michelin and Michelin Luxembourg SCS • nominal value of $ 254 million (2011: nil) • effective interest rate of 0.42% at December 31, 2012	191	-	-	-
TOTAL	**391**	**1,744**	**841**	**1,577**

At December 31, 2012, the weighted average effective interest rate for bonds and commercial paper is 4.62% (3.43% 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, 2012 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	CNY	Other	Total
Fixed rates	-	-	-	-	-
Floating rates	717	115	61	144	1,037
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**717**	**115**	**61**	**144**	**1,037**
Average effective interest rate paid in 2012	**1.44%**	**3.97%**	**6.49%**	**4.72%**	**3.14%**

The contractual repricing of the interest rates of these loans is less than 6 months.

26.3. Rating

At December 31, 2012, the corporate credit ratings sought by the Group 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	BBB+	BBB+
	Moody's	Baa1	Baa1
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Stable	Stable

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 contributes to 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. In the case of defined contribution plans, liabilities correspond to the contributions due.

27.1. Defined Benefit Plans

These plans are currently 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 model. These rates are generally based on the expected yield of first class company bonds and have the same maturities as the liabilities. These rates are compared with other sources of information as iBoxx, Reuters or Bloomberg and the actuaries own benchmarks. If there is a large gap between these sources, the reference rate taken from actuary's model is adjusted. 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 up to three rates can be used depending on the duration of these plans. The discount rate in the USA is based on the actuary's AA Only Bond yield curve rates adjusted to reflect the maturities of the liabilities. The discount rate in Canada is based on the Canadian Institute of Actuaries Canadian Corporate Aa Bond full yield curve rates adjusted to reflect the maturities of the liabilities.

The mortality tables used for the pension plans which are funded through insured contracts are the insurers' tables. For the other post retirement main plans the following tables have been used: (i) USA: RP-2000 Static Mortality Table (Nonannuitants projected to 2028 with Scale AA; Annuitants projected to 2020 with Scale AA); (ii) Canada 1994 UP projected 21 years to 2015; (iii) UK: Generational SAPS S1NA CMI 2009 with 1% underpin and (iv) Germany Heubeck RT 2005 G.

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2012	December 31, 2011
Present value of fully or partly funded obligations	6,790	-	6,790	6,053
Fair value of plan assets	(5,195)	-	(5,195)	(4,810)
Funded status deficit/(surplus)	**1,595**	**-**	**1,595**	**1,243**
Present value of unfunded obligations	773	2,252	3,025	2,501
Unrecognized past service cost	18	37	55	74
Unrecognized asset due to application of asset ceiling	4	-	4	7
NET DEFINED BENEFIT OBLIGATION	**2,390**	**2,289**	**4,679**	**3,825**
Amounts recognized in the balance sheet:				
• As assets in Non-current financial assets and other assets (note 15)			-	-
• As liabilities in Employee benefit obligations			4,679	3,825
NET LIABILITY			**4,679**	**3,825**

Actuarial gains and losses on post-employment defined benefit plans are recognized in other comprehensive income when they occur.

Unrecognized past service cost corresponds to the value of rights that do not vest immediately when a plan amendment or a new plan is introduced.

The Group does not recognize as an asset any surplus in excess of the sum of (a) cumulative unrecognized past service cost and (b) 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.

At December 31, 2012, unrecognized past service cost amounted to €55 million (2011: €74 million).

The movements in net defined benefit obligations recognized in the balance sheet are shown below:

(in € million)	Pension plans	Other plans	2012	2011
At January 1	**1,851**	**1,974**	**3,825**	**3,030**
Translation adjustments	(12)	(25)	(37)	82
Expenses recognized in the income statement (recurring items) (note 7)	45	162	207	146
Contributions paid to the funds	(269)	-	(269)	(48)
Benefits paid directly to the beneficiaries	(27)	(73)	(100)	(107)
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	-
Actuarial (gains) or losses recognized in other comprehensive income	806	250	1,056	720
Unrecognized asset due to application of asset ceiling recognized in other comprehensive income	(3)	-	(3)	2
Changes in scope of consolidation	(1)	1	-	-
AT DECEMBER 31	**2,390**	**2,289**	**4,679**	**3,825**

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	2012	2011
At January 1	**1,500**	**265**	**1,765**	**1,043**
Actuarial gains or (losses) recognized during the year due to a change in assumptions	870	260	1,130	667
Actuarial gains or (losses) recognized during the year due to the experience	(69)	(5)	(74)	53
Unrecognized asset due to application of asset ceiling	(3)	-	(3)	2
AT DECEMBER 31	**2,298**	**520**	**2,818**	**1,765**
Of which actuarial gains or (losses)	*2,291*	*520*	*2,811*	*1,754*
Of which asset ceiling effect	*7*	*-*	*7*	*11*

In 2012, the net amount recognized in the consolidated income statement was an expense of €207 million (2011: expense of €146 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2012	Year ended December 31, 2011
Cost of services rendered during the year	63	47	110	98
Interest cost	309	89	398	387
Expected return on plan assets	(327)	-	(327)	(317)
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	18	18	(8)
Past service cost recognized during the year	(1)	(15)	(16)	(13)
Effect of plan curtailments and settlements	1	23	24	(1)
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	-
TOTAL RECORDED IN THE INCOME STATEMENT	**45**	**162**	**207**	**146**

Annual charges are determined by independent actuaries at the beginning of each financial year based on the following factors:

- charge corresponding to acquisition of an additional year of rights ("cost of services rendered during the year");
- charge corresponding to the discounting adjustment to reflect the reduction in the period until the benefits are due ("interest cost");
- income corresponding to estimated return on plan assets ("expected return on plan assets");
- income or charge from annual amortization of actuarial gains or losses on other long term defined benefit plans ("amortization of actuarial gains/losses during the year");
- gain/loss resulting from changes in plan benefits ("past service cost recognized during the year");
- gain/loss resulting from the curtailment or settlement of any plans ("curtailments and settlements").

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. Such benefits are provided under defined benefit plans or defined contribution plans.

Under defined benefit plans, the Group guarantees the future level of benefits as provided by the plan regulations. The valuation of such defined benefit plans is carried out by independent actuaries using actuarial techniques. Defined 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 German pension plans, a provision is made in the consolidated balance sheet. Defined post-employment benefit plans are mainly found in the United States of America, Canada and the United Kingdom. The future benefits paid by the above plans are generally based on years of service and average end-of-career salaries. Since 2004, Group defined benefit pension plans for the employees of its North American and UK subsidiaries are gradually being phased out in favor of defined contribution pension plans for newly hired employees as well as for future accruals.

Under defined contribution plans, the Group obligation is limited to the payment of established contributions. This does not guarantee the future level of benefits. Annual charges correspond to the contributions due during the year. Currently, Group defined contribution plans mainly consist of 401 K plans in the United States of America, the DC Section in the United Kingdom, the RRSP plan in Canada and the article 83 and PERCO in France.

The following table analyzes changes in the financial position of the Group defined benefit pension plans:

(in € million)	2012				2011			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	3,704	2,890	40	**6,634**	3,208	2,720	53	**5,981**
Translation adjustments	(59)	44	(3)	**(18)**	81	50	(2)	**129**
Changes in scope of consolidation	-	-	-	**-**	-	4	(14)	**(10)**
Current service cost	37	17	-	**54**	38	18	-	**56**
Interest cost	158	142	2	**302**	170	146	2	**318**
Plan reorganization costs generated during the year:								
• Immediately recognized in the income statement	-	1	-	**1**	7	(22)	-	**(15)**
• Unrecognized costs	-	-	-	**-**	-	(21)	-	**(21)**
Benefits paid	(200)	(135)	-	**(335)**	(213)	(120)	-	**(333)**
Other items	1	-	1	**2**	-	(4)	(1)	**(5)**
Actuarial (gains) or losses generated during the year	390	524	9	**923**	413	119	2	**534**
Present value of the obligations at the end of the year	**4,031**	**3,483**	**49**	**7,563**	**3,704**	**2,890**	**40**	**6,634**
Fair value of plan assets at the beginning of the year	2,925	1,860	25	**4,810**	2,826	1,832	23	**4,681**
Translation adjustments	(43)	37	(2)	**(8)**	70	45	(1)	**114**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Expected return on plan assets	203	114	2	**319**	208	124	2	**334**
Contributions paid to the plans	184	77	1	**262**	35	20	1	**56**
Administration costs	-	(5)	-	**(5)**	-	(6)	-	**(6)**
Benefits paid by the plans	(200)	(109)	-	**(309)**	(213)	(97)	(1)	**(311)**
Other items	-	-	-	**-**	-	-	-	**-**
Actuarial gains or (losses) generated during the year	92	33	1	**126**	(1)	(58)	1	**(58)**
Fair value of plan assets at the end of the year	**3,161**	**2,007**	**27**	**5,195**	**2,925**	**1,860**	**25**	**4,810**
Deficit/(Surplus) at the end of the year	**870**	**1,476**	**22**	**2,368**	**779**	**1,030**	**15**	**1,824**
Deferred items at the beginning of the year	(8)	(20)	1	**(27)**	(6)	2	1	**(3)**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Changes in scope of consolidation	1	-	(1)	**-**	-	-	-	**-**
Unrecognized asset due to application of the asset ceiling generated during the year	3	-	-	**3**	(2)	-	-	**(2)**
Amortization of plan reorganization costs during the year	-	2	-	**2**	-	-	-	**-**
Unrecognized plan reorganization costs generated during the year	-	-	-	**-**	-	(22)	-	**(22)**
Deferred items at the end of the year	**(4)**	**(18)**	**-**	**(22)**	**(8)**	**(20)**	**1**	**(27)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**874**	**1,494**	**22**	**2,390**	**787**	**1,050**	**14**	**1,851**

In 2012, the present value of defined benefit pension obligations increased by €929 million. This increase was due to:

(in € million)	2012	2011
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	18	(129)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(923)	(534)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	(21)	(41)
Changes in plan regulations	(1)	36
Changes in the scope of consolidation	-	10
Other items	(2)	5

The fair value of plan assets amounted to €5,195 million at December 31, 2012, showing an increase of €385 million compared to December 31, 2011. The factors behind this increase were as follows:

(in € million)	2012	2011
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(8)	114
Difference between the contributions paid to the funds and the benefits paid by the funds	(52)	(261)
Actual return on plan assets	445	276
Changes in the scope of consolidation	-	-
Other items	-	-

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 2012 and the previous four periods:

(in € million)	2012	2011	2010	2009	2008
Defined benefit obligation	(7,563)	(6,634)	(5,981)	(5,488)	(4,564)
Plan assets	5,195	4,810	4,681	3,867	3,200
SURPLUS/(DEFICIT)	**(2,368)**	**(1,824)**	**(1,300)**	**(1,621)**	**(1,364)**
Experience adjustment to:					
• plan liabilities	(60)	8	86	(10)	(80)
• plan assets	129	(58)	191	219	(1,073)

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:

	2012	2011	2010	2009	2008
Experience adjustment to:					
• the plan liabilities in percentage of the present value of the obligation (DBO)	-0.79%	0.12%	1.44%	-0.18%	-1.75%
• to the plan assets in percentage of the fair value of the assets	2.48%	-1.21%	4.08%	5.66%	-33.53%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2012			December 31, 2011		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.76%	3.90%	8.80%	4.43%	4.94%	10.77%
Rate of salary increases	2.89%	3.01%	6.50%	2.63%	3.17%	6.50%
Average remaining service lives (in years)	8.7	11.3	10.6	9.1	11.3	10.9
Expected return on plan assets (1)	-	-	-	7.27%	6.13%	10.77%

(1) This assumption has not been determined at the end of 2012 because it will not be used anymore from 2013.

Group obligations are regularly calculated by independent actuaries using the Projected Unit Credit Method based on end-of-career salaries.

The expected return on plan assets is determined for each portfolio taking into account market conditions at the measurement date, portfolio strategic composition as well as long-term returns of each class and sub-class of assets, with an allocation for active manager's performance and deduction of manager's fees.

Two methods are used to determine the expected returns. One is based upon the expected long term inflation as used in the main assumptions plus a spread for each asset class representing the long term expected real return plus a spread for active management and diversification impact, less manager fees. The other one based on swap rates plus a risk premium representing the expected return of each asset class and a spread for active management and diversification impact less manager fees.

The discount rates, salary increase and inflation 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.

A one-percentage-point change in these rates compared to those used for 2012 would have the following effect on:

	1-point increase	1-point decrease
Discount rate on the defined benefit obligation (DBO)	-12.38%	15.44%
Discount rate on the aggregate of current service cost and interest cost	5.10%	-7.55%
Inflation rate on the defined benefit obligation (DBO)	9.84%	-8.39%
Inflation rate on the aggregate of current service cost and interest cost	10.21%	-8.61%
Salary increase rate on the defined benefit obligation (DBO)	2.91%	-2.17%
Salary increase rate on the aggregate of current service cost and interest cost	4.94%	-3.53%
Interest rate on the fair value of plan assets	-5.54%	6.38%

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, 2012				Year ended December 31, 2011			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	39	22	2	**63**	36	22	3	**61**
Interest cost	163	143	3	**309**	159	142	3	**304**
Expected return on plan assets	(209)	(116)	(2)	**(327)**	(195)	(120)	(2)	**(317)**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	**-**	-	-	-	**-**
Past service cost recognized during the year	-	(1)	-	**(1)**	-	-	-	**-**
Effect of plan curtailments and settlements	-	1	-	**1**	7	(21)	(1)	**(15)**
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	**-**	-	-	-	**-**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**(7)**	**49**	**3**	**45**	**7**	**23**	**3**	**33**
Actual return on plan assets	**295**	**147**	**3**	**445**	**207**	**65**	**2**	**274**

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

	December 31, 2012				December 31, 2011			
	Canada	USA	UK	Other	Canada	USA	UK	Other
Equities	33%	35%	40%	9%	35%	34%	42%	9%
Alternative investments [(1)]	15%	14%	9%	1%	13%	15%	7%	1%
Real estate	7%	5%	7%	8%	7%	5%	3%	8%
Fixed income and cash	45%	46%	44%	82%	45%	46%	48%	82%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Duration in years of the fixed income portfolio	**15**	**12**	**15**	**N/A**	**14**	**13**	**15**	**N/A**

(1) Hedge funds and private equity.

An internal group of experts, composed by the chairmen of the main investment committees, has issued investment guidelines for the use of the local investment committees stating, among other issues, not to invest directly in any Michelin securities or in any properties used by the Group. 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.

Each plan's asset allocation is decided periodically by an independent fiduciary body (Investment Board, Board of Trustees) based on recommendations made by independent actuaries in consultation with banks or investment management firms. The asset allocation takes into account the structure of employee-related liabilities and their terms.

Group contributions to pension plans and benefit payments made by these plans in 2012 and to be made during the ten following years are as follows:

(in € million)	North America	Europe	Other	Total
Contributions paid/payments made				
2012	190	102	3	295
Estimates of contributions expected to be paid and payments to be made				
2013	16	62	1	79
2014	42	55	-	97
2015	164	94	1	259
2016	159	106	-	265
2017	122	112	1	235
2018-2022	430	492	3	925

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 2012, on top of the ordinary contributions, it was decided to make an advanced contribution due or forecasted in 2013 and 2014: €26 million in Canada, €60 million in the United Kingdom and €124 million in the United States.

In the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly to 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 departure dates each year. The same method is used for the constitutive funds for partially funded plans paid to insurance companies. For funded plans, the estimates of future contributions take into account the changes in regulations that are known to date (Pension Protection Act 2006 in the US and Pension Act 2004 in the UK).

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 deferred compensation plans that are mandatory in the countries where the Group operates or provided for under local company-specific agreements. Such defined benefit plans generally concern the Group European companies and are based on seniority.

As in the case of the above-described defined benefit plans, "other defined benefit plans" are valued by independent actuaries using actuarial techniques. The obligations under these plans are not covered by assets but are fully accounted for in the Group balance sheet liabilities.

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

(in € million)	December 31, 2012 North America	Europe	Other	Total	December 31, 2011 North America	Europe	Other	Total
Present value of the obligation at the beginning of the year	1,155	738	27	**1,920**	1,004	657	1	**1,662**
Translation adjustments	(19)	-	(2)	**(21)**	26	-	(1)	**25**
Changes in scope of consolidation	-	-	-	**-**	-	-	14	**14**
Current service cost	13	28	2	**43**	11	24	2	**37**
Interest cost	49	37	2	**88**	53	32	2	**87**
Plan reorganization costs generated during the year:								
• Immediately recognized in the income statement	-	23	-	**23**	(1)	5	9	**13**
• Unrecognized costs	-	-	-	**-**	-	-	-	**-**
Benefits paid	(52)	(19)	(1)	**(72)**	(56)	(20)	(1)	**(77)**
Other items	-	4	1	**5**	-	(1)	-	**(1)**
Actuarial (gains) or losses generated during the year	76	188	2	**266**	118	41	1	**160**
Present value of the obligations at the end of the year	**1,222**	**999**	**31**	**2,252**	**1,155**	**738**	**27**	**1,920**
Fair value of plan assets at the beginning of the year	-	-	-	**-**	-	-	-	**-**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Expected return on plan assets	-	-	-	**-**	-	-	-	**-**
Contributions paid to the plans	-	-	-	**-**	-	-	-	**-**
Administration costs	-	-	-	**-**	-	-	-	**-**
Benefits paid by the plans	-	-	-	**-**	-	-	-	**-**
Other items	-	-	-	**-**	-	-	-	**-**
Actuarial gains or (losses) generated during the year	-	-	-	**-**	-	-	-	**-**
Fair value of plan assets at the end of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deficit/(Surplus) at the end of the year	**1,222**	**999**	**31**	**2,252**	**1,155**	**738**	**27**	**1,920**
Deferred items at the beginning of the year	(114)	60	-	**(54)**	(133)	68	-	**(65)**
Translation adjustments	2	-	-	**2**	(4)	-	-	**(4)**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Amortization of plan reorganization costs during the year	23	(8)	-	**15**	23	(8)	-	**15**
Unrecognized plan reorganization costs generated during the year	-	-	-	**-**	-	-	-	**-**
Deferred items at the end of the year	**(89)**	**52**	**-**	**(37)**	**(114)**	**60**	**-**	**(54)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**1,311**	**947**	**31**	**2,289**	**1,269**	**678**	**27**	**1,974**

In 2012 the present value of other defined benefit plans increased by €332 million, due to:

	2012	2011
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	21	(25)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(266)	(160)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	(59)	(47)
Changes in plan regulations	(23)	(13)
Changes in the scope of consolidation	-	(14)
Other item	(5)	1

The present value of the defined benefit obligation and experience adjustments are as follows for 2012 and the previous four periods:

(in € million)	2012	2011	2010	2009	2008
Defined benefit obligation	(2,252)	(1,920)	(1,662)	(1,491)	(1,466)
Experience adjustments to plan liabilities	5	3	27	33	18
Experience adjustments to plan liabilities (in % of present value of the obligation (DBO))	0.22%	0.16%	1.62%	2.21%	1.23%

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

	December 31, 2012			December 31, 2011		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.75%	3.13%	6.95%	4.41%	4.93%	8.09%
Average remaining service lives (in years)	10.7	15.5	12.5	10.7	14.7	12.7

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2012		December 31, 2011	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	8.00%	5.90%	8.17%	6.27%
Minimum long-term rate of annual growth in healthcare costs	5.00%	4.50%	5.00%	4.50%
Year in which the minimum growth rate will be achieved	2019	2016	2018	2016

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.

A one-percentage-point change in these rates compared to those used for 2012 would have the following effect:

	1-point increase	1-point decrease
Discount rate on the defined benefit obligation (DBO)	-10.7%	13.1%
Discount rate on the aggregate of current service cost and interest cost	2.0%	-2.6%
Healthcare cost trend on the healthcare defined benefit obligation	9.5%	-7.8%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plans	9.2%	-7.6%

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

(in € million)	Year ended December 31, 2012				Year ended December 31, 2011			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	13	31	3	**47**	10	25	2	**37**
Interest cost	50	37	2	**89**	49	32	2	**83**
Expected return on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	18	-	**18**	-	(8)	-	**(8)**
Past service cost recognized during the year	(23)	8	-	**(15)**	(21)	8	-	**(13)**
Effect of plan curtailments and settlements	-	23	-	**23**	(1)	5	10	**14**
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	**-**	-	-	-	**-**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**40**	**117**	**5**	**162**	**37**	**62**	**14**	**113**

Group payments made under other defined plans in 2012 and to be made during the ten following years are as follows:

(in € million)	North America	Europe	Other	Total
Payments made				
2012	53	20	1	74
Estimates of payments to be made				
2013	67	30	3	100
2014	68	35	1	104
2015	69	62	2	133
2016	70	82	2	154
2017	71	76	2	149
2018-2022	358	444	15	817

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. These are mainly found in the United States of America, Canada, the United Kingdom and France.

In 2012, the contributions paid to such defined contribution plans and expensed amounted to €127 million (2011: €93 million).

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:

	2012		2011	
	Weighted average exercise price (in € per option)	Number of options	Weighted average exercise price (in € per option)	Number of options
At January 1	**59.83**	**4,791,478**	**58.49**	**4,874,219**
Granted	51.16	143,276	66.00	252,900
Forfeited	58.70	(26,354)	56.65	(52,669)
Exercised	43.65	(654,210)	42.72	(282,972)
AT DECEMBER 31	**62.04**	**4,254,190**	**59.83**	**4,791,478**

2,190,337 of the 4,254,190 options outstanding as at December 31, 2012 are exercisable (2011: 2,542,919 in total and 4,791,478 exercisable).

Assumptions used to value the share options granted in 2012 are as follows:

Grant date	June 25, 2012
Number of options granted	143,276
Weighted average share price (in € per share)	48.28
Exercise price (in € per share)	51.16
Volatility	40.59%
Risk free interest rate	2.09%
Market value of the option at grant date (in € per option)	6.19

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

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2012		December 31, 2011	
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 2002	May 2006	May 2011	42.47	-	42.47	2,695
May 2003	May 2007	May 2012	31.13	-	31.13	35,148
November 2003	November 2007	November 2012 (1)	32.82	1,244	32.82	96,890
May 2004	May 2008	May 2013	38.61	27,596	38.61	81,256
July 2004	July 2008	July 2013	42.96	38,222	42.96	90,417
May 2005	May 2009	May 2014	46.34	77,066	46.34	203,749
November 2005	November 2009	November 2014	46.34	484,437	46.34	730,597
May 2006	May 2010	May 2015	55.99	116,556	55.99	131,890
May 2007	May 2011	May 2016	87.85	1,161,826	87.85	1,170,277
May 2008	May 2012	May 2017	59.85	283,390	59.85	315,987
November 2009	November 2013	November 2018	51.16	1,408,389	51.16	1,419,534
May 2010	May 2014	May 2019	52.13	260,138	52.13	260,138
May 2011	May 2015	May 2020	66.00	252,900	66.00	252,900
June 2012	June 2016	June 2021	51.16	142,426	-	-
NUMBER OF STOCK OPTIONS OUTSTANDING				**4,254,190**		**4,791,478**

(1) Includes an auxiliary plan expiring in November 2013.

28.2. Performance share plans

Changes in the number of performance share rights are as follows:

	2012	2011
	Number of performance share rights outstanding	Number of performance share rights outstanding
At January 1	**287,944**	**-**
Granted	371,936	287,944
Forfeited	(2,096)	-
Shares delivered	-	-
AT DECEMBER 31	**657,784**	**287,944**

In 2012, 371,936 rights to performance shares of the Company have been granted to Group employees. Grantees working for French subsidiaries are subject to a vesting period of three years that ends in November 2015 followed by a two-year lock-up period ending in November 2017. Grantees working for foreign subsidiaries are subject to a vesting period of four years ending in November 2016 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (Group sales growth percentage and amount of operating income) are met. The fair value of a right to a performance share is estimated at €61.87 for grantees of French subsidiaries and at €59.46 for grantees of foreign subsidiaries. These fair values are 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 total cost for the plan is estimated at €17 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2012 Number of performance share rights outstanding	December 31, 2011 Number of performance share rights outstanding
	France	Other countries	France	Other countries	France	Other countries		
November 2011	November 2014	November 2015	2 years	None	37.49	35.49	285,848	287,944
November 2012	November 2015	November 2016	2 years	None	61.87	59.46	371,936	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**657,784**	**287,944**

The expense recognized in 2012 for the performance share plans amounts to €3 million (2011: less than €1 million) and is included in Other operating income and expenses.

28.3. Employee share purchase plans

No plan has been implemented in 2012.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

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

(in € million)	December 31, 2012	December 31, 2011
Restructuring provisions	151	231
Litigation provisions	172	146
Other provisions	80	80
Provisions	**403**	**457**
Deferred revenue – Government grants	99	100
Other deferred revenue	278	158
Debts towards employees and social security authorities	75	89
Non-current liabilities	**452**	**347**
PROVISIONS AND OTHER NON-CURRENT LIABILITIES	**855**	**804**

Movements in provisions during the year:

(in € million)	Restructuring	Litigation	Other provisions	Total
At January 1, 2012	**231**	**146**	**80**	**457**
Additional provisions	23	137	30	190
Provisions utilized during the year	(93)	(108)	(22)	(223)
Unused provisions reversed during the year	(10)	(1)	(11)	(22)
Translation adjustments	-	(2)	(1)	(3)
Other effects	-	-	4	4
AT DECEMBER 31, 2012	**151**	**172**	**80**	**403**

29.1. Restructuring

At December 31, 2012, the remaining restructuring provisions were related to restructuring taking place in the following countries:

	December 31, 2012	December 31, 2011
Spain	57	81
France	51	104
Italy	24	28
Other countries	19	18
RESTRUCTURING PROVISIONS	**151**	**231**

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, 2012	December 31, 2011
Customers – Deferred rebates	881	862
Employee benefits	453	426
Social security liabilities	301	282
Restructuring liabilities	22	23
Current income tax payable	97	91
Other taxes	168	243
Other	250	289
OTHER CURRENT LIABILITIES	**2,172**	**2,216**

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, 2012	Year ended December 31, 2011
(Gains)/losses on disposal of non-financial assets	9	(14)
Other	(5)	(10)
Other non-cash income and expenses	**4**	**(24)**
Change in employee benefit obligations	(162)	(8)
Change in restructuring provisions	(82)	(138)
Change in litigation and other provisions	27	14
Change in provisions, including employee benefit obligations	**(217)**	**(132)**
Interest and other financial expenses paid	(211)	(242)
Interest and other financial income received	32	27
Dividends received	33	26
Cost of net debt and other financial income and expenses paid	**(146)**	**(189)**
Change in inventories	140	(806)
Change in trade receivables	254	(286)
Change in trade payables	(129)	168
Change in other receivables and payables	278	30
Change in working capital, net of impairments	**543**	**(894)**
Purchases of intangible assets (note 13)	(102)	(108)
Purchases of PP&E (note 14)	(1,894)	(1,603)
Government grants received	5	2
Change in capital expenditure payables	71	41
Purchases of intangible assets and PP&E	**(1,920)**	**(1,668)**
Increase in other non-current financial assets	(8)	(20)
Decrease in other non-current financial assets	18	23
Net cash flows from cash management financial assets	42	510
Net cash flows from borrowing collaterals	20	(8)
Net cash flows from other current financial assets	-	1
Cash flows from other financial assets	**72**	**506**
Increase in non-current financial liabilities	498	60
Decrease in non-current financial liabilities	(336)	(233)
Repayment of finance lease liabilities	(13)	(14)
Net cash flows from current financial liabilities	(694)	(136)
Derivatives	(42)	(20)
Cash flows from financial liabilities	**(587)**	**(343)**
Details of non cash transactions:		
• Finance leases (note 14)	1	7
• Decrease of liabilities to minority shareholders	(5)	(7)
• New emission rights	5	10
• Dividends paid in shares (note 24)	89	177

NOTE 32 COMMITMENTS AND CONTINGENCIES

32.1. Commitments

32.1.1. Operating lease commitments

Future minimum payments under non-cancelable operating leases by maturity are as follows (not discounted):

(in € million)	December 31, 2012	December 31, 2011
Within one year	174	191
Between one and five years	364	367
More than five years	78	60
TOTAL FUTURE MINIMUM PAYMENTS	**616**	**618**

Total operating lease rents recognized in the income statement in 2012 amounted to €335 million (2011: €299 million).

32.1.2. Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2012, amounts to €634 million (of which €174 million is likely to be delivered from 2014).

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 2013. 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 issued in 2007 a guarantee towards the pension fund to cover the stream of contributions which its subsidiary will have to make.

32.2.2. 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 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 €39 million (2011: €36 million).

32.3.2. Financial assets

Loans and deposits amounting to €32 million (2011: €52 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 drawn from these programs amounts to €451 million (2011: €455 million). Since the Group has retained substantially all the risks and rewards of ownership, the ownership interests in the trade receivable portfolios sold by the European and North American subsidiaries have not been derecognized and the financing received from the financial institutions, amounting to €15 million as at December 31, 2012 (2011: €93 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 ACQUISITIONS AND DIVESTMENTS OF BUSINESSES

There were no significant acquisitions or divestments in 2012.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1. Subsidiaries and associates

The list of the major Group subsidiaries and associates 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)	2012	2011
Income statement		
Income for the purchase of products or supply of services	-	8
Expenses for the purchase of products or supply of services	(151)	(215)
Balance sheet		
Financial liabilities	(10)	(14)
Accounts payable	(5)	(10)
Accounts receivable	1	-

34.2. Senior Management and Supervisory Board

In 2012, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2011 net income and amounting to €1.2 million. Furthermore, he was entitled to a global compensation of €1.2 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin (2011: €1.1 million). A provision of €1.8 million (social charges included) was recognized as at December 31, 2012 (2011: €1.4 million) based on the present value of the vested rights in a long term incentive bonus program and a post-employment benefit plan.

In 2012, Michel Rollier, Managing Chairman and General Partner of the Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2011 net income and amounting to €3.1 million (2011: €4.5 million). Michel Rollier left his duties as Managing Chairman and General Partner as of May 11, 2012.

The compensation paid in 2012 to the 11 members of the Group Executive Committee (2011: 9 members, on average) was €9.7 million (2011: €7.5 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2012	Year ended December 31, 2011
Short term benefits	7.3	5.7
Post-employment benefits	1.5	0.8
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	0.9	1.0
COMPENSATION PAID TO THE MEMBERS OF THE GROUP EXECUTIVE COMMITTEE	**9.7**	**7.5**

The attendance fees paid in 2012 to the Supervisory Board members for 2011 meetings were €0.3 million (2011: €0.3 million).

NOTE 35 EVENTS AFTER THE BALANCE SHEET DATE

The reported amounts of assets and liabilities at the balance sheet date were adjusted, if needed, up to the date when the Managing Chairman authorized for issue the 2012 consolidated financial statements.

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	99.98
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Karlsruhe	Financial	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Denmark			
Euromaster Danmark A/S	Viborg	Commercial	99.94
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.80
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	99.94
Finland			
Suomen Euromaster Oy	Pori	Commercial	99.94
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
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
The Netherlands			
Eurodrive Services and Distribution N.V.	Amsterdam	Commercial	99.94
Euromaster Bandenservice B.V.	Deventer	Commercial	99.94
Michelin Nederland N.V.	Drunen	Commercial	100.00
Transityre B.V.	Breda	Commercial	100.00
Michelin Finance (Pays-Bas) B.V.	Amsterdam	Financial	100.00
Poland			
Michelin Polska S.A.	Olsztyn	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% Of interest
Serbia			
Tigar Tyres d.o.o.	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Bucharest	Commercial	99.82
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Harrow	Commercial	99.94
Sweden			
Euromaster AB	Varberg	Commercial	99.94
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Petit-Lancy	Commercial	99.94
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière du groupe Michelin, "Senard et Cie"	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	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	Johannesburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Manufacturing & commercial	100.00
Nigeria			
Michelin Tyre Services Company Ltd	Lagos	Commercial	60.28
India			
Michelin India TamilNadu Tyres Private Limited	Chennai	Manufacturing	100.00
Michelin India Tyres Private Limited	Faridabad	Commercial	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
Michelin Alberta ULC	Calgary	Financial	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
Michelin Mexico Properties, Inc.	Wilmington	Miscellaneous	100.00
Oliver Rubber Company, LLC	Wilmington	Manufacturing	100.00
Mexico			
Industrias Michelin, S.A. de C.V.	Mexico City	Manufacturing & commercial	100.00
South America			
Argentina			
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Buenos Aires	Commercial	100.00
Brazil			
Sociedade Michelin de Participações, Indústria e Comércio Ltda	Rio de Janeiro	Manufacturing & commercial	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda	Rio de Janeiro	Miscellaneous	100.00

Companies	Registered office	Nature	% Of interest
Chile			
Michelin Chile Ltda	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Cali	Manufacturing & commercial	99.94
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
Southeast Asia / Australia			
Australia			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00
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
Michelin Siam Group 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 Chun Shin Ltd	Taipei	Commercial	100.00
Eastern Europe			
Russia			
LLC "Michelin Russian Tyre Manufacturing Company"	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

7.2. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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*

Ladies and Gentlemen,

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, 2012, 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, 2012 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 matters:

- Note 2.5 to the accounts related to the basis of preparation of the consolidated financial statements presents the main assumptions and estimates used by 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 significant changes in the economical environment.
  We have examined the process applied for the determination by the management 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 accounts.

These assessments were 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 7, 2013

PricewaterhouseCoopers Audit	Deloitte & Associés
Éric Bulle	Dominique Descours

The Statutory Auditors

Members of "*Compagnie régionale de Versailles*"

8

Company Financial Statements

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 the manufacturing, sales and research operations based in France;
- Compagnie Financière du groupe 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 earned net income of €465.1 million in 2012, up €105 million from the €360.1 million reported in 2011.

8.1.1.a) Operating income

Operating income amounted to €169.1 million, compared with €185.8 million in 2011. Royalty revenue rose by 6.4% during the year, while operating expenses increased to €397.5 million from €346.8 million, primarily reflecting the increase in advertising costs, in research costs re-invoiced to CGEM and motorsports expenses.

8.1.1.b) Financial income

Net financial income rose to €280.0 million from €196.0 million in 2011 as a result of the sharp increase in dividend income.

8.1.2. BALANCE SHEET

Equity amounted to €6,521 million at December 31, 2012, compared with €6,325 million a year earlier. The increase primarily reflected the growth in net income for the year, as well the rise in share capital and paid-in capital in excess of par following the issue of shares on dividend reinvestment and the exercise of stock options.

8.2. FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (PARENT COMPANY)

BALANCE SHEET AT DECEMBER 31, 2012

ASSETS (in € thousand)		Note	December 31, 2012 Cost	Depreciation, amortization & provisions	Net	December 31, 2011 Net
Non-current assets						
Intangible assets						
Patents, licenses and other rights			26,191	26,191	0	0
Other intangible assets			61	61	0	0
		5	**26,252**	**26,252**	**0**	**0**
Property and equipment						
Land			102		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		5-6-7-22-23	5,965,291	20,091	5,945,200	5,980,444
Loans and advances to subsidiaries and affiliates		5-7-9	1,261,214		1,261,214	1,140,592
Loans		5-7	202,421		202,421	
Other equity interests		5-7-9-22	29,888	55	29,833	13,251
		5	**7,458,814**	**20,146**	**7,438,668**	**7,134,287**
	(I)		**7,487,351**	**48,581**	**7,438,770**	**7,134,389**
Current assets						
Receivables [2]		7-9	259,148		259,148	305,311
Marketable securities			1	0	1	1
Cash			145,487		145,487	452,906
			404,636	**0**	**404,636**	**758,218**
Accruals						
Prepaid expenses [2]			119		119	291
	(II)		**404,755**	**0**	**404,755**	**758,509**
Deferred charges and bond call premiums	**(III)**		**0**		**0**	**0**
Conversion losses	**(IV)**					
ASSETS	**(I)+(II)+(III)+(IV)**		**7,892,106**	**48,581**	**7,843,525**	**7,892,898**
(1) of which: short-term					*1,262,825*	*510,592*
(2) of which: long-term					*0*	*0*

EQUITY AND LIABILITIES (in € thousand)		Note	December 31, 2012	December 31, 2011
Equity				
Share capital		13	365,113	360,038
Paid in capital in excess of par			3,508,030	3,396,133
Revaluation reserves		11	624,772	624,772
Other reserves		12	1,284,044	1,283,361
Retained earnings			212,104	239,453
Net income for the year			465,119	360,146
Untaxed reserves		6	61,598	61,598
	(I)		**6,520,780**	**6,325,501**
Liabilities [(1)]				
Convertible bonds		10	770,582	808,868
Other bonds			12	13
Subordinated notes		10	79,833	128,545
Other borrowings		10	240,386	404,400
Other financial liabilities [(2)]		7-10	47,839	21,706
Accrued taxes and payroll costs		10	5,498	6,723
Other liabilities		7-10	178,595	197,142
			1,322,745	**1,567,397**
Accruals and other liabilities				
Deferred revenue				
	(II)		**1,322,745**	**1,567,397**
Conversion gains	**(III)**			
TOTAL EQUITY AND LIABILITIES	**(I)+(II)+(III)**		**7,843,525**	**7,892,898**
(1) of which: long-term			*853,010*	*938,704*
of which: short-term			*469,735*	*628,693*
(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, 2012

(in € thousand)		Note	2012	2011
Revenue				
Royalties (of which, export revenues: €505,014)		14	566,610	532,552
Other revenue			34	28
Total revenue	**(I)**		**566,644**	**532,580**
Operating expenses				
External charges			366,391	329,633
Taxes other than on income			7,084	10,942
Wages and salaries		17-18	1,434	4,245
Payroll taxes			648	1,436
Depreciation and amortization			0	235
Other expenses			21,946	276
Total operating expenses	**(II)**		**397,503**	**346,767**
OPERATING INCOME	**(I)-(II)**		**169,141**	**185,813**
Financial income				
Dividends from subsidiaries and affiliates [(1)]			338,285	236,047
Interest income [(1)]			832	3,504
Exchange gains			5,251	1,306
Total financial income	**(III)**		**344,368**	**240,857**
Financial expense				
Amortization and provision expense		6	20,055	0
Interest expense [(2)]			38,135	43,918
Exchange losses			6,182	898
Total financial expenses	**(IV)**		**64,372**	**44,816**
NET FINANCIAL INCOME	**(III)-(IV)**		**279,996**	**196,041**
INCOME BEFORE NON-RECURRING ITEMS AND TAX	**(I-II+III-IV)**		**449,137**	**381,854**
Non-recurring income				
From revenue transactions		5	8,014	7
Total non-recurring income	**(V)**		**8,014**	**7**
Non-recurring expenses				
From revenue transactions			25	69
From capital transactions			0	0
Total non-recurring expenses	**(VI)**		**25**	**69**
NET NON-RECURRING INCOME (EXPENSE)	**(V-VI)**		**7,989**	**(62)**
INCOME TAX EXPENSE	**(VII)**	**15**	**- 7,993**	**21,646**
Total revenue	(I+III+V)		919,026	773,444
Total expenses	(II+IV+VI+VII)		453,907	413,298
NET INCOME			**465,119**	**360,146**
(1) of which: income from related parties			*338,140*	*236,047*
(2) of which: expenses paid to related parties			*952*	*29*

NOTES TO THE FINANCIAL STATEMENTS

Contents

NOTE 1 GENERAL INFORMATION

The Company's financial year covers the 12 months from January 1 to December 31.

The following notes and tables form an integral part of the financial statements.

The financial statements were approved for publication by the Managing Chairman on February 7, 2013 after being reviewed by the Supervisory Board.

Unless otherwise specified, all amounts are presented in thousands of euros.

NOTE 2 SIGNIFICANT EVENT OF THE YEAR

Compagnie Générale des Établissements Michelin (the Company) decided to wind up its Société de Technologie Michelin subsidiary by acquiring all of its assets.

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 (1999 *Plan Comptable Général*). These principles have been applied consistently in all periods presented unless otherwise specified.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. Intangible assets

"Concessions, patents and other rights" are stated at historical cost. Concessions and patents are amortized over 12 months. Other rights, corresponding primarily to software licenses, are amortized over periods of either 12 months or 3 years, depending on their nature.

Expenses incurred for the creation and protection of brands are recognized as expenses for the year.

"Other intangible assets" consist of vehicle parking rights, which are amortized over 40 years.

4.2. Property and equipment

4.2.1. Cost

Property and equipment are stated at historical cost, except for assets held at the time of the 1976/1978 legal revaluation, which are stated at valuation.

4.2.2. Depreciation

Property and equipment are depreciated on a straight-line basis over the following estimated useful lives:

- Buildings: 30 years;
- Equipment: 10 years, except for computer equipment, 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 mainly to premiums on shares issued for cash or on conversion of bonds, after deducting issuance costs net of tax.

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.

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 both current taxes and deferred taxes. Deferred taxes are calculated using the liability method.

NOTE 5 NON-CURRENT ASSETS

Changes in intangible assets, property, plant and equipment and the corresponding depreciation/amortization can be analyzed as follows:

5.1. Changes in non-current assets

	Cost at January 1, 2012	Additions, new loans increases in accrued interest	Disposals, decommissioning reduction in loans and accrued interest	Cost at December 31, 2012
Intangible assets	26,252			26,252
Property and equipment	2,285			2,285
	28,537			**28,537**
Shares in subsidiaries and affiliates	5,980,535		15,244 (1)	5,965,291
Loans and advances to subsidiaries and affiliates	1,140,592	120,622		1,261,214
Loans		202,421 (2)		202,421
Other equity interests	13,251	16,637		29,888
	7,134,378	**339,680**	**15,244**	**7,458,814**
TOTAL	**7,162,915**	**339,680**	**15,244**	**7,487,351**

(1) As explained in Note 2, the Company decided to wind up Société de Technologie Michelin by acquiring all of its assets.
(2) Loans are granted to related companies domiciled in France.

5.2. Depreciation and amortization

	At January 1, 2012	Increase for the year	Decrease for the year	At December 31, 2012
Accumulated amortization (intangible assets)	26,252		-	26,252
Accumulated depreciation (property and equipment)	2,183		-	2,183
TOTAL	**28,435**		**-**	**28,435**

NOTE 6 PROVISIONS

	At January 1, 2012	Increase for the year	Decrease for the year	At December 31, 2012
Untaxed provisions	61,598	-	-	61,598
Provisions for impairment	91	20,055	-	20,146
TOTAL	**61,689**	**20,055**	**-**	**81,744**

NOTE 7 ITEMS RELATING TO SEVERAL BALANCE SHEET ITEMS

	Transactions involving	
Balance sheet items	Related companies	Other companies in which Michelin holds an equity interest
Shares in subsidiaries and affiliates (net book value)	5,945,200	-
Loans and advances to subsidiaries and affiliates	1,261,214	-
Loans	202,421	-
Other equity interests	-	3,228
Receivables	189,057	-
Other financial liabilities	47,839	-
Other liabilities	177,582	-

NOTE 8 TREASURY STOCK

At December 31, 2012, the Company had no treasury stock.

NOTE 9 MATURITIES OF LOANS AND RECEIVABLES

	Total	Due within one year	Due in more than one year
Non-current assets			
Loans and advances to subsidiaries and affiliates	1,261,214	1,211,214	50,000
Loans	202,421	25,026	177,395
Other equity interests	26,605	26,585	20
Current assets			
Receivables	259,148	259,148	
TOTAL	**1,749,388**	**1,521,973**	**227,415**

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	770,582 (1)	-	770,582	-
Other bonds	12	12	-	-
Subordinated notes	79,833 (2)	363	-	79,470
Other borrowings	240,386 (3)	240,386	-	-
Other financial liabilities	47,839	47,839	-	-
Accrued taxes and payroll costs	5,498	2,540	2,958	-
Other liabilities	178,595 (4)	178,595	-	-
TOTAL	**1,322,745**	**469,735**	**773,540**	**79,470**

(1) 2007-2017 convertible bond issue. The related issuance costs were expensed.
(2) At 6.375% from 2003 to 2013, then at a variable rate from 2014 to 2033.
(3) The commercial paper program totaled €1.5 billion during the year, with the nominal amount outstanding as of December 31, 2012 standing at €200 million and USD53.5 million.
(4) Including €1,006 thousand in charges to be paid.

NOTE 11 REVALUATION RESERVES

Revaluation reserves amount to €624,772 thousand, of which:

- €32 thousand related to land;
- €624,740 thousand related to shares in subsidiaries and affiliates.

NOTE 12 RESERVES

Reserves at December 31, 2012 break down as follows:

Legal reserve, of which €26,943 thousand allocated to long-term capital gains	36,004
Special long-term capital gains reserve	881,419
Other reserves	366,621
TOTAL	**1,284,044**

NOTE 13 SHARE CAPITAL

13.1. The Company's share capital breaks down as follows:

	Number of shares	Par value	Capital
Shares outstanding at January 1, 2012	180,018,897	€2	360,038
Other shares issued during the year	2,537,816	€2	5,075
Share capital at December 31, 2012	182,556,713	€2	365,113

13.2. 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:

	2012		2011	
	Average weighted exercise price (€ per option)	Number of options	Average weighted exercise price (€ per option)	Number of options
At January 1	**59.83**	**4,791,478**	**58.49**	**4,874,219**
Granted	51.16	143,276	66.00	252,900
Cancelled	58.70	(26,354)	56.65	(52,669)
Exercised	43.65	(654,210)	42.72	(282,972)
AT DECEMBER 31	**62.04**	**4,254,190**	**59.83**	**4,791,478**

Of the 4,254,190 options outstanding at December 31, 2012, 2,190,337 were exercisable at that date (2011: 2,542,919 out of 4,791,478).

Options granted in 2012 were valued on the basis of the following assumptions:

Date of grant	June 25, 2012
Number of options granted	143,276
Average weighted share price (in €)	48.28
Exercise price (in €)	51.16
Volatility	40.59%
Risk-free interest rate	2.09%
MARKET VALUE OF THE OPTION AT DATE OF GRANT (in €)	**6.19**

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

Stock option plans in effect at December 31, 2012:

			December 31, 2012		December 31, 2011	
Grant date	Start of exercise period	End of exercise period	Exercise price (in €)	Number of options outstanding	Exercise price (in €)	Number of options outstanding
May 2002	May 2006	May 2011	42.47	-	42.47	2,695
May 2003	May 2007	May 2012	31.13	-	31.13	35,148
November 2003	November 2007	November 2012 (1)	32.82	1,244	32.82	96,890
May 2004	May 2008	May 2013	38.61	27,596	38.61	81,256
July 2004	July 2008	July 2013	42.96	38,222	42.96	90,417
May 2005	May 2009	May 2014	46.34	77,066	46.34	203,749
November 2005	November 2009	November 2014	46.34	484,437	46.34	730,597
May 2006	May 2010	May 2015	55.99	116,556	55.99	131,890
May 2007	May 2011	May 2016	87.85	1,161,826	87.85	1,170,277
May 2008	May 2012	May 2017	59.85	283,390	59.85	315,987
November 2009	November 2013	November 2018	51.16	1,408,389	51.16	1,419,534
May 2010	May 2014	May 2019	52.13	260,138	52.13	260,138
May 2011	May 2015	May 2020	66.00	252,900	66.00	252,900
June 2012	June 2016	June 2021	51.16	142,426	-	-
NUMBER OF OPTIONS OUTSTANDING				**4,254,190**		**4,791,478**

(1) Includes a supplementary plan expiring in November 2013.

■ Performance share plans

The number of performance shares outstanding may be analyzed as follows:

	2012	2011
	Number of performance shares outstanding	Number of performance shares outstanding
At January 1	**287,944**	**-**
Granted	371,936	287,944
Cancelled	(2,096)	-
Delivered	-	-
AT DECEMBER 31	**657,784**	**287,944**

In November 2012, 371,936 rights to shares of Company stock, subject to certain performance conditions (performance shares) were granted to Group employees. Shares granted to employees of companies incorporated in France are subject to a three-year vesting period ending in November 2015, followed by a two-year lock-up period ending in November 2017. Shares granted to employees of companies incorporated in other countries are subject to a four-year vesting period ending in November 2016 and may be sold immediately. The shares will vest at the end of the vesting period if the performance objectives concerning growth in sales volumes and the amount of consolidated operating income have been met. The fair value of the granted shares has been estimated at €61.87 per share for grantees employed by French companies and at €59.46 per share for employees of other companies, 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.

Performance share plan data:

Date of grant	Vesting date		Lock-up period		Fair value at date of grant		December 31, 2012 Number of performance shares outstanding	December 31, 2011 Number of performance shares outstanding
	France	Other countries	France	Other countries	France	Other countries		
November 2011	November 2014	November 2015	2 years	None	37.49	35.49	285,848	287,944
November 2012	November 2015	November 2016	2 years	None	61.87	59.46	371,936	-
NUMBER OF PERFORMANCE SHARES OUTSTANDING							**657,784**	**287,944**

Employee share issues

The Company did not carry out any employee share issues during the year.

NOTE 14 REVENUE

Revenue for the year totaled €566,610 thousand, consisting entirely of royalties received from:

France	61,596
Outside France	505,014
TOTAL	**566,610**

NOTE 15 INCOME TAX

Compagnie Générale des Établissements Michelin is the parent company of a tax group that also comprises 11 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 11 subsidiaries if they were taxed on a stand-alone basis amounted to € 26,327 thousand for 2012.

Income tax recognized in the CGEM financial statements includes current taxes and deferred taxes.

Income tax expense reported in the income statement can be analyzed as follows:

Current tax due from CGEM alone	35,114
Deferred tax benefit	(207)
Group relief	(37,204)
Other	(5,696)
TOTAL	**(7,993)**

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, 2012, the Company had receivables corresponding to royalties with a net book value of €187 million. These receivables, which are denominated in the Group's main trading currencies, 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 the lower of value in use and probable realizable value.

NOTE 17 MANAGEMENT COMPENSATION

As per its bylaws, the Company is administered by one or several Managing General 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 other benefits in kind.

The statutory share of 2011 profit allocated to the Managing General Partner and the Managing Chairman and Managing General Partner in 2012 amounted to €3.9 million (2011: €4.1 million to the Managing General Partner in respect of 2010 profit).

There was no employee benefits expense in respect to executive management because there are no longer any Non-General Managing Partners in office. A €1.4-million provision was recorded in 2012 (2011: €1.1 million) to cover benefits accrued in prior years under the long-term incentive bonus program by the previous Non-General Managing Partner, who in 2012 was appointed Managing Chairman and Managing General Partner.

(in € millions)	2012	2011
Short-term benefits	-	4.8
Post-employment benefits	-	-
TOTAL BENEFITS EXPENSE FOR NON-GENERAL MANAGING PARTNERS	**-**	**4.8**

NOTE 18 AVERAGE NUMBER OF EMPLOYEES

	Employees on the payroll
Managers	1
Employees	9
TOTAL	**10**

NOTE 19 RETIREMENT BENEFITS

The Company is liable for the payment of the length-of-service awards to employees on retirement, in accordance with the terms of the applicable Collective Bargaining Agreement. The present value of the related obligation at December 31, 2012 was around €0.7 million (2011: €0.7 million). No provision has been recorded for this amount.

NOTE 20 FEES PAID TO THE STATUTORY AUDITORS

Audit fees recognized in the 2012 financial statements amount to €428 thousand.

NOTE 21 SECURITIES PORTFOLIO AT DECEMBER 31, 2012

	Number of securities		Book value
Shares in subsidiaries and affiliates			
Compagnie Financière du groupe Michelin "Senard et Cie" (CFM)	25,022,824	shares	4,324,989
Manufacture Française des Pneumatiques Michelin	13,263,056	shares	1,614,296
Spika S.A.	200,000	shares	5,915
			5,945,200
Other equity interests			
Siparex Croissance	43,222	shares	677
Siparex Associés	147,007	shares	2,271
Société Financière d'Innovation du Sud-Est "Sudinnova"	21,786	shares	280
Marketable securities			26,585
Other			20
			29,833

NOTE 22 LIST OF SUBSIDIARIES AND AFFILIATES

Subsidiaries and affiliates	Share capital (1)	Other equity excl. income (1)	% interest	Book value of shares		Outstanding loans and advances	Guarantees given by the Company	Last published revenue	Last published profit/(loss) (1)	Dividends received during the year
(in € thousand, unless otherwise specified)				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 du groupe Michelin "Senard et Cie" (CFM) Route Louis-Braille 10, 1763 Granges-Paccot (Suisse)	2,502,355 (in CHF thousand)	6,132,167 (in CHF thousand)	99.99	4,324,989	684,530	-	-	-	935,481 (in CHF thousand)	281,146
Manufacture Française des Pneumatiques Michelin Place des Carmes-Déchaux 63000 Clermont-Ferrand	504,000	770,865	99.99	1,614,296	1,614,296	555,552	-	5,784,159	382 551	-
Spika S.A. 23, rue Breschet 63000 Clermont-Ferrand	3,000	28,291	100.00	25,915	5,915	21,131	-	-	(25 809)	-
B – Aggregate information about other subsidiaries and affiliates										
1 – Subsidiaries not listed under A										
• French companies				-	-	-	-			-
• Foreign companies				-	-	-	-			
2 – Affiliates not listed under A										
• French companies					-	-	-			-
• Foreign companies				91	-	-	-			-

(1) In local currency.

NOTE 23 FINANCIAL COMMITMENTS

23.1 Lines of credit

	2012	2011
Lines of credit granted by the Company to related companies	630,000	-
Drawdowns	(530,000)	-
AVAILABLE AT DECEMBER 31, 2012	**100,000**	**-**

These lines of credit expire in 2013.

23.2 Currency futures

At December 31, 2012, the value in euros of the currency futures stood at:

- to be received: 137,772
- to be delivered: 135,491

8.3. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

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*

Ladies and Gentlemen,

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, 2012, on:

- the audit of the accompanying financial statements of Compagnie Générale des Établissements Michelin;
- 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, 2012 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 7, 2013

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Dominique Descours

The Statutory Auditors
Members of *"Compagnie régionale de Versailles"*

8.4. STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

For the year ended December 31, 2012

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

Ladies and Gentlemen,

In our capacity as Statutory Auditors of your Company, we hereby report on regulated agreements and commitments with third parties.

It is our responsibility to communicate to you, based on information provided to us, the principal terms and conditions of these agreements and commitments brought to our attention which we or may have identified as part of our engagement, without expressing an opinion on their usefulness or their merit or searching for other 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 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; those standards require that we check that the information provided to us agree with the relevant source documents.

■ 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 7, 2013

PricewaterhouseCoopers Audit	Deloitte & Associés
Éric Bulle	Dominique Descours

The Statutory Auditors
Members of *"Compagnie régionale de Versailles"*

8.5. STATEMENT OF CHANGES IN EQUITY

(in € thousands and € per share)		2012	2011
Net income			
Accounting profit			
Total:	Net income/ (Loss)	465,119	360,146
Per share:	Net income/ (Loss)	2.55	2.00
Recommended dividend			
Total		438,136	378,040
Per share		2.40	2.10

Statement of changes in equity (in € thousands)	2012	2011
A) 1 - Equity at December 31, 2011	**6,325,501**	**6,101,872**
2 - Dividend approved by the Annual Shareholders Meeting	(386,812)	(324,857)
B) Equity at January 1, 2012	**5,938,689**	**5,777,015**
C) Movements for the year:		
1 - Par value of shares issued during the year	5,075	6,822
2 - Increase in paid-in capital in excess of par	111,897	181,518
3 - Increase in revaluation reserve	-	-
4 - Change in other reserves	-	-
5 - Change in untaxed reserves	-	-
6 - Change in retained earnings	-	-
7 - Net income for the year	465,119	360,146
Equity at December 31, 2012 before dividends	**6,520,780**	**6,325,501**
E) TOTAL CHANGES IN EQUITY DURING THE YEAR	**582,091**	**548,486**
F) Of which changes due to changes in Group structure		
G) TOTAL CHANGES IN EQUITY DURING THE YEAR EXCLUDING CHANGES IN GROUP STRUCTURE	**582,091**	**548,486**

Notes:
C3 – Amounts transferred to the revaluation reserve during the year.
C6 – Dividends on treasury shares credited to retained earnings.

8.6. APPROPRIATION OF 2012 NET INCOME

(in € thousand)		
Amount to be appropriated		
Retained earnings brought forward from prior year		212,104
Net income for the year		465,119
Recommended appropriations		
Legal reserve	508	
Dividends	438,136 (1)	
Statutory share of income attributed to the General Partners	9,423 (1)	
Retained earnings	229,156	
TOTAL	**677,223**	**677,223**

(1) Subject to approval by the Annual Shareholders Meeting of May 17, 2013.

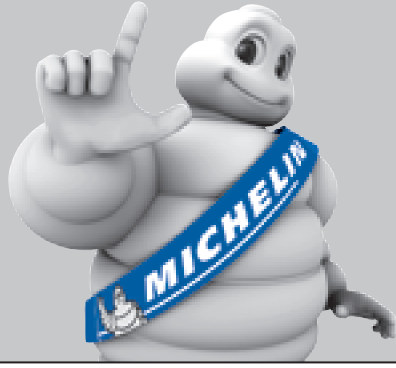
8.7. FIVE-YEAR FINANCIAL SUMMARY

(in € thousand and in € per share, unless otherwise specified)		2008	2009	2010	2011	2012
I –	**Capital at December 31**					
a)	Share capital	289,995	294,873	353,216	360,038	365,113
b)	Number of common shares outstanding	144,997,422	147,436,357	176,607,845	180,018,897	182,556,713
II –	**Results of operations**					
a)	Net revenue	401,938	355,783	479,974	532,552	566,610
b)	Earnings before tax, depreciation, amortization and provisions (EBITDA)	169,247	118,118	214,443	382,027	477,181
c)	Income tax	(19)	974	29,187	21,646	(7,993)
d)	Net income	286,147	115,592	184,932	360,146	465,119
III –	**Per share data**					
a)	Earnings per share after tax, before depreciation amortization and provision expenses (EBDA)	1.17	0.79	1.05	2.00	2.66
b)	Basic earnings per share	1.97	0.78	1.05	2.00	2.55
c)	Dividend per share	1.00	1.00	1.78	2.10	2.40 (1)
IV –	**Personnel**					
a)	Average number of employees	25	20	18	14	10
b)	Total payroll	2,290	2,027	2,706	4,245	1,434
c)	Total benefits	762	726	824	1,436	648

(1) 2012 dividend recommended at the Annual Shareholders' Meeting of May 17, 2013.

9

Additional Information



9.1. PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND 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 (chapter 2 of this Registration Document) presents fairly the business and earnings performance and the financial position of the Company and the undertakings included 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, 2012 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, 2011, incorporated by reference in section 9.3 of this Registration Document, have been audited by the Statutory Auditors. Their report includes an observation on a technical matter.

The consolidated financial statements for the year ended December 31, 2010, incorporated by reference in section 9.3 of this Registration Document, have been audited by the Statutory Auditors.

Clermont-Ferrand, March 1, 2013

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
92200 Neuilly-sur-Seine, France

Represented by Éric Bulle, Partner

Substitute Statutory Auditor, Pierre Coll, Partner, Pricewaterhouse-Coopers 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 Dominique Descours, Partner

Substitute Statutory Auditor, BEAS,

195, avenue Charles-de-Gaulle,

92524 Neuilly-sur-Seine

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 2016 to approve the 2015 accounts.

9.2.2. FEES PAID TO THE STATUTORY AUDITORS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (CGEM)

The following tables set out the details of fees, excluding tax, paid in 2011 and 2012 by the Michelin Group to its Statutory Auditors.

2012 FEES TO THE STATUTORY AUDITORS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (CGEM)

	PricewaterhouseCoopers				Deloitte				Total			
	(in thousands €)		(%)		(in thousands €)		(%)		(in thousands €)		(%)	
Years 2011 and 2010	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Audit												
Statutory audits, opinions, reviews of standalone and consolidated financial statements												
• CGEM	214	210	5.0%	5.3%	214	210	6.9%	7.4%	428	420	5.8%	6.2%
• French subsidiaries	555	563	12.8%	14.2%	569	557	18.4%	19.7%	1,124	1,120	15.2%	16.5%
• Foreign subsidiaries	2,818	2,335	65.2%	58.8%	1,894	1,747	61.2%	61.9%	4,712	4,082	63.6%	60.1%
Other services directly linked to the statutory audit work												
• CGEM	-	-	0.0%	0.0%	-	-	0.0%	0.0%	-	-	0.0%	0.0%
• Subsidiaries	394	586	9.2%	14.7%	138	45	4.5%	1.6%	532	631	7.1%	9.2%
Sub-total Audit	**3,981**	**3,694**	**92.2%**	**93.0%**	**2,815**	**2,559**	**91.0%**	**90.6%**	**6,796**	**6,253**	**91.7%**	**92.0%**
Other services rendered by Auditors networks to subsidiaries												
Legal, tax and social	266	254	6.2%	6.4%	99	150	3.2%	3.7%	365	359	4.9%	5.3%
Others	73	26	1.6%	0.6%	180	159	5.8%	5.7%	253	185	3.4%	2.7%
Sub-total Others	**339**	**280**	**7.8%**	**7.0%**	**279**	**264**	**9.0%**	**9.4%**	**618**	**544**	**8.3%**	**8.0%**
TOTAL	**4,320**	**3,974**	**100.0%**	**100.0%**	**3,094**	**2,823**	**100.0%**	**100.0%**	**7,414**	**6,797**	**100.0%**	**100.0%**

The other services directly linked to the statutory audit work relate essentially to:

- financial and accounting agreed-upon procedures;
- a review of the annual and sustainable development report; as well as
- sundry certificates (notably linked to government grants).

The other services rendered by auditors networks to subsidiaries relate essentially to:

- conformity reviews of the transfer pricing documentation or the tax returns; as well as
- legal reviews.

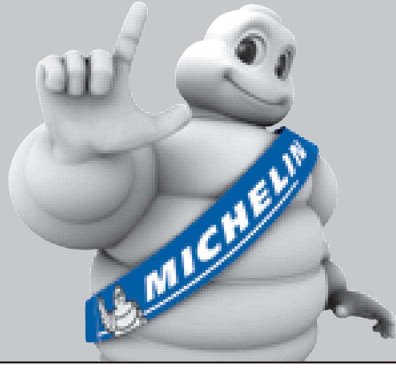
9.3. 2010 AND 2011 FINANCIAL STATEMENTS INCORPORATED BY REFERENCE

The following information is incorporated by reference in this Registration Document:

- Consolidated financial statements for the period ended December 31, 2010 as well as the relevant Statutory Auditors' report contained in the Registration Document filed with AMF on March 7, 2011 (D.11-0098), pages 158 to 214 and 215 respectively.
- Consolidated financial statements for the period ended December 31, 2011 as well as the relevant Statutory Auditors' report contained in the Registration Document filed with AMF on March 1, 2010 (D.12-0124), pages 152 to 209 and 210 respectively.

10

Annual Shareholders Meeting of May 17, 2013



10.1. REPORT OF THE MANAGING CHAIRMAN AND PROPOSED RESOLUTIONS

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. EXTRAORDINARY RESOLUTIONS

1st resolution

■ Amendments to the Company's bylaws concerning the duration of Supervisory Board members' terms of office

The terms of office of six of the eight current members of the Supervisory Board of Compagnie Générale des Établissements Michelin are due to expire at the close of this Annual Shareholders Meeting. This provides the Company with an opportunity to stagger the expiration dates of its Board members' terms with a view to complying with the AFEP/MEDEF Code which recommends that "terms should be staggered so as to avoid replacement of the entire body and to favor a smooth replacement of directors." (paragraph 2, Article 12 of the AFEP/MEDEF Corporate Governance Code of Listed Corporations issued in April 2010).

Consequently, shareholders are invited to amend Article 15 of the Company's bylaws in order to enable the duration of Supervisory Board members' terms of office to be set at less than four years, on an exceptional basis, and only when expressly recommended by the Board.

If this resolution is adopted, the Annual Shareholders Meeting will be able to:

(i) adopt the eighth to thirteenth resolutions proposed below for the purpose of electing/re-electing:
   - two members for a two-year term,
   - two members for a three-year term, and
   - two members for a four-year term;

(ii) change the duration of Supervisory Board members' terms of office where necessary in the future – on the express recommendation of the Supervisory Board – to ensure that the expiration dates of Board members' terms remain staggered.

The standard term of office will nevertheless remain four years, with the above durations only being applied in order to ensure appropriately staggered expiration dates.

Shareholders are therefore asked to adopt this resolution.

First resolution (Amendments to the Company's bylaws concerning the duration of Supervisory Board members' terms of office)

Having considered the reports of the Managing Chairman and the Supervisory Board, noted the approval of both of the General Partners, and placed on record (i) that the terms of office of six Supervisory Board members are due to expire at the close of the May 17, 2013 Annual Shareholders Meeting called to approve the 2012 financial statements, and (ii) that it would be appropriate to stagger the expiration dates of new Supervisory Board terms, the Extraordinary Shareholders Meeting:

Resolves to amend the third paragraph of Article 15 of the Company's bylaws as follows:

Current wording:

"The members of the Supervisory Board shall be appointed by the Ordinary Shareholders Meeting for a four-year term and shall be renewed every year based on their seniority of appointment, subject to the provisions of the last three subparagraphs of this Article. These members may be re-appointed."

Amended wording:

"The members of the Supervisory Board shall be appointed by the Ordinary Shareholders Meeting for a renewable four-year term. However, on the express recommendation of the Supervisory Board, the Ordinary Shareholders Meeting may appoint Supervisory Board members for a term of less than four years. Appointments and re-appointments of Supervisory Board members shall be carried out subject to the provisions of the last three subparagraphs of this Article".

The remainder of Article 15 remains unchanged.

Annex: complete text of Article 15 of the by-laws

(In the first resolutions submitted to shareholders at the Annual Meeting, the new or amended wording is underlined and the deleted wording is crossed-out.)

"The Company shall have a Supervisory Board composed of a minimum of three members, and a maximum of ten members, chosen exclusively from among the Non-General Partners.

Those members who, during their office, cease to be Shareholders shall automatically be considered as having resigned.

The members of the Supervisory Board shall be appointed by the Ordinary Shareholders Meeting for a renewable four-year term ~~and shall be renewed every year based on their seniority of appointment~~. However, on the express recommendation of the Supervisory Board, *the Ordinary Shareholders Meeting may appoint Supervisory Board members for a term of less than four years. Appointments and re-appointments of Supervisory Board members shall be carried out subject to the provisions of the last three subparagraphs of this Article. ~~These members may be re-appointed~~."*

The functions of the members of the Supervisory Board shall terminate at the end of the Ordinary Shareholders Meeting having decided upon the financial statements for the last financial year of their term.

The Shareholders who are General Partners shall not, in the Shareholders Meetings, participate in the appointment of the members of the Supervisory Board.

The members of the Supervisory Board may be revoked at any time by the Ordinary Shareholders Meeting.

In the event of a vacancy for any reason whatsoever between two Ordinary Shareholders Meetings, the Supervisory Board may appoint new temporary members; the Board shall do so within fifteen days following the vacancy if the number of members has become less than three. These appointments shall be confirmed by the next Shareholders Meeting. The replacement member shall remain in office only until the end of his predecessor's term. If the Shareholders Meeting does not confirm the appointments, the decisions adopted by the Supervisory Board shall, however, remain valid.

No one older than seventy-five may be appointed member of the Supervisory Board if this appointment increases the percentage of the members over seventy-five, rounded up as described above, to over one third of the total number of the members of the Board serving.

No one older than seventy-five may be appointed member of the Supervisory Board if this appointment increases the percentage of the members over seventy-five, rounded up as described above, to over one third of the total number of the members of the Board serving.

In the event that, for any reason whatsoever, the number of the members of the Board older than seventy-five exceeds the above-mentioned one-third limit of the total number of members in office, the oldest member(s) shall be considered as having resigned at the Ordinary Shareholders Meeting called to approve the financial statements of the financial year during which the proportion of members older than seventy-five has been exceeded, unless if in the meantime the required proportion has been restored."

2nd resolution

■ Authorization for the Managing Chairman to reduce the Company's capital by canceling shares

In the second resolution, shareholders are invited to authorize the Managing Chairman to reduce the Company's capital by canceling treasury shares purchased under shareholder-approved buyback programs.

This authorization is being sought for a period of 18 months and would replace the unused authorization granted for the same purpose at the Annual Shareholders Meeting of May 11, 2012.

Second resolution (Authorization for the Managing Chairman to reduce the Company's capital by canceling shares)

Having considered the reports of the Managing Chairman the Statut Auditors special report and the Supervisory Board's report, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

To authorize the Managing Chairman 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 cancelled does not exceed 10% of the total shares outstanding;
- charge the difference between the cost of the cancelled shares and their par value against any available premium or reserve account.

To grant the Managing Chairman 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 eighteen months from the date of this Meeting and supersedes any authorization previously granted for the same purpose.

10.1.2. ORDINARY RESOLUTIONS

3rd and 4th resolutions

■ Approval of the Company financial statements for the year ended December 31, 2012

■ Appropriation of net income for the year ended December 31, 2012 and approval of the recommended dividend with a dividend reinvestment option

The third and fourth resolutions concern approval of the Company's 2012 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 €465,119,556.85.

After (i) allocating €507,563.00 to the legal reserve to increase it to one tenth of the Company's capital and (ii) deducting €9,423,331.40 attributable to the General Partners in accordance with the bylaws, the balance of €455,188,662.45 plus €212,103,956.20 in retained earnings brought forward from prior years represents a total of €667,292,618.65 available for distribution to shareholders.

We are recommending paying a 2012 dividend of €2.40 per share.

Dividends will be payable to the shareholders of record at the close of business on May 23, 2013 (the record date).

The ex-dividend date will be May 24, 2013.

To exercise the dividend reinvestment option, shareholders should send a duly completed share purchase form to the paying agent for receipt between May 24 and the close of business on June 11, 2013.

Shares allocated in payment of dividends will be issued at a price equal to 90% of the average of the opening prices quoted for the Company's shares on NYSE Euronext Paris over the period from April 18 to May 16, 2013 less the net dividend of €2.40.

The amount of the dividend available for reinvestment will be calculated on a net basis, *i.e.* (i) in the case of individual shareholders who are tax-resident in France, after deducting the applicable 15.5% social security contributions and a compulsory 21%* withholding tax (corresponding to a personal income tax prepayment) and (ii) for individual shareholders who are not tax-resident in France, after deducting any withholding tax levied in accordance with the tax rates applicable to the country in which the shareholder is tax-resident.

If the amount of the reinvested dividends does not correspond to a whole number of shares, the shareholder will receive the next lower number of shares and the balance in cash.

The issued shares will carry dividend rights from January 1, 2013 and rank *pari passu* with existing shares. They will be delivered on June 24, 2013 to the banks and brokers that manage the shareholders' securities accounts.

The cash dividend will be paid as from June 24, 2013.

Third resolution (Approval of the Company financial statements for the year ended December 31, 2012)

Having considered the reports of the Managing Chairman, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the Company financial statements for the year ended December 31, 2012 which show net income for the period of €465,119,556.85.

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.

Fourth resolution (Appropriation of net income for the year ended December 31, 2012 and approval of the recommended dividend with a dividend reinvestment option)

On the recommendation of the Managing Chairman (as approved by the Supervisory Board), the Ordinary Shareholders Meeting notes that the total amount available for distribution is as follows:

- Net income for the year €465,119,556.85
- Amount appropriated to the legal reserve so that it represents one-tenth of the share capital. €507,563.00
- Share of profits attributed to the General Partners in accordance with the bylaws €9,423,331.40
- Balance €455,188,662.45
- Plus retained earnings brought forward from prior years €212,103,956.20
- Total amount available for distribution €667,292,618.65

And resolves:

- to pay an aggregate dividend of representing €2.40 per share €438,136,111.20
- to appropriate the balance of to retained earnings. €229,156,507.45

Shareholders will be offered the option of reinvesting their dividend in new shares.

The reinvestment option may be exercised from May 24, 2013 until June 11, 2013. Shareholders who have not exercised their option within this period will receive the total dividend in cash.

Cash dividends will be paid and stock dividends will be delivered as from June 24, 2013.

If the amount of the reinvested dividends does not correspond to a whole number of shares, the shareholder will receive the next lower number of shares and the balance in cash.

Shares allocated in payment of dividends will be issued at a 10% discount to the average of the opening prices quoted for the Company's shares on NYSE Euronext Paris over the twenty trading days preceding the Meeting at which the dividend is approved, less the net dividend. The price calculated by this method will be rounded up to the nearest euro cent.

The issued shares will carry dividend rights from January 1, 2013 and rank *pari passu* with existing shares.

For individual shareholders domiciled in France for tax purposes, the total dividend (paid in cash or in shares) will be:

- eligible for the 40% allowance provided for under Article 158-3-2 of the French General Tax Code;
- subject to the progressive tax scale applied to personal income tax (marginal rate of 45% plus an additional 4% on high incomes). Consequently, the dividend will be subject to a 21% compulsory withholding tax corresponding to a prepayment of personal income tax. However, shareholders filing a single tax return whose personal taxable income for 2012 is 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 lodge with the bank holding their shares a declaration of honor stating that their personal taxable income is below the applicable threshold. Applications must be received before March 31, 2013;
- subject to the applicable social security and additional contributions withheld at source by the Company 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 applicable to the country in which the shareholder is domiciled.

The Ordinary Shareholders Meeting gives full powers to the Managing Chairman to (i) use this authorization and carry out all transactions related to the dividend reinvestment option, (ii) place on record the ensuing capital increase and (iii) amend Article 6 of the Company's bylaws to reflect the new share capital.

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 euros)	Dividend per share* (in euros)
2009	147,436,357.00	1.00
2010	314,361,964.10	1.78
2011	378,039,683.70	2.10

* *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.*

* *Shareholders filing a single tax return whose personal taxable income for 2012 is 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 lodge with the bank holding their shares a declaration of honor stating that their personal taxable income is below the applicable threshold. Applications must be received before March 31, 2013.*

5th resolution

■ Approval of the consolidated financial statements for the year ended December 31, 2012

The purpose of the fifth resolution is to approve the consolidated financial statements for the year ended December 31, 2012, which show net income for the period of €1,570,555 thousand.

The Registration Document, the Annual and Sustainable Development Report and the Shareholders' Guide, which can be downloaded from the Corporate/Finance 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.

Fifth resolution (Approval of the consolidated financial statements for the year ended December 31, 2012)

Having considered the reports of the Managing Chairman, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the consolidated financial statements for the year ended December 31, 2012, which show net income for the period of €1,570,555 thousand.

6th resolution

■ Related-party agreements

As no related-party agreements were entered into during 2012, 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 2012.

Sixth 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, the Ordinary Shareholders Meeting approves said report and places on record that no such agreements requiring shareholder approval were entered into in 2012.

7th resolution

■ Authorization for the Chief Executive Officer to carry out a share buyback program, except during a public offer period, based on a maximum purchase price per share of €100

In the seventh resolution, shareholders are invited to renew the authorization for the Company to buy back its own shares over a period of eighteen months. The maximum purchase price per share under this authorization would be €100 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 authorization would replace the unused authorization granted for the same purpose at the Annual Shareholders Meeting of May 11, 2012 and may not be used while a takeover bid is in progress.

Seventh resolution (Authorization for the Managing Chairman to carry out a share buyback program, except during a public offer period, based on a maximum purchase price per share of €100)

Having considered the reports of the Managing Chairman and the Supervisory Board, as well as the description of the share buyback program drawn up in accordance with the requirements of the General Regulations of the *Autorité des marchés financiers* (AMF), the Ordinary Shareholders Meeting authorizes the Managing Chairman to buy back the Company's shares in accordance with Articles L. 225-209 *et seq*. of the French Commercial Code, at a maximum purchase price per share of €100.

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% of the total shares outstanding at the time of each transaction and the Company may not hold more than 10% of its own share capital at any time. The total number of shares 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.

The maximum amount that may be invested in the share buyback program, within the meaning of Article R. 225-151 of the French Commercial Code, is set at €1,820,000,000, corresponding to 18,200,000 shares bought back at the maximum purchase price per share of €100, and representing less than 10% of the Company's share capital at the date of this Meeting.

The objectives of the share buyback program are as follows:

- to purchase shares for sale or allocation to employees of the Group in accordance with the conditions set down by law, including (i) upon 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 upon 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 may 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 shares may be purchased, sold, exchanged or transferred at any time, except during a public offer period, and by any appropriate method allowed under the laws and regulations in force at the transaction date, either on the market, or over-the-counter or otherwise. The authorized methods include the use of derivative financial instruments such as options or warrants. The entire buyback program may be implemented through a block trade and the shares may also be used in securities lending transactions.

The Managing Chairman 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 eighteen months from the date of this Meeting and supersedes the authorization granted for the same purpose in the seventeenth resolution of the Annual Shareholders Meeting held on May 11, 2012.

8th, 9th, 10th, 11th, 12th and 13th 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, Laurence Parisot, Éric Bourdais de Charbonnière, Pat Cox, Louis Gallois, François Grappotte, Pierre Michelin and Benoît Potier.

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 2012 (90% for Board meetings and 100% for meetings of the Audit Committee and the Compensation and Appointments Committee).

The Supervisory Board members perform their duties independently and have total freedom of judgment.

The main roles and responsibilities of Michelin's Supervisory Board were extended and approved at the May 13, 2011 Annual Shareholders Meeting and are as follows:

- overseeing and assessing the quality of the Company's management;
- expressing an opinion on major projects concerning capital expenditure, commitments, acquisitions and asset disposals;
- expressing an opinion on the election, re-election or removal from office of Managing Partners and on the Managing Chairman's compensation.

A summary of the work carried out by the Supervisory Board in 2012 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 2012 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 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 Managing General Partner (the Managing Chairman), nor the Non-Managing General Partner (SAGE), which is responsible for ensuring the Company's continuity of leadership.

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 please see sections 4.1 and 4.2 of the 2012 Registration Document ("Administrative, Management and Supervisory Bodies and Senior Management" and "Practices of the Administrative, Management and Supervisory Bodies").

■ The Supervisory Board is recommending that shareholders re-elect two Supervisory Board members and elect four new members

The terms of office of six of the eight current Supervisory Board members are due to expire at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ended December 31, 2012, namely Barbara Dalibard, Éric Bourdais de Charbonnière, Louis Gallois, François Grappotte, Pierre Michelin and Benoît Potier.

Éric Bourdais de Charbonnière (Chairman of the Supervisory Board), François Grappotte (Supervisory Board member and Chairman of the Audit Committee) and Pierre Michelin and Benoît Potier (both members of the Supervisory Board and the Audit Committee) have informed the Board that they do not wish to stand for re-election due to personal reasons.

The Managing Chairman would like to thank all the outgoing Supervisory Board members for their dedicated service on the Board and their extremely fruitful discussions with Management throughout their terms of office. The Michelin Group has undergone sweeping changes in recent years which would not have been possible without the hard work of the entire Supervisory Board, led by its Chairman, Éric Bourdais de Charbonnière, who deserves particularly heartfelt thanks.

The Supervisory Board Chairman was in charge of reviewing the profiles of the Board nominees and selecting the final candidates. Following this process – which is described in detail in the Report of the Supervisory Board – the Board unanimously decided to ask the Managing Chairman to recommend at the Annual Meeting that shareholders approve:

- the re-election of Barbara Dalibard and Louis Gallois (who did not take part in the Supervisory Board votes on their respective nominations);
- the election of Anne-Sophie de La Bigne, Jean-Pierre Duprieu, Olivier Bazil and Michel Rollier to replace the four outgoing Supervisory Board members.

Subject to the adoption of the first resolution, the duration of these Supervisory Board members' terms of office would be as follows:

- two years for Barbara Dalibard and Louis Gallois;
- three years for Anne-Sophie de La Bigne and Jean-Pierre Duprieu;
- four years for Olivier Bazil and Michel Rollier.

Consequently, after the May 17, 2013 Annual Shareholders Meeting, the expiration dates of the Supervisory Board members' terms of office would be evenly staggered as shown in the summary table at the end of the Report of the Supervisory Board.

Eighth resolution (Re-election of Barbara Dalibard as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, and subject to the adoption of the first resolution related to amending the Company's bylaws concerning the duration of Supervisory Board members' terms of office, the Ordinary Shareholders Meeting resolves to re-elect Barbara Dalibard as a member of the Supervisory Board for a two-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, 2014.

Ninth resolution (Re-election of Louis Gallois as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, and subject to the adoption of the first resolution related to amending the Company's bylaws concerning the duration of Supervisory Board members' terms of office, the Ordinary Shareholders Meeting resolves to re-elect Louis Gallois as a member of the Supervisory Board for a two-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, 2014.

Tenth resolution (Election of Anne-Sophie de La Bigne as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, and subject to the adoption of the first resolution related to amending the Company's bylaws concerning the duration of Supervisory Board members' terms of office, the Ordinary Shareholders Meeting resolves to elect Anne-Sophie de La Bigne as a member of the Supervisory Board for a three-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, 2015.

Eleventh resolution (Election of Jean-Pierre Duprieu as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, and subject to the adoption of the first resolution related to amending the Company's bylaws concerning the duration of Supervisory Board members' terms of office, the Ordinary Shareholders Meeting resolves to elect Jean-Pierre Duprieu as a member of the Supervisory Board for a three-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, 2015.

Twelfth resolution (Election of Olivier Bazil as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, and subject to the adoption of the first resolution related to amending the Company's bylaws concerning the duration of Supervisory Board members' terms of office, the Ordinary Shareholders Meeting resolves to elect Oliver 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, 2016.

Thirteenth resolution (Election of Michel Rollier as a member of the Supervisory Board)

Having considered the reports of the Managing Chairman and the Supervisory Board, and subject to the adoption of the first resolution related to amending the Company's bylaws concerning the duration of Supervisory Board members' terms of office, the Ordinary Shareholders Meeting resolves to elect 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, 2016.

14th resolution

■ Powers to carry out formalities

The purpose of the fourteenth resolution is to give powers to carry out the formalities related to the Shareholders Meeting.

Fourteenth 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.

10.2. REPORT OF THE SUPERVISORY BOARD

To the shareholders,

You will find below our report to the 2013 Annual Shareholders Meeting, which is more extensive than in previous years due to the additional information provided in view of the nominations for seats on the Supervisory Board.

10.2.1. RECOMMENDATIONS ON THE ELECTION AND RE-ELECTION OF SUPERVISORY BOARD MEMBERS AND THE EXCEPTIONAL AMENDMENT TO THE DURATION OF BOARD MEMBERS' TERMS OF OFFICE

The terms of office of six of the eight current Supervisory Board members are due to expire at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ended December 31, 2012, namely Barbara Dalibard, Éric Bourdais de Charbonnière, Louis Gallois, François Grappotte, Pierre Michelin and Benoît Potier.

The Supervisory Board is recommending that you re-elect two members and elect four new members (resolutions eight to thirteen).

10.2.1.a) The Supervisory Board thanks the four outgoing members for their service

Éric Bourdais de Charbonnière (Chairman of the Supervisory Board), François Grappotte (Supervisory Board member and Chairman of the Audit Committee) and Pierre Michelin and Benoît Potier (both members of the Supervisory Board and the Audit Committee) have informed the Board that for personal reasons they do not wish to stand for re-election.

The Board wishes to express its heartfelt thanks to Éric Bourdais de Charbonnière, who has chaired the Board for the past ten years, François Grappotte, who has chaired the Audit Committee over the same period, and Benoît Potier and Pierre Michelin, who are both members of the Supervisory Board and the Audit Committee. Without their invaluable expertise and dedicated service, the recent sweeping changes carried out in the Michelin Group would never have been possible.

10.2.1.b) Selection process and criteria

Acting in its capacity as the Compensation and Appointments Committee, and as part of its role in planning the succession of Supervisory Board members, the Board has examined its future membership structure in order to put forward the most suitable candidates for election and re-election.

The Chairman contacted several potential candidates for the upcoming vacant seats and met with a dozen of them before shortlisting those who most closely matched the selection criteria described below.

The shortlisted candidates were each interviewed by at least three other Supervisory Board members and were then individually presented by the Chairman of the Board to the Managing Chairman.

The Board carried out a final review of the proposed candidates at its October 29, 2012 meeting and on February 7, 2013 it resolved to put forward the nominees whose profiles are presented below.

In view of the number of nominees concerned, when preparing its recommendations the Board looked carefully not only at the candidates' individual qualities, but also at how they would contribute to bringing a complementary mix of skills to the Board and achieving an overall balance in its future membership structure. Based on these requirements, the Board's main criteria were skills and experience, independence, availability and diversity.

■ Skills and experience

If you approve the nominees put forward, the members of the new Supervisory Board will have:

- a broad range of experience in executive, manufacturing and operational management gained in both national and international environments;
- complementary skills in the areas of internal control, accounting and finance, industrial strategy issues and institutional relations.

The rich and diverse backgrounds of its members will be a major strength, and will enable the Board to fully understand the business conducted by a leading international corporation of Michelin's stature.

■ Independence and availability

If the resolutions proposed at the May 17, 2013 Annual Shareholders Meeting are all approved, the Supervisory Board considers that nearly 89% of its future members will be independent.

The Board individually assessed the independent status of each nominee (see their profiles in paragraph c below) and also took into account the number and importance of any other offices they hold.

In addition, with a view to ensuring that it maintains the high quality of its work and discussions, the Board focused on selecting candidates who have sufficient time and availability to prepare for Board and Committee meetings and to actively participate in them.

■ Diversity

By having three women out of a total of eight members, the membership structure of Michelin's Supervisory Board will comply, in advance of the compulsory timeframe, with Article 2-III of French Act 2011-103 dated January 27, 2011 on the balanced representation of men and women on Boards of Directors and Supervisory Boards and gender equality in the workplace.

The percentage of non-French members on the new Supervisory Board will still be 15.5%, slightly below the 20% average noted by the *Autorité des marchés financiers* based on a sample of listed companies in France that had disclosed the nationality of their Board members (see the AMF's 2012 report on corporate governance and executive compensation in listed companies, issued on October 11, 2012).

Based on this overall analysis, the Supervisory Board unanimously requested the Managing Chairman to propose and recommend that at the May 17, 2013 Annual Meeting, shareholders:

- re-elect Barbara Dalibard and Louis Gallois (who did not take part in the Supervisory Board votes on their respective nominations);
- elect Anne-Sophie de La Bigne, Olivier Bazil, Jean-Pierre Duprieu and Michel Rollier to replace the four outgoing Supervisory Board members.

The recommended durations of these members' terms of office are set out in paragraph 10.2.1.d) below and are subject to the adoption of the first resolution (*Amendments to the Company's bylaws concerning the duration of Supervisory Board members' terms of office*).

10.2.1.c) Supervisory Board candidates' profiles – skills, experience and independence

■ Current members standing for re-election

Barbara Dalibard

SNCF, bureaux du CNIT
2, place de La Défense
92800 Puteaux
France

Barbara Dalibard was born in 1958 and is a French national. She is currently Chief Executive Officer of SNCF Voyages. Before joining SNCF Voyages, she was a member of France Telecom's Group Management Committee in charge of enterprise communication solutions, and prior to that she held various management positions within France Telecom and Alcatel.

Ms. Dalibard currently also holds the following positions:

- Chairman of VSC Group
- Member of the Board of Directors of NTV (Nuovo Trasporto Viaggiatori SpA)
- Member of the Supervisory Board of Wolters Kluwer
- A director of Eurostar International Limited

She has held the following other positions in the last five years:

- Member of the France Telecom Group Management Committee
- Chairman and Chief Executive Officer of Equant
- A director of Globecast Holding
- Chairman of Voyages-SNCF.com SAS
- Chairman of VFe commerce SAS
- Chairman of SNCF Voyages Développement SAS

Ms. Dalibard has served on Michelin's Supervisory Board and the Compensation and Appointments Committee since 2008.

She actively participates in the Board's work and makes a major contribution to the quality of discussions on proposals submitted for its consideration.

The Supervisory Board considers that Ms. Dalibard is independent because:

- she does not have any close family ties with either the Managing Chairman or any member of the Supervisory Board;
- she is not currently and never has been an employee of Michelin or any of its subsidiaries;
- she has not been a member of the Supervisory Board for more than 12 years;
- she is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which Michelin's Managing Chairman 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 of SAGES, which is one of Michelin's General Partners.

She held 465 Michelin shares at March 1, 2013.

Louis Gallois

French General Commissioner for Investment
Hôtel Cassini
32, rue de Babylone
75007 Paris
France

Louis Gallois was born in 1944 and is a French national. Since June 2012, he has held the position of General Commissioner for Investment reporting to the French Prime Minister. Prior to this appointment he served as Chief Executive Officer of EADS and Chairman of SNCF and worked in various capacities in the aeronautics industry as well as in France's Economy and Finance Ministry, Research and Industry Ministry and Defense Ministry.

Mr. Gallois currently also holds the following positions:

- Member of the Supervisory Board of Peugeot SA*
- A director of *École Centrale des Arts et Manufactures*
- Chairman of *Fonds de dotation Universcience Partenaires* (formerly *Fondation Villette-Entreprises*)
- Chairman of the Association *"La Fabrique de l'Industrie"*

Mr. Gallois has held the following other positions in the last five years:

- Executive Chairman of EADS NV*
- Member of the Executive Committee of EADS NV*
- Chairman of the Board of EADS Astrium NV
- Chairman of the Airbus Shareholders Committee

Mr. Gallois has served on Michelin's Supervisory Board and the Compensation and Appointments Committee since 2008. He is a dedicated Board member, devoting time and availability, and makes a major contribution to the quality of discussions on proposals submitted for the Board's consideration.

The Supervisory Board considers that Mr. Gallois is independent because:

- he does not have any close family ties with either the Managing Chairman or any member of the Supervisory Board;

* *Listed company.*

- 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 Michelin's Managing Chairman 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 of SAGES, which is 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.

He held 311 Michelin shares at March 1, 2013.

Concerning this last independence criterion, the Supervisory Board considers that the revenue generated by Michelin and its subsidiaries with Peugeot SA (whose Supervisory Board Mr. Gallois joined in february 2013) and/or with Peugeot SA's subsidiaries does not represent a material portion of Michelin's overall revenue. Likewise, Michelin Group products do not account for a material portion of the overall purchases of Peugeot SA and/or its subsidiaries. For information purposes, Peugeot SA and its subsidiaries account for less than 3% of Michelin's total revenue, a figure that is similar to the proportion of revenue that Michelin generates with the EADS group, of which Mr. Gallois was Executive Chairman until 2012 and during which time he was qualified as independent by Michelin's Supervisory Board.

Nominees for new Supervisory Board members

Anne-Sophie de La Bigne

EADS
37, boulevard de Montmorency
75016 Paris
France

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 EADS*.

After graduating from HEC business school, Ms. 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 GIFAS (Groupement des Industries Françaises Aéronautiques et Spatiales) and from 2006 to 2007, she was Head of Export Support – Senior Manager in EADS' Public Affairs Division, where she was responsible for EADS' international corporate relations.

Ms. de La Bigne is a *Chevalier* in the French National Order of Merit.

Ms. de La Bigne will bring in-depth experience and expertise to the Supervisory Board, notably in terms of industrial policy and strategic analysis, and will enrich the Board's work by providing an external viewpoint from outside Michelin's industry.

The Supervisory Board considers that Ms. de La Bigne is independent because:

- she does not have any close family ties with either the Managing Chairman or any member of the Supervisory Board;
- she is not currently and never has been an employee of Michelin or any of its subsidiaries;
- she is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which Michelin's Managing Chairman 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 of SAGES, which is one of Michelin's General Partners.

She held 903 Michelin shares at March 1, 2013.

Jean-Pierre Duprieu

Air Liquide
75, Quai d'Orsay
75006 Paris
France

Jean-Pierre Duprieu was born in 1952 and is a French national. He is Executive Vice-President of the Air Liquide group*. He has been a member of Air Liquide's Executive Management team since 2010, in charge of supervising the Group's European and Healthcare activities as well as corporate functions, including information systems and Efficiency/Purchasing programs.

Mr. Duprieu has spent his entire career with the Air Liquide group, 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 SA 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 masters 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).

Mr. Duprieu is a Foreign Trade Advisor for the French government and has held a number of different posts in international trade associations in the industrial gases sector. He will bring to Michelin's Supervisory Board his wealth of experience in the industrial sector as well as his extensive knowledge of international markets, particularly in Asia.

* *Listed company.*

The Supervisory Board considers that Mr. Duprieu is independent because:

- he does not have any close family ties with either the Managing Chairman or any member of the Supervisory Board;
- he is not currently and never has been an employee of Michelin or any of its subsidiaries;
- he is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which Michelin's Managing Chairman 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 of SAGES, which is one of Michelin's General Partners.

He held 400 Michelin shares at March 1, 2013.

Olivier Bazil

Legrand
128, avenue de Lattre de Tassigny
87000 Limoges
France

Oliver Bazil was born in 1946 and is a French national. He is a director and member of the Strategy Committee of Legrand* where he spent his entire career.

Mr. Bazil is a graduate of HEC and holds an MBA from Harvard Business School. He joined Legrand* in 1973 as Deputy Company Secretary and went 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 and Chief Operating Officer.

Mr. Bazil currently also holds the following positions:

- A director of Vallourec* and Chairman of its Audit Committee
- A director of Firmenich International SA and Chairman of its Audit Committee
- Member of the Supervisory Board of La Société Civile du Château Palmer
- Chairman of Fritz SAS

As well as occupying various positions within Legrand subsidiaries, Mr. Bazil has held the following other positions in the last five years:

- A director of Legrand*
- A director of Firmenich International SA
- Member of the Supervisory Board of La Société Civile du Château Palmer
- Chairman of Fritz SAS

Mr. Bazil will bring to Michelin's Supervisory Board his extensive experience in executive management as well as his skills and expertise in financial matters and international business.

The Supervisory Board considers that Mr. Bazil is independent because:

- he does not have any close family ties with either the Managing Chairman or any member of the Supervisory Board;
- he is not currently and never has been an employee of Michelin or any of its subsidiaries;
- he is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which Michelin's Managing Chairman 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 of SAGES, which is one of Michelin's General Partners.

He held 400 Michelin shares at March 1, 2013.

Michel Rollier

PFA
2 rue de Presbourg
75008 Paris
France

Michel Rollier was born in 1944 and is a French national. He is currently Chairman of the Plateforme de la Filière Automobile (PFA).

Mr. Rollier is a graduate of the *Institut d'Études Politiques de Paris* (IEP) and holds an MA in Law. He began his career at Aussedat-Rey (a member 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 Managing General Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as Managing General Partner in May 2012.

Mr. Rollier currently also holds the following positions:

- A director of Lafarge*
- A director and Vice-Chairman of Siparex Associés
- Member of the Supervisory Board of Somfy International

He has held the following other positions in the last five years:

- Managing General Partner of Compagnie Générale des Établissements Michelin*
- Managing Partner of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM)
- A director of Lafarge*
- A director of Moria SA

Mr. Rollier will bring to Michelin's Supervisory Board his extensive executive management experience, his in-depth knowledge of Michelin's markets and the automobile industry in general, and his skills and expertise in financial matters.

The Supervisory Board is aware that Mr. Rollier could be considered as not being independent because it has not yet been five years since the end of his executive duties with Michelin, although these duties were gradually transferred to Jean-Dominique Senard during a transition period that ran from the beginning of 2011, as announced by Mr. Rollier at the time.

The Group does not consider that this will affect Mr. Rollier's freedom of judgment as a Supervisory Board member because:

- he does not have any close family ties with either the Managing Chairman or any member of the Supervisory Board;
- he is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which Michelin's Managing Chairman;
- 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 held 23,276 Michelin shares at March 1, 2013, representing 0.0001% of the Company's capital.

* *Listed company.*

In recommending Michel Rollier's election as a Supervisory Board member, the Board has taken into account the following factors:

- Michel Rollier's personal qualities, combined with his extensive executive management experience and his in-depth knowledge of Michelin's markets and the automobile industry in general, which will be major assets for the Board;
- the fact that the significant changes in Michelin's governance structure that were necessary due to Édouard Michelin's tragic death in 2006 – when Mr. Rollier had been Managing Partner for just a year – were only achieved thanks to the excellent working relationship established between Mr. Rollier and the Supervisory Board throughout the entire duration of his term as Managing Partner;
- Mr. Rollier has informed the Supervisory Board that if he is elected as a Board member he will dispose of the interests he holds in SAGES – which is one of Michelin's General Partners – at SAGES' next Ordinary Shareholders Meeting.

10.2.1.d) Duration and expiration of the terms of office of Supervisory Board members

Shareholders are invited to set the duration of the new Supervisory Board terms of office based on the amendments to the Company's bylaws that are being submitted for approval in the first resolution of the Extraordinary Shareholders Meeting.

As presented in the Managing Chairman's report, the amendments offered in the first resolution would enable Supervisory Board members to have terms of office of less than the four years currently specified in the bylaws in order to provide for staggered expiration dates.

Consequently, the Supervisory Board is recommending the following durations for the terms of office of the nominees standing for election or re-election to the Board at the May 17, 2013 Shareholders Meeting:

- two years for Barbara Dalibard and Louis Gallois;
- three years for Anne-Sophie de La Bigne and Jean-Pierre Duprieu;
- four years for Olivier Bazil and Michel Rollier.

If these durations are approved, 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

	2014	2015	2016	2017
Barbara Dalibard		X		
Louis Gallois		X		
Anne-Sophie de La Bigne			X	
Jean-Pierre Duprieu			X	
Olivier Bazil				X
Michel Rollier				X
Laurence Parisot	X			
Pat Cox	X			
NUMBER OF EXPIRATIONS BY YEAR	**2**	**2**	**2**	**2**

10.2.2. OTHER RESOLUTIONS

Concerning the other ordinary resolutions, the Managing Chairman's Report and the accounting and financial information communicated to you present the Group's operations and results for 2012.

We have no comments on the Statutory Auditors' report on the financial statements.

In 2012, Michelin reported strong earnings in lackluster markets. Operating income came up 25% to €2,423 million, reflecting an efficient pricing policy, a global footprint, structurally high margins in Specialty tires and restored profitability in the Truck tire business. Free cash flow amounted more than €1 billion and return on capital employed hit 12.8%. Lastly, the group maintained a solid balance sheet whith a net debt-to-equity ratio of 12%.

Based on these results, the Supervisory Board approves the Managing Chairman's recommendation to set the dividend at €2.40 per share.

The Company wishes to renew its share buyback program based on a maximum purchase price of €100 per share, identical to the price set under the current authorization. An authorization to cancel shares bought back under the program is also being sought.

We recommend that shareholders adopt the proposals submitted for their approval by voting in favor of the corresponding resolutions.

February 7, 2013

Éric Bourdais de Charbonnière
Chairman of the Supervisory Board

10.3. STATUTORY AUDITORS' REPORTS

10.3.1. STATUTORY AUDITORS' REPORTS ON THE EXTRAORDINARY RESOLUTIONS

Statutory auditors' report on the capital reduction

Combined shareholders' meeting of May 17, 2013 (2nd 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 canceling 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 eighteen months as of the date of this meeting, the powers 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 French professional standards issued by our professional body, 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 7, 2013

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Dominique Descours

The Statutory Auditors

Members of "*Compagnie régionale de Versailles*"

10.3.2. OTHER STATUTORY AUDITORS' REPORTS

The Statutory Auditors' reports to the Annual Shareholders Meeting of May 17, 2013 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.

11

TABLES OF CONCORDANCE

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); 2.14
2.	Trend information	2.8
3.	Group markets: seasonal fluctuations in business	2.2
III.	**RISK FACTORS**	
1.	Operating risks	2.10.3
2.	Financial risks	2.10.3. l)
3.	Legal risks	2.10.3. m)
4.	Environmental, industrial and technological risks	2.10.3. f); 2.10.3.d); 2.10.3.i)
5.	Risk coverage – Insurance	2.10.1
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	2.16; 6.2; 6.3
2.	Environment	2.16; 6.4
3.	Customer and supplier relations	6.3
	Report on social and environmental reporting methods	6.2; 6.4.1
VI.	**COMPANY IDENTITY**	
1.	Company identity	5.1.1
2.	Relations between the Company and its subsidiaries	1.2
3.	Information on the Company's capital	5.5
4.	Information that may have a bearing in the event of a takeover bid	2.12
5.	Other information about the Company that is an integral part of the management report	None

11.2. TABLE OF CONCORDANCE FOR EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION

		Sections
EMPLOYEE INFORMATION		**6.2**
1-a	Total number of employees	6.2.1.a)
	Employees hired under fixed-term contracts	6.2.1.b)
	Employees hired under permanent contracts	6.2.1.b)
	Potential difficulties in hiring	6.2.1.b)
	Dismissals and their reasons	6.2.1.b)
	Overtime	6.2.1.c)
	Contractor employees	6.2.1.a)
1-b	Information concerning redundancy plans	6.2.1.b)
	Job retention initiatives	6.2.1.b)
	Retraining and inplacement	6.2.1.b)
	Rehirings	6.2.1.b)
	Support programs	6.2.1.b)
2.	Working hours	6.2.2.a)
	Working hours for full-time employees	6.2.2.a)
	Working hours for part-time employees	6.2.2.b)
	Absenteeism	6.2.3.b)
	Reasons for absenteeism	6.2.3.b)
3.	Compensation	6.2.1 c)
	Compensation trends	6.2.1 c)
	Employer payroll taxes	6.2.1 c)
	Discretionary profit-sharing plans	6.2.1.c)
	Non-discretionary profit sharing plans and employee savings plans	6.2.1 c)
	Gender equality	6.2.6 b)
4.	Employee relations and collective bargaining agreements	6.2.5
5.	Workplace health and safety	6.2.3
6.	Training	6.2.4 a)
7.	Hiring and retaining the disabled	6.2.6 c)
SOCIETAL INFORMATION		**6.3**
8.	Employee welfare programs	6.3.2
9.	Subcontracting	6.3.4
	Creating jobs and supporting local economic development	6.3.1
	Relationships with non-profit associations, schools, etc.	6.3.2
	Amount of subcontracting	6.3.4
	Programs to encourage subcontractors to comply with ILO conventions	6.3.4
	Programs undertaken by foreign subsidiaries to measure their impact on regional development and local communities	6.3.2

		Sections
ENVIRONMENTAL INFORMATION		**6.4**
1.	Water use	6.4.3
	Raw materials use	6.4.3
	Energy use	6.4.3
	Measures undertaken to improve energy efficiency	6.4.3
	Use of renewable energy sources	6.4.4
	Land use	6.4.3
	Air, water and soil releases	6.4.2
	Noise and odors	6.4.2
	Waste treatment	6.4.2
2.	Measures undertaken to attenuate damage to the biological balance	6.4.5
3.	Environmental audits and certification processes underway	6.4
4.	Measures undertaken to ensure that the company's operations comply with legislation	6.4
5.	Expenditure committed to prevent the company's operations from having an impact on the environment	6.4.1
6.	Existence of internal environmental management teams	6.4.1
	Employee training and information	6.4.1
	Resources allocated to attenuating environmental risks	6.4.1
	Organization to deal with accidental offsite spills and releases	6.4.1
7.	Provisions and guarantees for environmental risks	6.4.1
8.	Damages paid during the year under court rulings regarding the environment	None
9.	Objectives assigned to foreign subsidiaries	6.4

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
15.	**Remuneration and benefits**			
	15.1	Remuneration and benefits in kind	4.3	92
	15.2	Total amounts set aside or accrued to provide pension, retirement or similar benefits	4.3	92
16.	**Board practices**			
	16.1	Date of expiration of current terms of office	4.1.2. b)	86
	16.2	Service contracts	4.1.5	87
	16.3	Audit and Compensation Committees	4.2.2; 4.5.1	89; 99
	16.4	Statement of compliance with France's corporate governance regime	4.5.2	101
17	**Employees**			
	17.1	Number of employees	2.4.3.b); 3.4; 6.2.1. a)	32; 69; 124
	17.2	Shareholdings and stock options	5.5.4; 6.2.1.c)	118; 126
	17.3	Arrangements for involving the employees in the capital of the issuer	5.5.6; 6.2.1.c)	120; 126
18.	**Major shareholders**		2.15	59
	18.1	Provisions governing the ownership threshold above which shareholder ownership must be disclosed	2.15	59
	18.2	Voting rights	2.15; 5.2.4	59; 111
	18.3	Control	2.15	59
	18.4	Change in control	2.12	58
19.	**Related party transactions**		7.1 - (Note 34)	219
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	164; 227
	20.2	Pro forma financial information	7.1; 8.2	164; 227
	20.3	Financial statements	7.1; 8.2	164; 227
	20.4	Auditing of the historical annual financial statements	7.2; 8.3	223; 240
	20.5	Age of latest financial information	December 31, 2012	
	20.6	Interim and other financial information	None	
	20.7	Dividend policy	5.2.3	111
	20.8	Legal and arbitration proceedings	2.10.3.m)	58
	20.9	Significant change in the issuer's financial or trading position	2.14	59
21.	**Additional information**			
	21.1	Share capital	5.5.1; 5.5.2; 5.5.3	113 to 116
	21.1.1	Issued capital and share classes	2.15	59
	21.1.2	Shares not representing capital	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	120
	21.1.4	Convertible securities, exchangeable securities or securities with warrants	5.5.3	116
	21.1.5	Authorized but unissued capital	None	
	21.1.6	Stock options	5.5.4	118
	21.1.7	A history of share capital	5.5.1	113
	21.2	Articles of incorporation and bylaws	5.1.2	108
	21.2.1	Issuer's objects and purposes	5.1.2	108
	21.2.2	Provisions with respect to the members of the administrative, management and supervisory bodies	4.2	88
	21.2.3	Rights, preferences and restrictions attaching to each class of existing shares	5.1.2	108
	21.2.4	Change in the rights of shareholders	5.1.2	108
	21.2.5	Shareholders Meetings	5.1.2.f)	109
	21.2.6	Provisions that would have an effect of delaying, deferring or preventing a change in control	None	
	21.2.7	Statutory disclosure thresholds	None	
	21.2.8	Changes in the capital	5.5.1	113
22.	**Material contracts**		2.11	58
23.	**Third party information and statements by experts and declarations of interests**		6.5	160
24.	**Documents on display**		5.4	112
25.	**Information on holdings**		7.1 - (Note 36); 8.2 - (Note 22)	220; 239

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Design and production: CÔTÉ CORP.

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