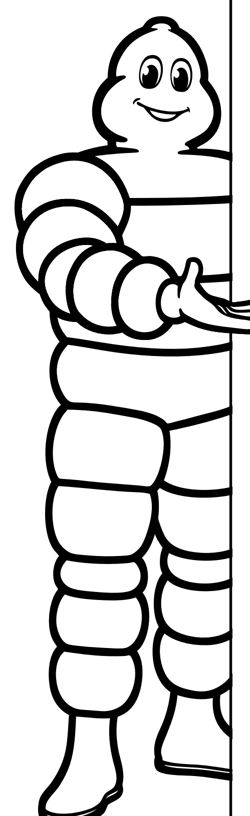
2018 RESULTS

CONTENTS



1 PRESS RELEASE 3

Market Review 5
2018 Sales and Results 7
Compagnie Générale des Établissements Michelin 9
2018 Non-Financial Ratings 9
2018 Highlights 10

2 SLIDESHOW 13

2018 Annual Results – February 11, 2019 14
2018 SOI: €2,775m, up €304m (11%) at Constant Exchange Rates 18
2019 Guidance: in Line with 2020 Objectives 38
Appendices 44

3 REPORT OF THE MANAGING PARTNERS 72

3.1 Tire Markets 74
3.2 Sales 81
3.3 Consolidated Income Statement Review 85
3.4 Consolidated Balance Sheet Review 93
3.5 Consolidated Cash Flow Statement Review 98
3.6 Return On Capital Employed (ROCE) 101
3.7 Outlook 101
3.8 Share Information 102
3.8 Highlights 104

4 FINANCIAL HIGHLIGHTS 109

4.1 Markets 110
4.2 Sales 112
4.3 Earnings 114
4.4 Reporting Segments 116
4.5 Cost Structure 119
4.6 Cash Flow and Balance Sheet 124
4.7 Consolidated Key Figures and Ratios 128

5 CONSOLIDATED FINANCIAL STATEMENTS 129

5.1 Consolidated Financial Statements at December 31, 2018 130

1 PRESS RELEASE

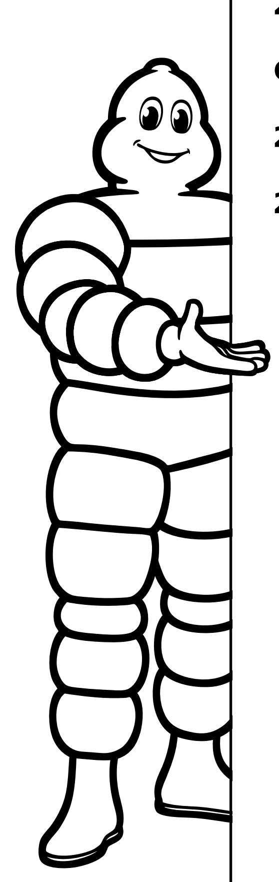
MARKET REVIEW 5

2018 SALES AND RESULTS 7

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN 9

2018 NON-FINANCIAL RATINGS 9

2018 HIGHLIGHTS 10



Press release

Clermont-Ferrand, February 11, 2019

Financial information for the year ended December 31, 2018

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

2018: In a challenging environment, €2,775 million in segment operating income[(1)], up €304 million or 11% at constant exchange rates.

€1,274 million in structural free cash flow.

2019: Sustained growth in segment operating income, even before the additional contribution from acquisitions.

- Sales up 4.1% at constant exchange rates.
- Volumes up 0.9%: after declining in the first quarter, volumes rose by 2% over the following nine months, in markets heavily disrupted by the contraction in demand in the original equipment Passenger car tire segment and in China.
  - Sustained fast growth in the Specialty businesses.
  - Further market share gains in the 18" and larger Passenger car tire segment.
  - 2.7% rebound in Truck tire volumes in the second half.
- The price-mix/raw materials effect added a net €286 million, as expected.
  - The price effect totaled €255 million, confirming disciplined price management.
  - The mix effect was a very strong €189 million, led by the growth in 18" and larger tire sales, the Specialty businesses and the smaller percentage of OE business in the sales mix.
  - Priority focus was maintained on protecting margins, particularly in markets impacted by steep currency declines against the euro.
- Unfavorable currency effect, totaling a negative €271 million.
- Competitiveness plan stepped up in the second half, lifting total savings to €317 million for the year and offsetting the impact of a higher inflation cost (up €38 million year-on-year).
- €1,274 million in structural free cash flow, confirming the Group's commitment to improvement.
- Faster acquisitions-led growth (Fenner and Camso), in line with Group strategy, and greater access to the North American market (TBC joint venture).
- Proposed dividend of €3.70 per share, representing a payout of 36.4% of consolidated net income before non-recurring items.

Jean-Dominique Senard, Chief Executive Officer, said: "In 2018, in a difficult economic environment, Michelin demonstrated its ability to increase operating income and sustain the improvements in structural free cash flow achieved in recent years. The year also saw faster deployment of the Group's strategy, with the acquisitions of Fenner and Camso, and the creation of the TBC wholesaling joint venture in the United States. These transactions have strengthened the Group in key markets and provided new opportunities to create value."

Outlook

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

In this environment, Michelin's objectives for 2019 are: volume growth in line with global market trends; segment operating income exceeding the 2018 figure at constant exchange rates and before the estimated €150 million contribution from Fenner and Camso; and structural free cash flow of more than €1.45 billion[(2)].

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

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

(in € millions)	2018	2018 at 2017 exchange rates	2017
Sales	22,028	22,866	21,960
Segment operating income[(1)]	2,775	3,046	2,742
Segment operating margin	12.6%	13.3%	12.5%
Automotive & related distribution	11.6%	12.3%	12.3%
Road transportation & related distribution	8.8%	9.7%	8.1%
Specialty businesses & related distribution	19.6%	20.2%	19.6%
Other operating income and expenses	(225)		(111)
Operating income	2,550		2,631
Net income	1,660		1,693
Segment EBITDA	4,119		4,087
Capital expenditure	1,669		1,771
Net debt	3,719		716
Gearing	31%		6%
Employee benefit obligations	3,850		3,969
Free cash flow[(2)]	(2,011)		+662
Structural free cash flow[(3)]	+1,274		+1,509
ROCE[(4)]	14.0%		13.0%
Employees on payroll[(5)]	117,400		114,100
Earnings per share	9.30€		9.39€
Dividend per share[(6)]	3.70€		3.55€

(1) Formerly known as operating income from recurring activities, segment operating income is the performance metric for the reporting segments. It is stated before the amortization of brands and customer lists recognized on the acquisition of the corresponding companies, which is included in other operating income and expenses. In 2018, amortization of acquired intangible assets amounted to €39 million for the year.
(2) Free cash flow: net cash from operating activities less net cash used in investing activities and net cash from other current financial assets, before distributions.
(3) Structural free cash flow: free cash flow before acquisitions, adjusted for the impact of changes in raw materials costs on trade payables, trade receivables and inventories.
(4) ROCE excluding goodwill, acquired intangible assets and associates & joint ventures. 2017 standard tax rate of 31%, 2018 standard tax rate of 26%.
(5) At period-end.
(6) 2018 dividend to be submitted to shareholder approval at the Annual Meeting on May 17, 2019.

MARKET REVIEW

PASSENGER CAR & LIGHT TRUCK TIRES

2018/2017 *(in number of tires)*	Europe including Russia & CIS*	Europe excluding Russia & CIS*	North America	Central America	Asia (excluding India)	South America	Africa/India Middle East	Total
Original equipment	- 2 %	-2%	-1%	+1%	-4%	+3%	+4%	**-2%**
Replacement	+ 2 %	+1%	+3%	+4%	-2%	-8%	+0%	**+1%**

Fourth quarter 2018/2017 *(in number of tires)*	Europe including Russia & CIS*	Europe excluding Russia & CIS*	North America	Central America	Asia (excluding India)	South America	Africa/India Middle East	Total
Original equipment	-7%	-8%	+4%	-2%	-10%	-8%	-10%	**-7%**
Replacement	+3%	+2%	+4%	+7%	+1%	-13%	+7%	**+2%**

* *Including Turkey.*

The global Original Equipment and Replacement Passenger car and Light truck tire market was stable in 2018, with a slight 1% gain in the first half erased by a 1% decline in the second, caused by the 5% drop in Original Equipment demand.

Original equipment

- In Europe, demand declined by 2% overall during the year, reflecting the combined impact of (i) a 2% contraction in Western Europe, pulled down by the drop in automobile markets following implementation of the WLTP standards on September 1, with Original Equipment demand down 6% in the second half; and (ii) a robust 7% increase in Eastern Europe.
- The North American market ended the year down 1%. After declining by 5% in the first half in the wake of the contraction that began in second-half 2017, demand turned upwards in the second six months for a 2% gain, lifted by strong growth in automobile output off of favorable comparatives.
- Demand in Asia (excluding India) tumbled 4% overall in 2018, as the slight 1% gain in the first half was offset by the sudden drop-off late in the year, which resulted in an 8% decrease for the second half. The decline was primarily caused by the downturn in the Chinese market, which swung from a 3% gain in the first six months to a 13% plunge starting in July, due to the highly uncertain economic environment created, in particular, by the trade war with the United States. In the rest of the Asian market, demand was down 1% for the year.
- In Central America, Original Equipment demand rose by 1% over the year, with brisk growth in the first half and a slowdown in the second half.
- The South American market rose 3% overall, with an 10% gain in the first half followed by a 3% decline in the second, dragged down by the crisis in Argentina and the uncertain political environment in Brazil.
- In the Africa/India/Middle East region, the market rose by 4% overall, led by growth in India in the first half.

Replacement

- The European market grew by 2% overall in 2018, as demand rose by a vigorous 11% in Eastern Europe but only by a weak 1% in Western Europe. The robust growth observed in France and Italy (up 5%), Polan, the Nordic countries (up 4%) and Spain (up 3%) was amply offset by the impact of Brexit on the UK market (down 5%) and by the crisis in Turkey (down 9%). Sales of All-Season tires remained firm throughout the year, acting as the primary driver of market growth in Europe.
- In a favorable economic environment, demand in North America rose by 3% overall, with an acceleration in the second half (to 4% from 2% in the first half) fueled by a surge in Chinese tire imports ahead of the introduction of additional import duties.
- In Asia (excluding India), demand ended the year down 2% overall. After remaining relatively flat in the first half (down 1%), the market weakened, losing 2% in the second half as the 6% contraction in China was partially offset by a 2% increase in the rest of the region, led by Japan (up 2%) and South Korea (up 3%).
- The Central American market rose by 4% over the year, with Mexico driving a much faster performance in the second half (up 7%).
- In South America, demand fell 8% over the year with a steep 13% plunge in the second half, reflecting the impact of the recession in Argentina (down 18%) and the political and economic instability in Brazil (down 15%).
- In the Africa/India/Middle East region, demand was stable for the year, with a 3% upturn in the second half following on from a 2% decline in the first half. The robust 6% growth in the Indian market was offset by a contraction in the Middle East and Africa, due to political instability in certain countries and weakness in the oil-price dependent economies.

TRUCK TIRES (RADIAL & BIAS)

2018/2017 *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Central America**	**Asia (excluding India)**	**South America**	**Africa/India Middle East**	**Total**
Original equipment	+3%	+4%	+19%	-8%	-6%	+54%	+10%	**+1%**
Replacement	+0%	-2%	+7%	+4%	-5%	+2%	-1%	**-2%**

Fourth quarter 2018/2017 *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Central America**	**Asia (excluding India)**	**South America**	**Africa/India Middle East**	**Total**
Original equipment	-1%	+0%	+28%	+16%	-4%	+31%	+10%	**+3%**
Replacement	-1%	-3%	+5%	+6%	-8%	-4%	-0%	**-4%**

* *Including Turkey.*

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

Original equipment

- In Europe, the Original Equipment market rose by 3% over the year. After a strong 6% showing in the first half, led by demand in Germany (up 3%), Poland (up 24%) and Turkey (up 41%), growth slowed significantly to just 1% in the second half due to the downturn in Turkey and Poland. Demand remained flat in Eastern Europe, over the year.
- In a highly favorable economic environment, the North American market delivered very strong growth throughout the year, for a 19% gain overall.
- Demand in Asia (excluding India) contracted by 6% in 2018, with the Chinese market plunging 18% in the second half alone due to an unfavorable basis of comparison and the highly uncertain economic environment created by the trade war with the United States. Demand in the rest of the region was shaped by the 3% decline in Japan, which was partially offset by vibrant growth in the Indonesian market.
- In South America, the market maintained the rebound that began in 2017, soaring 54% on the back of strong demand in Brazil.
- The Africa/India/Middle East market rose by 10% over the year, reflecting the 15% gain in Indian demand off of favorable comparatives and a buoyant economic environment.

Replacement

- The European market was stable over the year. After a 2% gain in the first half led by a 9% increase in Eastern Europe, demand retreated by 2% in the second half due to the steep fall-off in Turkey and Poland combined with robust 4% growth in Eastern Europe.
- Demand in North America rose by 7% overall, lifted by the robust US economy and an increase in Chinese tire imports late in the year ahead of the possible introduction of new import duties. The Canadian market cooled by a slight 1% over the year.
- Replacement tire markets in Asia (excluding India) retreated by 5% in 2018. After declining by 2% in the first half, demand dropped another 8% in the second half, primarily due to the collapse in the Chinese market caused unfavorable comparatives and the uncertain economic environment created by the trade war with the United States.
- Demand in Central America ended the year up a very strong 12% overall, despite modest 1% growth in the Mexican market.
- The South American market rose 2% overall, with a 5% gain in the first half led by Brazil (up 8%) and Argentina, followed by a 1% decline in the second half, reflecting the slowdown to 3% growth in Brazil and the collapse of the Argentine market.
- In the Africa/India/Middle East region, new tire demand edged back 1%, with (i) flat growth overall in India, where radial tire sales advanced 12%; and (ii) a 1% decline in the Middle East and African markets, where the political and economic environment remains unstable.

SPECIALTY TIRES

- **Mining tires:** the mining tire market is still enjoying robust growth in demand from international mining companies, oil companies and regional mines.
- **Agricultural and construction tires:** in the agriculture segment, growth in the Original Equipment markets was mixed, while replacement demand was stable, impacted in Europe by a sharp upturn in Asian imports. In infrastructure, demand continued to trend upwards in both the Original Equipment and replacement segments.
- **Two-wheel tires:** motorcycle markets experienced fast growth in both Europe and North America. Demand in the commuting segment remains very strong in the new markets.
- **Aircraft tires:** led by the increase in passenger traffic, the commercial aircraft tires market is continuing to expand, with more pronounced gains in the radial segment.

2018 SALES AND RESULTS

SALES

Sales stood at €22,028 million for the year ended December 31, 2018, up 0.3% from 2017 due to the combined impact of the following factors:

- a 0.9% or €195 million increase from higher volumes and a €267 million increase from changes in the scope of consolidation (mainly the consolidation of Fenner PLC over seven months and the deconsolidation of the TCi chain following the creation of the TBC joint venture with Sumitomo Corporation).
- a €444 million increase from the highly favorable price-mix effect. Prices added €255 million, thanks to (i) the full-year impact of the price increases introduced in 2017 in non-indexed businesses to offset the impact of higher raw materials costs, as part of the Group's disciplined price management; and (ii) the €10 million contribution over the year from price adjustments in the businesses subject to raw materials indexation clauses. The mix effect added another €189 million, reflecting the still highly positive product mix, the favorable impact of the rebound in the mining tire business and the decline in the percentage of Original Equipment business in the sales mix.
- a €838 million decrease from the unfavorable currency effect, primarily stemming from US dollar/euro rates in the first half and to the currency crises in Argentina, Turkey and other emerging markets in the second part of the year.

RESULTS

Segment operating income amounted to €2,775 million or 12.6% of sales, versus €2,742 million and 12.5% in 2017.

The 2018 performance reflected (i) a €56 million increase from changes in the scope of consolidation following the inclusion of Fenner PLC over the last seven months of the year and the deconsolidation of TCi; (ii) a €57 million increase from the 0.9% growth in volumes; (iii) a robust €444 million increase from the price-mix effect thanks to disciplined price management, which cushioned (iv) the €158 million adverse impact from raw materials costs. The €317 million increase in costs was entirely offset by €317 million in competitiveness gains. Depreciation and amortization expense rose by €40 million and start-up costs by €41 million. Other factors totaled a negative €14 million for the year. Lastly, the highly unfavorable currency effect trimmed €271 million from the reported figure.

The €225 million in net other operating expenses corresponded primarily to the €146 million provision for the closure of the Dundee plant, the €39 million in amortization of acquired brands, and the costs of acquiring Fenner and Camso.

In all, net income came to €1,660 million.

NET FINANCIAL POSITION

Free cash flow ended the year at a negative €2,011 million, a €2,673 million decline resulting from the acquisitions of Fenner, A.T.U and Camso and the creation of the TBC joint venture with Sumitomo Corporation. Based on this free cash flow, less the payment of €637 million in dividends and the €75 million in share buybacks, consolidated gearing stands at 31%, corresponding to net debt of €3,719 million.

SEGMENT INFORMATION

On January 1, 2018, Michelin introduced a new business organization, which has led to the following changes in the reporting segments:

(1) Replacement Light truck tires have been transferred from the Automotive segment (formerly Passenger car and Light truck tires) to the Road transportation segment (formerly Truck tires).

(2) Construction Truck tires have been transferred from the Road transportation reporting segment to the Specialty businesses segment.

	Sales		Segment operating income		Segment operating margin	
(in € millions)	2018	2017	2018	2017	2018	2017
Automotive & related distribution	11,340	11,953	1,314	1,465	11.6%	12.3%
Road transportation & related distribution	5,852	5,946	513	483	8.8%	8.1%
Specialty businesses & related distribution	4,836	4,061	948	794	20.6%	19.6%
GROUP	**22,028**	**21,960**	**2,775**	**2,742**	**12.6%**	**12.5%**

Automotive & related distribution

Sales in the Automotive and related distribution segment declined by 5.1% to €11,340 million, from €11,953 million in 2017, mainly due to a scope effect (TCi deconsolidation) and adverse movements in exchange rates.

Segment operating income amounted to €1,314 million or 11.6% of sales, versus €1,464 million and 12.3% the year before.

The decline in segment operating margin was primarily due to adverse movements in exchange rates. The steady enhancement in the product mix, reflecting (i) the sustained success of the MICHELIN lines, particularly the MICHELIN Primacy4, MICHELIN CrossClimate +, X Ice North4 and Alpin6 tires, and (ii) the strong growth in the 18" and larger segment (up 10% in a market up 9%), as well as the disciplined pricing policy pursued throughout the year all helped to more than offset the decline in volumes.

Road transportation & related distribution

Sales in the Road transportation and related distribution segment amounted to €5,852 million in 2018, a 1.6% decline from the €5,946 million reported the year before.

Segment operating income came to €513 million or 8.8% of sales, compared with €483 million and 8.1% in 2017.

The improvement was led by a strong price-mix effect, which amply offset the highly unfavorable currency effect. New products and services continued to be introduced over the period, which was shaped by the success of the BFGoodrich lines in Europe and of the MICHELIN Agilis CrossClimate light truck and van tires.

Specialty businesses & related distribution

Sales by the Specialty businesses segment stood at €4,836 million for the year, up 19.1% from €4,061 million in 2017.

Segment operating income amounted to €948 million or 19.6% of sales, versus €794 million and 19.6% the year before.

The increase in segment operating income corresponded to the robust growth in volumes led by the sustained rebound in demand for the Group's mining tires, the solid performance of the other businesses, the consolidation of Fenner over the last seven months of the year, and a strong price mix effect that offset unfavorable exchange rate movements.

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Compagnie Générale des Établissements Michelin ended the year with net income of €813 million, compared with net income of €1,029 million in 2017.

The financial statements were presented to the Supervisory Board at its meeting on February 8, 2019. An audit was performed and the auditors' reports on the consolidated and company financial statements were issued on February 11,2019.

The Chief Executive Officer will call an Annual Shareholders Meeting on Friday, May 17, 2019 at 9:00 am in Clermont-Ferrand.

He will ask shareholders to approve the payment of a dividend of €3.70 per share, compared with €3.55 in respect of the previous year.

CORPORATE SIMPLIFICATION PROJECT

The Group is planning to simplify its legal structure by the first half of 2020, subject to obtaining the necessary agreements.

As part of this streamlining process, the Group's external financing operations would be transferred to Compagnie Générale des Établissements Michelin, the Group's parent company, while intra-group financing transactions would be retained by a dedicated subsidiary.

In addition, all of the international subsidiaries and affiliates would be consolidated by Compagnie Générale des Établissements Michelin, as is already the case for the French subsidiaries and affiliates.

2018 NON-FINANCIAL RATINGS

In 2018, Michelin was included in several non-financial performance indices in recognition of its sustainable development and mobility approach:

- VigeoEiris – Michelin was ranked number 1 for environmental, social and governance (ESG) performance in the automotive industry and number 10 worldwide (out of more than 4,000 companies).
- EcoVadis – Michelin achieved a "Gold CSR Rating" for its environmental, social, Human rights and sustainable purchasing policies.
- CDP Climate Change – Included in the "Climate Change A List 2018", Michelin is one of 127 companies worldwide recognized as being pioneers in the fight against climate change. More than 7,000 companies were assessed by the CDP in 2018.
- CDP Supply Chain – Michelin was named "Supplier Engagement Leader 2019" for its initiatives and strategy to support the energy transition in its supply chain.

These ratings are testimony to Michelin's unwavering commitment to sustainable mobility and development.

2018 HIGHLIGHTS

- Michelin and Sumitomo Corporation create the second largest tire wholesaler in the United States and Mexico by folding their wholesale and retail operations into a 50/50 joint venture (January 3, 2018).
- Successful non-dilutive convertible 2023 bond issue (January 5, 2018).
- Market launch of the MICHELIN Primacy4 in Europe (January 2018).
- Mobivia, the European leader in multi-brand vehicle servicing and parts, joins forces with Michelin to expand its A.T.U chain in Germany, Switzerland and Austria by selling the Group a 20% stake in the chain (February 12, 2018).
- Implementation of the partial share buyback management agreement (February 14, 2018).
- Launch of the MICHELIN AGILIS CrossClimate light truck and van tire (February 22, 2018).
- The MICHELIN Road5 high-tech Sport Touring tire (February 22, 2018).
- CFAO and Michelin team up to market high-quality tires in Kenya and Uganda (March 21, 2018).
- MICHELIN's MyBestRoute app wins the SITL Technologies and Information Systems Innovation Award (March 22, 2018).
- MICHELIN X Multi Energy tire fuel saving for regional transport (April 10, 2018).
- Jean Dominique Senard's succession plan: to prepare for the end of the Chief Executive Officer's term of office at the close of the 2019 Annual Meeting, shareholders at the May 18, 2018 Annual Meeting elected Florent Menegaux as General Managing Partner and Yves Chapot as Managing Partner.
- Total and Michelin join forces to launch an ambitious worldwide road safety education program (May 30, 2018).
- Acquisition of Fenner PLC, a world leader in conveyor belt solutions and reinforced polymer products (May 31, 2018).
- In 2048, MICHELIN tires will be made using 80% sustainable materials and 100% of tires will be recycled (May 31, 2018).
- Movin'On – Engaged, innovative leaders and executives convene in Montreal for the second edition of the global sustainable mobility summit (June 1, 2018).
- Michelin and Maxion Wheels receive a 2018 CLEPA Innovation Award for the ACORUS Flexible Wheel (June 18, 2018).
- MICHELIN Track Connect, the first fully networked solution for car tires, wins the 2018 Creative Prize at the Tire Cologne trade fair (June 18, 2018).
- First edition of the MICHELIN guide Guangzhou (June 26, 2018).
- Successful three-tranche bond offering for a total amount of €2.5 billion (August 29, 2018).
- Michelin announces the launch of a new employee share ownership plan (September 17, 2018).
- In Singapore, Michelin receives the "Best of the Best" award from Red Dot for its VISION concept (September 28, 2018).
- Michelin Man named "Icon of the Millennium" (October 2, 2018).
- Michelin launches the MICHELIN Alpin6, the winter tire that delivers lasting performance (October 2, 2018).
- Michelin presents sustainable mobility at Paris Motorshow 2018 (October 2, 2018).
- Michelin announces its intention to close its Dundee plant in the United Kingdom in 2020 (November 5, 2018).
- A new synthetic rubber plant in Indonesia for the Group (November 29, 2018).
- Michelin completes the acquisition of Camso, thereby strengthening its global leadership position in the Specialty businesses (December 18, 2018).

A full description of 2018 highlights may be found on the Michelin website: https://www.michelin.com/en/

PRESENTATION AND CONFERENCE CALL

Full-year 2018 results will be reviewed with analysts and investors during a presentation today, Monday, February 11, at 6:30 pm CET. The event will be in English, with simultaneous interpreting in French.

Webcast

The presentation will be webcast live on: https://www.michelin.com/en/finance/

Conference call

Please dial-in on one of the following numbers from 6:20 pm CET:

- In France +33 (0)1 70 71 01 59 (French), PIN code: 99 79 42 35#
- In France +33 (0)1 72 72 74 03 (English), PIN code:17 69 26 36#
- In the United Kingdom +44 (0) 207 194 3759 (English), PIN code:17 69 26 36#
- In North America +1 (844) 286 0643 (English), PIN code:17 69 26 36#
- From anywhere else +44 (0) 207 194 3759 (English), PIN code:17 69 26 36#

The presentation of financial information for the year ended December 31, 2018 (press release, presentation, financial report) may also be viewed at https://www.michelin.com/en/, along with practical information concerning the conference call.

INVESTOR CALENDAR

- **Quarterly information for the three months ended March 31, 2019:** Wednesday, April 24, 2019 after close of trading

Investor Relations

Édouard de Peufeilhoux
+33 (0) 4 73 32 74 47
+33 (0) 6 89 71 93 73 (mobile)
edouard.de-peufeilhoux@michelin.com

Matthieu Dewavrin
+33 (0) 4 73 32 18 02
+33 (0) 6 71 14 17 05 (mobile)
matthieu.dewavrin@michelin.com

Humbert de Feydeau
+33 (0) 4 73 32 68 39
+33 (0) 6 82 22 39 78 (mobile)
humbert.de-feydeau@michelin.com

Media Relations

Corinne Meutey
+33 (0) 1 78 76 45 27
+33 (0) 6 08 00 13 85 (mobile)
corinne.meutey@michelin.com

Individual Shareholders

Isabelle Maizaud-Aucouturier
+33 (0) 4 73 98 59 27
isabelle.maizaud-aucouturier@michelin.com

Clémence Rodriguez
+33 (0) 4 73 98 59 25
clemence.daturi-rodriguez@michelin.com

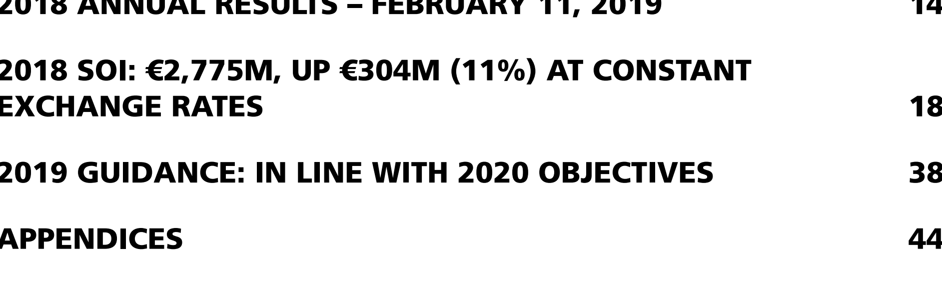
DISCLAIMER

This press release is not an offer to purchase or a solicitation to recommend the purchase of Michelin shares. To obtain more detailed information on Michelin, please consult the documents filed in France with Autorité des Marchés Financiers, which are also available on our www.michelin.com/ website.

This press release may contain a number of forward-looking statements. Although the Company believes that these statements are based on reasonable assumptions as at the time of publishing this document, they are by nature subject to risks and contingencies liable to translate into a difference between actual data and the forecasts made or inferred by these statements.

2

SLIDESHOW

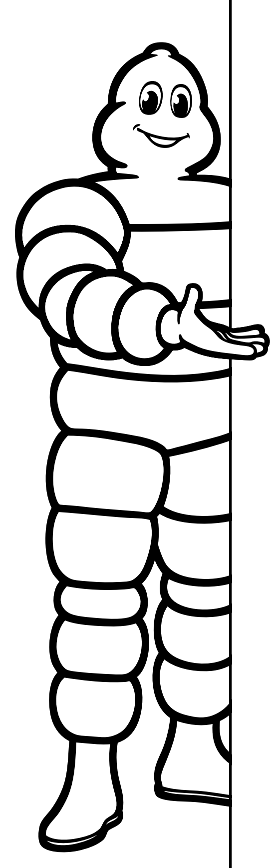


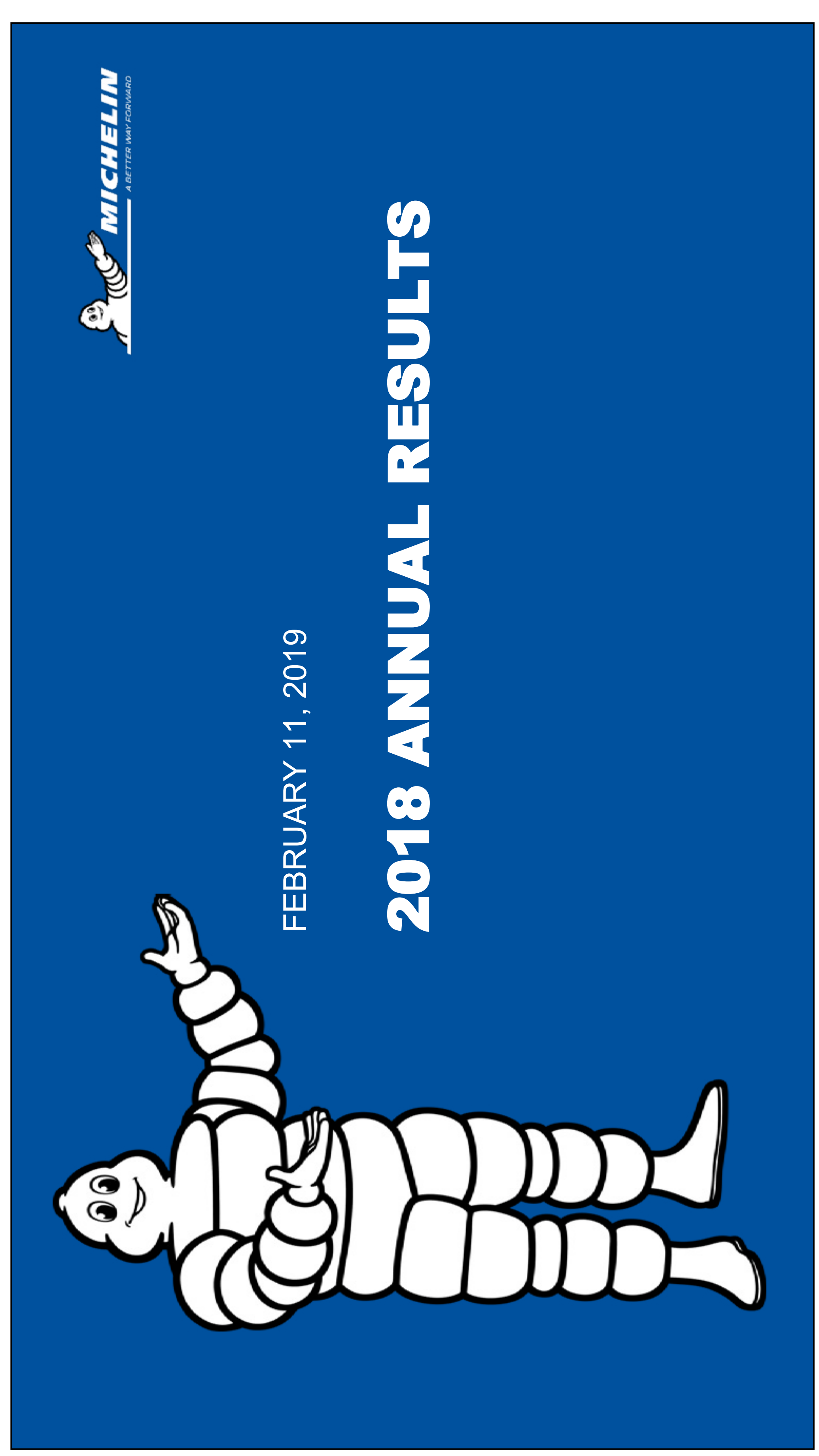
2018 ANNUAL RESULTS – FEBRUARY 11, 2019 14

2018 SOI: €2,775M, UP €304M (11%) AT CONSTANT EXCHANGE RATES 18

2019 GUIDANCE: IN LINE WITH 2020 OBJECTIVES 38

APPENDICES 44




MICHELIN
A BETTER WAY FORWARD
2018 ANNUAL RESULTS
FEBRUARY 11, 2019

Segment Operating Income*: €2,775m, up a strong €304m (11%) at constant exchange rates; €1,274m in structural FCF

- In agitated markets, volumes up 0.9% for the year, of which 2% in the last nine months led by robust growth in the Specialty businesses, the rebound in Truck tire sales in the second half and market share gains in the ≥18’’ PC/LT segment
- SOI* excluding the currency effect up a strong €304m, exceeding the €271m negative impact of exchange rate movements
  - The price-mix/raw materials effect added €286m, confirming the Group’s disciplined price management and the strong positive mix
  - Competitiveness drive stepped up in the second half, lifting total savings to €317m and offsetting the impact of higher cost inflation (up €38m vs. 2017)
- €1,274m in structural FCF, sustaining the improvements delivered in previous years
- Faster acquisitions-led growth (Fenner and Camso), in line with Group strategy, and greater access to the North American market (TBC joint venture)
- Recommended 2018 dividend of €3.70 a share, for a payout ratio of 36,4%

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

2 2018 Annual Results – February 11, 2019

2018: disciplined management in H2 and firm volume resistance delivered more than €300m increase in Segment Operating Income at constant exchange rates

	H1 2018	H2 2018	2018 actual
Volumes	+0.1%	+1.7%	**+0.9%**
Price-mix	+3.0%	+1.1%	**+2.0%**
Competitiveness gains vs. inflation	€(42)m	€42m	**Neutral**
Segment operating income	€1,327m	€1,448m	**€2,775m up €304m** at constant exchange rates

3 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Michelin, a leadership in sustainable development and mobility
The "4R" circular economy strategy
4R ÉCONOMIE CIRCULAIRE
RÉDUIRE
RÉUTILISER
RECYCLER
RENOUVELER
Leadership in the "performance over time" concept
A
B
C
E
F
New Tire
Worn Tire
New Tire
Worn Tire
Bringing together the sustainable mobility ecosystem
TRANSPORT DECARBONISATION ALLIANCE
MOVIN'ON
A globally recognized approach
CDP DISCLOSURE INSIGHT ACTION A LIST 2018 CLIMATE CHANGE
vigeo eiris
A1+
GOLD 2018 ecovadis CSR Rating
CDP DISCLOSURE INSIGHT ACTION SUPPLIER ENGAGEMENT LEADER 2019
Initiator of a sustainable natural rubber platform
In 2018, 80% of employees say they are proud and happy to work at Michelin
MICHELIN
A BETTER WAY FORWARD
4
Résultats Annuels 2018 – 11 février 2019

2018 SOI: €2,775m, up €304m (11%) at constant exchange rates

February 11, 2019

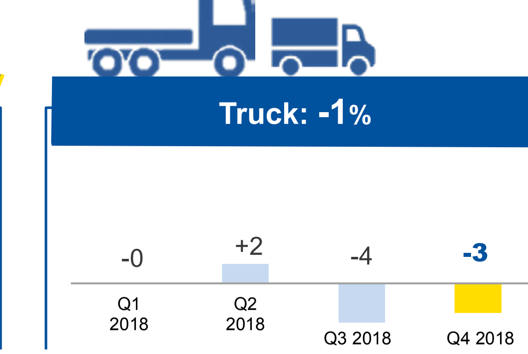
2018 Annual Results

MICHELIN

5

2018 Annual Results – February 11, 2019

Markets in 2018: sharp slowdown in Passenger car and Truck tires in H2; sustained growth in Specialties



PC/LT: -0%

Q1 2018	Q2 2018	Q3 2018	Q4 2018
-0	+3	-0	-1

- OE: sharp slowdown in the global market in H2
- RT: cooling demand in ≤16” tires, sustained growth in ≥18” tires
- Slowdown in the Chinese market
- Impact of currency weakness against the euro in emerging markets

Truck: -1%

Q1 2018	Q2 2018	Q3 2018	Q4 2018
-0	+2	-4	-3

- OE and RT markets dampened by slowing demand in Asia, particularly in China
- Strong growth in demand in North America
- Impact of currency weakness against the euro in emerging markets

Specialties: +6%

- Mining tires: sustained demand (up ~10%), led by growth in the global economy and the end of inventory drawdowns
- Off-road OE demand up sharply in Construction, slowing in Agricultural in H2; RT demand stable
- Growth in the Two-wheel, Commuting and Aircraft tire segments

Source : Michelin

6 2018 Annual Results – February 11, 2019

Strong volume resilience thanks to Group's global geographic exposure and wide product offering

2018 sales by region

2018 sales by growth driver

PC OE/RT: Passenger car and light truck tires sold as original equipment (PC OE) or in replacement markets (PC RT)

7 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Sales up 4,1% excluding forex, supported by the Group's expansion, higher prices and the sustained mix improvement

YoY change
(in € millions and %)

	Value	Change
2017 Sales	21,960	
External growth – Changes in scope of consolidation*	+267	(+1.2%)
Organic growth – Volumes	+195	(+0.9%)
Price-mix	+444	(+2.0%) o/w mix: +0.9%
2018 Sales at constant exchange rates	**22,866**	
Currency effect	-838	(-3.8%)
2018 Sales	22,028	

Group growth **+2.1%** (External growth + Organic growth Volumes)

*Fenner, NexTraq, Lehigh, PTG, Teleflow, TCi and Euromaster dealership chains

8 **2018 Annual Results – February 11, 2019**

MICHELIN A BETTER WAY FORWARD

Q4: Robust price-mix with further growth in volumes

▲ YoY quarterly change
(in %)

	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Volumes	7.3	0.0	1.0	2.2	**-2.3**	**2.6**	**2.9**	**0.5**
Price-mix	-0.1	2.8	5.0	4.9	**3.4**	**2.6**	**0.5**	**1.5**
Currency effect	2.5	1.3	-3.7	-4.9	**-7.7**	**-5.6**	**-1.6**	**-0.3**

9 2018 Annual Results – February 11, 2019

SOI up a strong €304m (+11%) at constant exchange rates, led by the unit margin

YoY change in SOI *(in € millions)*

2,742
2017
reported

+56
Scope of consolidation

+57
Volumes

+113

-158
Raw materials

+444
Prix-mix
o/w mix:
+189

+286
o/w indexed businesses: neutral

+317
Competit-iveness

-317
Inflation

0

-81
Start-up costs (-41)
Depreciation and amortization (-40)

-14
Other

+ 304

3,046
2018
at constant exchange rates

-271
Currency effect

2,775
2018
reported

10 2018 Annual Results – February 11, 2019

Proven ability to improve unit margin in a highly competitive market environment

- Net impact of changes in the price-mix and raw materials prices

(in € millions)

2010	2011	2012	2013	2014	2015	2016	2017	H1 2018	H2 2018
-266	+264	+1 133	+103	+118	-93	+159	-70	+264	+22

H1 2018 + H2 2018: +286

Impact of H2 2017 price increases (H1 2018)

Firm pricing (H2 2018)

MICHELIN A BETTER WAY FORWARD

11 2018 Annual Results – February 11, 2019

2018 saw a strong growth in the Specialty businesses

(in millions €)	2018	2017 **	Variation
RS1 sales	**11,341**	11,953	-5 %
Operating income *	***1,314***	*1,464*	*-10 %*
Operating margin *	11.6 %	12.3 %	- 0.7 pt
at 2017 exchange rates	12.3 %		
RS2 sales	**5,852**	5,946	-2 %
Operating income *	***513***	*483*	*+6 %*
Operating margin *	8.8 %	8.1 %	+0.7 pt
at 2017 exchange rates	9.7 %		
RS3 sales	**4,836**	4,061	+19 %
Operating income *	***948***	*794*	*+19 %*
Operating margin *	19.6 %	19.6 %	+0.0 pt
at 2017 exchange rates	20.2 %		

** For the segment*

*** new organization ,see slide 41*

- RS1 sales down taking into account exchange rates and the deconsolidation of TCi; unit margin supported by the price/mix
- RS2 sales down due to the currency effect; OI up thanks to a strong net price-mix vs raw materials effect
- RS3 sales and OI up sharply despite the currency effect, lifted by volumes, prices and Fenner consolidation

12 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

≥18" PC/LT tires: Four years of market share gains

- Growth in ≥18" PC/LT tire sales

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

	2015	2016	2017	2018
Worldwide market	+9 %	+15 %	+13 %	+9 %
MICHELIN	+20 %	+17 %	+19 %	+10 %

the market recognizes the power of MICHELIN brand tires in the premium segment

MICHELIN
A BETTER WAY FORWARD

13 2018 Annual Results – February 11, 2019

MICHELIN, THE premium brand

Michelin position at Super Sport OEMs

Leader	Leader	Leader	Leader	Leader	Co-leader	Co-leader	Top 2
M	TESLA	BUGATTI	CORVETTE	AMG DRIVING PERFORMANCE	FORD PERFORMANCE	PORSCHE	FERRARI

representing 98 % of Super Sport OEMs market

Technologies

Acoustic	Selfseal	Track connect	Premium Touch	Acorus
MICHELIN Acoustic technology enhances the driving experience by significantly reducing vehicle interior noise	*A technology that allows the immediate and definitive self-repair of the tire*	*The first connected tire available on the market to upgrade the performance on track*	*A unique sidewall with a patented "velvet-effect" finish*	*A flexible wheel that eliminates flat tires due to potholes and curb-shocks, for a hassle-free driving experience*

14 2018 Annual Results – February 11, 2019

Growth in RS2 volumes, driven by the product/service dynamic

Highly popular with fleet operators

MICHELIN AGILIS CROSSCLIMATE

"The MICHELIN CrossClimate is setting the standard in both summer and winter tires"

VEHIPOSTE

Companies that converted their fleets in 2018

dalkia GROUPE EDF
Stapletons Tyre Services
ARVAL BNP PARIBAS GROUP
total motion vehicle management
VEHIPOSTE
SNCF

Deployment of Sascar solutions in the Americas and Europe

Europe
NexTraq
Mexico
sascar
Brazil
Argentina

A growing portfolio of services

More than 850,000 trucks under contract

15 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Mining tires: a range of high performance products in an expanding market in line with tire consumption

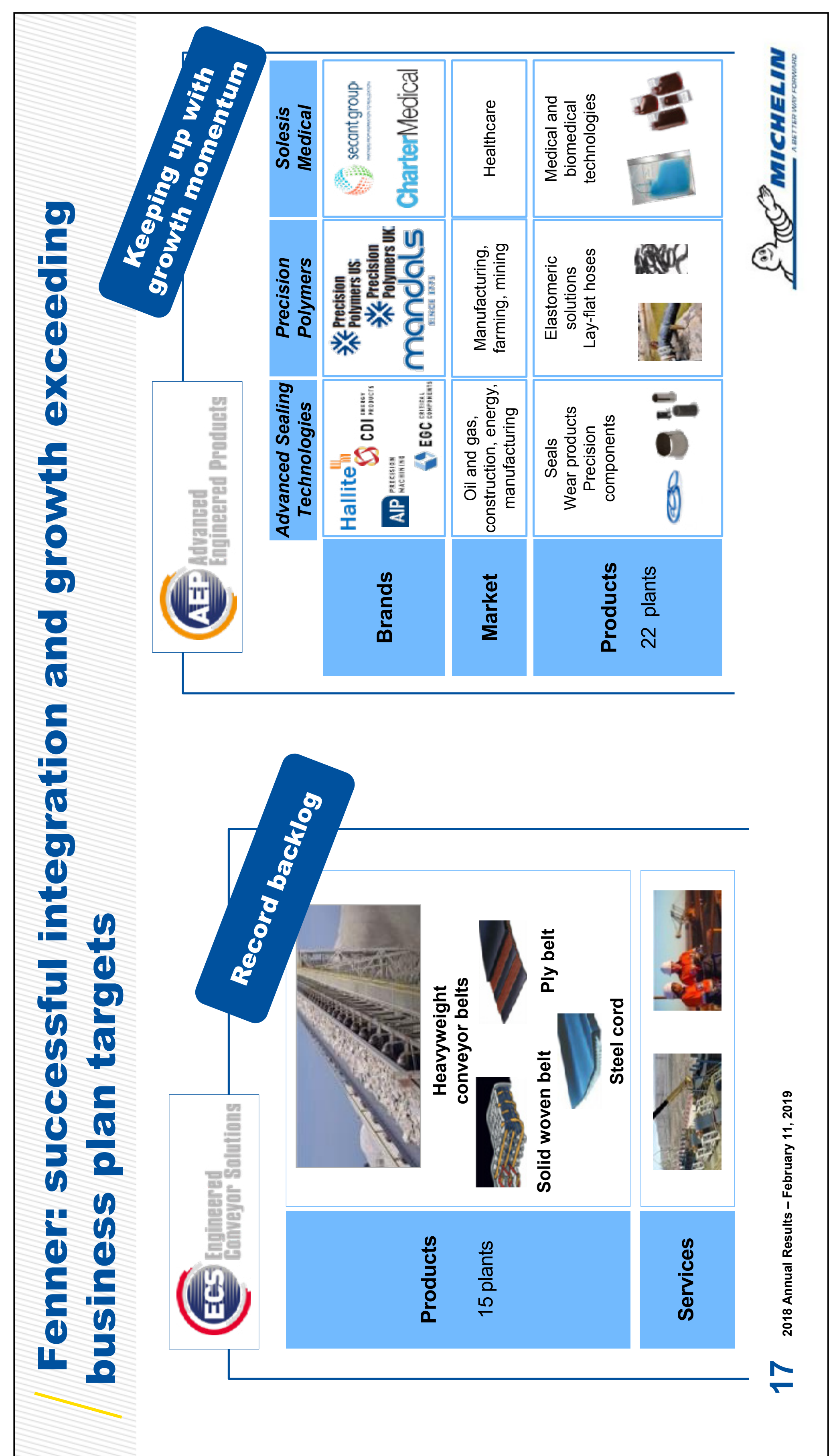
Surface mining tire market: Sell-in vs. total tire sales, 2012-2019e *

*base 100 in 2012, in tons

Product offer

16 Résultats Annuels 2018 – 11 février 2019

MICHELIN A BETTER WAY FORWARD


Fenner: successful integration and growth exceeding business plan targets
Engineered Conveyor Solutions
Record backlog
Products
15 plants
Heavyweight conveyor belts
Solid woven belt
Ply belt
Steel cord
Services
Advanced Engineered Products
Keeping up with growth momentum
Advanced Sealing Technologies
Precision Polymers
Solesis Medical
Brands
Hallite
CDI
AIP
EGC
Precision Polymers US
Precision Polymers UK
mandals
secant group
CharterMedical
Market
Oil and gas, construction, energy, manufacturing
Manufacturing, farming, mining
Healthcare
Products
22 plants
Seals
Wear products
Precision components
Elastomeric solutions
Lay-flat hoses
Medical and biomedical technologies
17
2018 Annual Results – February 11, 2019
MICHELIN

Michelin, leader in connected tire solutions recognized by professionals and enthusiasts alike

MEMS Evolution 4

Tire Care

Zen@Terra

Project PresSence

B2B

Michelin leader in connected tires that improve business productivity

Projects with OEM

Track Connect

sport

4 tyres 4 sensors 1 receiver 1 mobile application

B2C

Michelin leader in connected tires that improve the customer experience

MICHELIN A BETTER WAY FORWARD

18 2018 Annual Results – February 11, 2019

2017-2020 Competitiveness Plan: €632m in gains in two years; on track to deliver the targeted €1.2bn

Target: €300m in average annual gains*

SG&A
Total 193
83
110

Raw materials
Total 98
47
51

Manufacturing - Logistics
Total 340
187
153

2017 2018

Net gain, 2017-2018
€36m

Total 632
317 2018
315 2017
Competitiveness plan

Total 596
317 2018
279 2017
Inflation

*Before inflation and including avoided costs.

19 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Continuing to adapt Michelin's manufacturing footprint

Capacity reductions, 2016-2021

Europe: closure of three retreading centers and a semi-finished products facility

UK: closure of the Ballymena Truck tire plant (76 kt)

UK: closure of the <16" PC/LT tire plant in Dundee (52kt)

Capacity increases 2016-2020

PC/LT, China: +20%
Capacity raised to 240 kt

PC/LT, Thailand: +10%
Capacity raised to 165 kt

Truck, Thailand: +24%
Capacity raised to 75 kt

Capacity increases 2018-2020

Mexico: new PC/LT plant
Capacity raised to 60 kt

Capacity increases 2018-2019

Synthetic rubber, Indonesia: Start-up of a new plant

PC, Truck and Two-wheel tires, Indonesia: Planned acquisition of Multistrada
Capacity up to 180 kt

MICHELIN A BETTER WAY FORWARD

20 2018 Annual Results – February 11, 2019

Investing to create value

- Successfully deploy our capex projects to drive the Group's expansion:
  - In growth markets: Premium PC/LT tires, in North America and Asia
  - In digital services
  - In the dealerships
  - In high-tech materials

Capital expenditure and depreciation:
(in € billions, at current exchange rates)

	2012	2017	2018	2019e	2020e
Capex	2.0	1.8	1.7	1.8	1.9
Depreciation and amortization	1.0	1,35	1.35	1.5	1.6

*Including Camso and Fenner (2019e–2020e)

MICHELIN A BETTER WAY FORWARD

21 2018 Annual Results – February 11, 2019

Sustained and stronger than expected structural free cash flow, supported in 2018 by disciplined working capital management

Structural free cash flow
(in € millions)

	2015	2016	2017	2018
Free cash flow(1)	**653**	**1,024**	**662**	**(2,011)**
Acquisitions(2)	(312)	(16)	(476)	(3,225)
Working capital impact of raw materials costs(3)	132	79	(178)	(60)
Capitalized interest on OCEANE bonds, paid upon redemption(4)			(193)	-
Structural free cash flow(1) – (2) – (3) – (4)	**833**	**961**	**1,509**	**1,274**

22 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

2018: on the road to our 2020 objectives

Deliver structural FCF > €1,700m as from 2020 *(in € millions)*

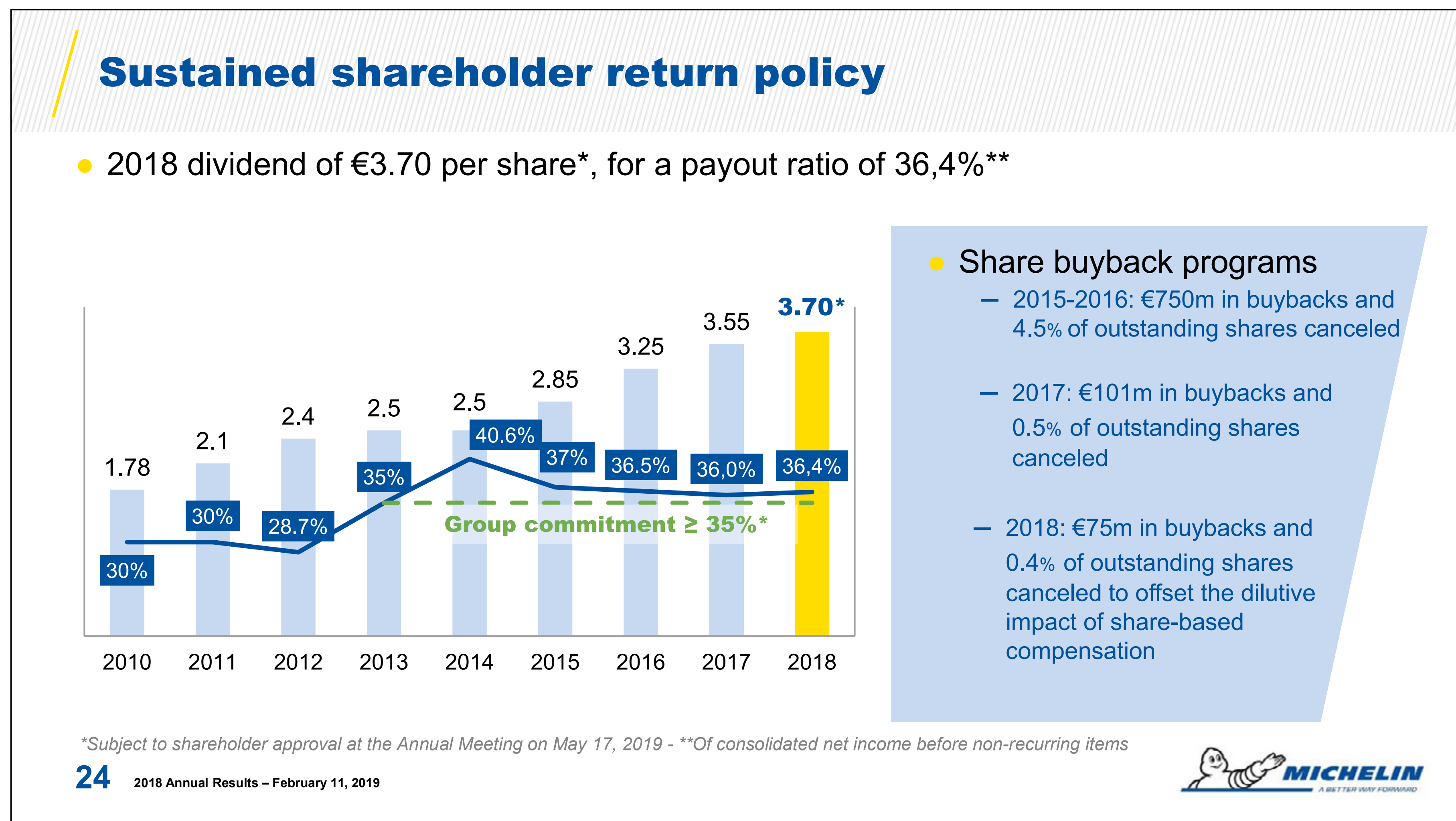
2015	2016	2017	2018	2019e excl. IFRS16 impact	2019e	2020 target
833	961	1,509	1,274	>1,300	>1,450	>1,700

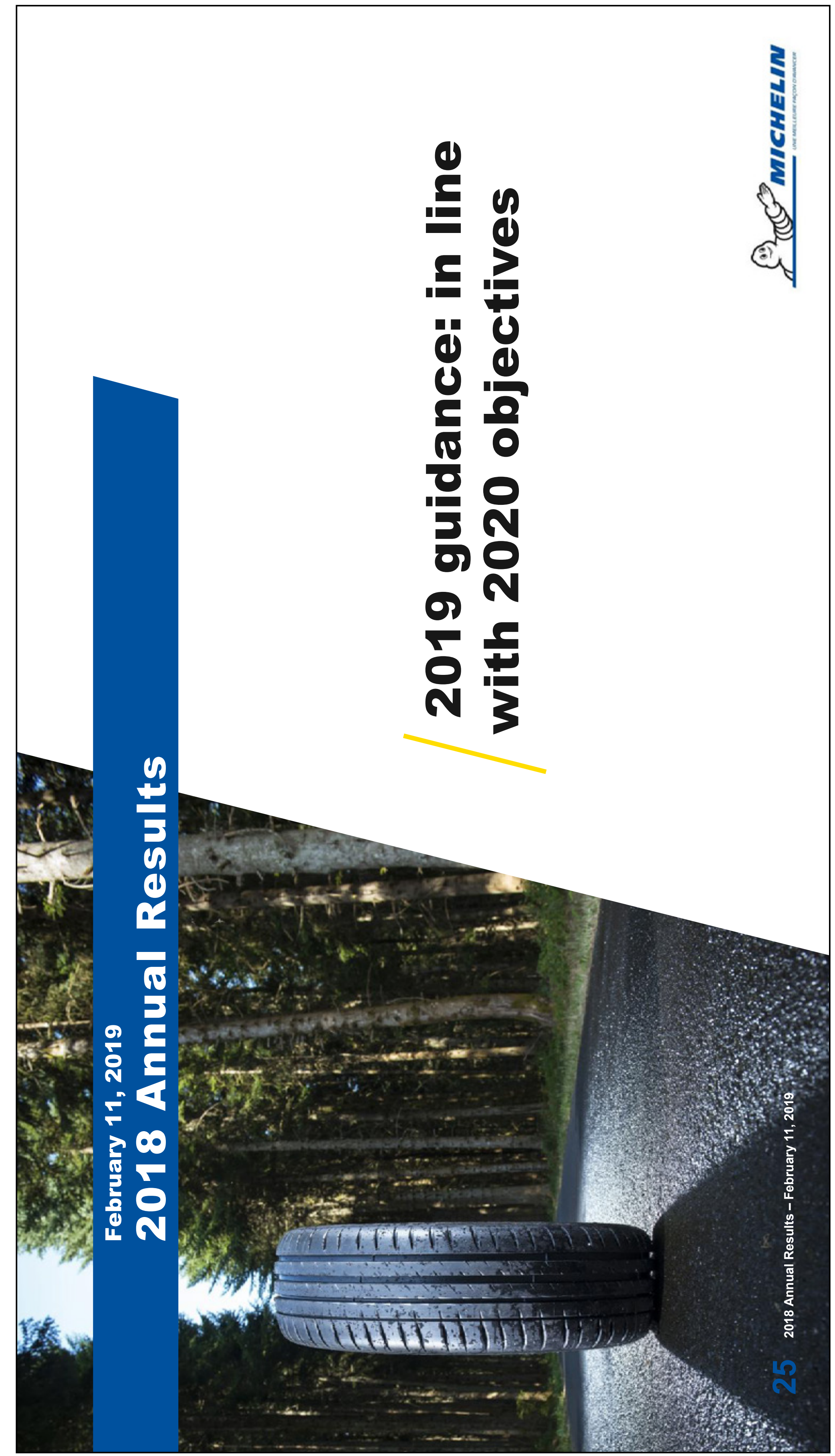
Deliver an after-tax ROCE ≥ 15% excluding goodwill as from 2020 *(in %)*

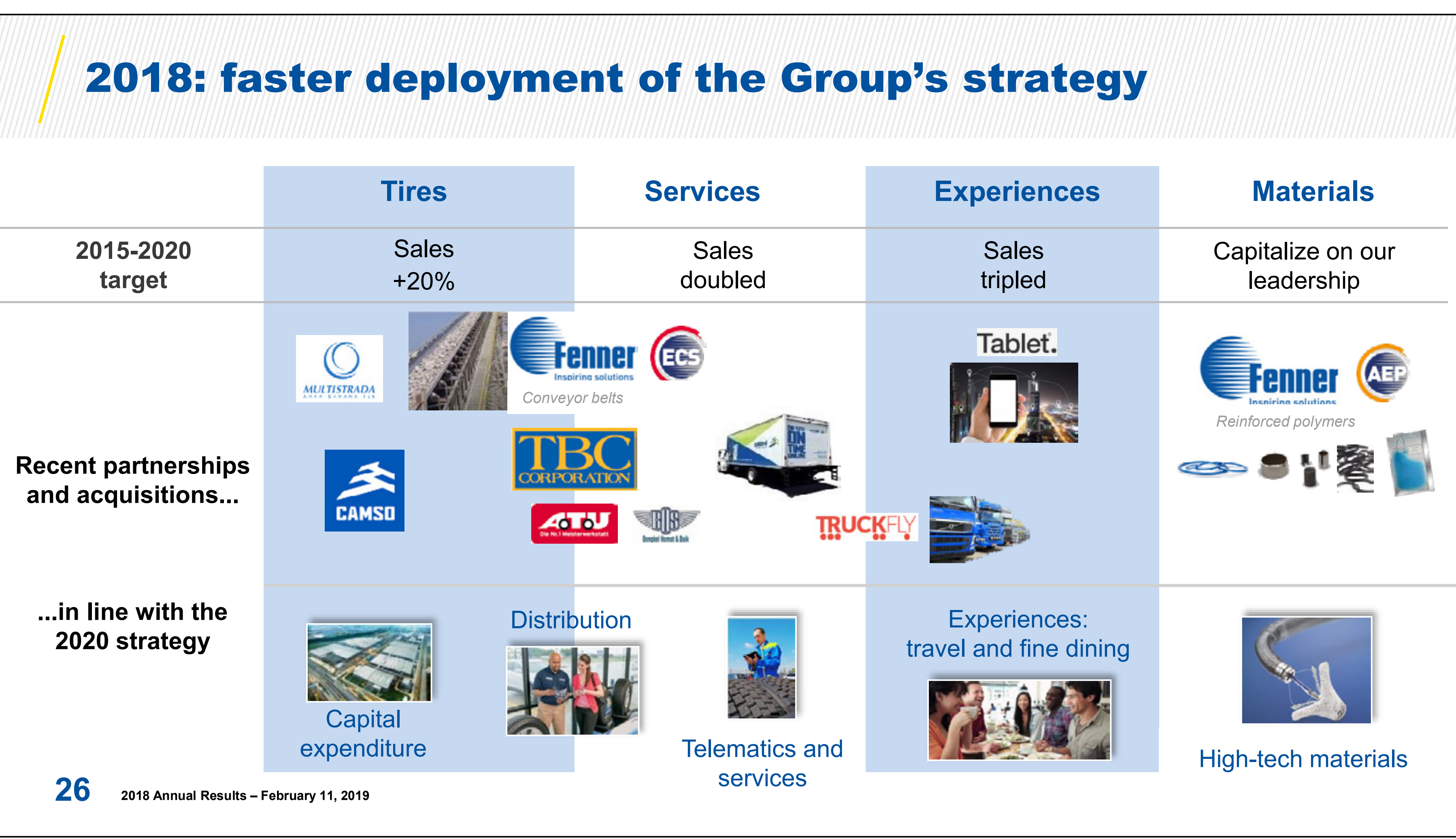
	2017	2017	2018	2020 target
ROCE after taxes	11.9%	13.6%	14.0%	≥15.0%
ROCE before taxes	17.2%	18.9%	18.9%	≥ 20.3%
Standard corporate tax rate	31 %	28 %	26 %	

including goodwill, acquired intangibles, associates and joint ventures (2017, first column); *excluding goodwill, acquired intangibles, associates and joint ventures* (other columns)

23 Résultats Annuels 2018 – 11 février 2019


Sustained shareholder return policy
2018 dividend of €3.70 per share*, for a payout ratio of 36,4%**
1.78
2.1
2.4
2.5
2.5
2.85
3.25
3.55
3.70*
30%
30%
28.7%
35%
40.6%
37%
36.5%
36,0%
36,4%
Group commitment ≥ 35%*
2010
2011
2012
2013
2014
2015
2016
2017
2018
Share buyback programs
– 2015-2016: €750m in buybacks and 4.5% of outstanding shares canceled
– 2017: €101m in buybacks and 0.5% of outstanding shares canceled
– 2018: €75m in buybacks and 0.4% of outstanding shares canceled to offset the dilutive impact of share-based compensation
*Subject to shareholder approval at the Annual Meeting on May 17, 2019 - **Of consolidated net income before non-recurring items
24
2018 Annual Results – February 11, 2019
MICHELIN
A BETTER WAY FORWARD


February 11, 2019
2018 Annual Results
2019 guidance: in line with 2020 objectives
MICHELIN
25
2018 Annual Results – February 11, 2019


2018: faster deployment of the Group's strategy
Tires
Services
Experiences
Materials
2015-2020 target
Sales +20%
Sales doubled
Sales tripled
Capitalize on our leadership
Recent partnerships and acquisitions...
MULTISTRADA
Fenner Inspiring solutions
Conveyor belts
ECS
CAMSO
TBC CORPORATION
ATU
TRUCKFLY
Tablet.
Fenner
AEP
Reinforced polymers
...in line with the 2020 strategy
Capital expenditure
Distribution
Telematics and services
Experiences: travel and fine dining
High-tech materials
26
2018 Annual Results – February 11, 2019

2019 market scenario: PC/LT slight growth and Truck stable in an uncertain environment; growing in Specialty

PC/LT: +0.5% / +1%

- OE: lower demand in China, Europe and to a lesser extent in North America
- RT: Stable demand in mature markets and growing in China and other regions
- ≥18'' : ~10% market growth

TRUCK: -0.5% / +0,5%

- Demand trending upwards in the mature regions
- Chinese markets down

SPECIALTIES: +3 % / +5 %

- Mining: sustained strong demand (+4% to +5%), led by tire consumption
- Off-road tires: increasing demand in Infrastructure and slight growth in Agricultural
- Growth in the Two-wheel, Commuting and Aircraft segments

27 2018 Annual Results – February 11, 2019

2019 scenario*

	2019
Cost impact of raw materials prices and customs duties	~ €(100) million
Currency effect	Slightly positive based on January 2019 rates**
Effective tax rate	Standard ETR reduced to 26%***
Net impact of changes in the price-mix and raw materials prices	Positive
Competitiveness plan gains vs. inflation	Positive

**2019 average prices embedded in the scenario: Natural rubber: $1.37/kg; butadiene (US-Europe-Asia): $1,240/t; Brent: $70/bbl ; EUR-USD: 1,14*

**** See slide 40*

****Based on currently available information*

28 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

2019 guidance: in line with 2020 objectives

	2019
Volumes	**Growth in line with the markets**
Segment Operating Income at constant exchange rates *before the estimated €150 million additional contribution from Fenner and Camso*	**> 2018**
Structural FCF *including the +€150m accounting impact from IFRS 16*	**> €1,450m**

29 2018 Annual Results – February 11, 2019

MICHELIN
A BETTER WAY FORWARD

MANULEVA
IndiGo

February 11, 2019

2018 Annual Results

Appendices

MICHELIN

31 2018 Annual Results – February 11, 2019

Investor Calendar

- **Coming events :**
  - **April 04, 2019 :** Investor day at Almeria, Spain
  - **April 24, 2019 (after close of trading)** : First-quarter 2019 sales
  - **May 17, 2019** : Annual Shareholders Meeting
  - **July 25, 2019 (after close of trading)** : First-half 2019 results
  - **October 24, 2019 (after close of trading)** : Third-quarter and 9 months 2019 sales
- **Dividend dates:**
  - **May 21, 2019**: Ex-dividend date
  - **May 22, 2019**: Record date
  - **May 23, 2019**: Payment date

32 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Reported 2018 and 2017 financial highlights

(en millions €)	2018	2017
Sales	22,028	21,960
Segment EBITDA	4,119	4,087
Segment EBITDA margin	18,7 %	18,6 %
Segment Operating income	2,775	2,742
Segment Operating margin	12,6 %	12,5 %
Other Operating income and expenses	-225	-111
Net income	1,660	1,693
Basic earnings per share (in €)	9,30	9,39
Capital expenditure	1,669	1,771
Free cash flow*	- 2,011	+662
Gearing	31 %	6 %

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

33 2018 Annual Results – February 11, 2019

MICHELIN
A BETTER WAY FORWARD

PC: OE demand decreasing, RT growing in mature zones; Chinese markets down

Passenger car tire market in 2018

(% change YoY, in number of tires)

Source : Michelin

34 2018 Annual Results – February 11, 2019

PL: dynamic OE demand and growth in RT outside of China; sharp decrease in Chinese markets

Widening exposure to the fast growing, highly profitable ≥18” PC/LT tire market

Percentage of ≥18” tires in total MICHELIN-brand sales *(in tons)*

2015	2016	2017	2018
25%	29%	35%	39%

Growth in the ≥18” PC/LT tire market*

	2017	2018	2019e	2020e	2021e
OE	100	107	112	125	132
RT	100	110	121	138	157

CAGR 2017-2021 **+10%**

*Base 100 in 2017, in units

- The premium segment, which accounts for nearly 40% of MICHELIN-brand PC/LT tire volumes, saw a 10% increase in 2018 in a market that is expected to deliver a CAGR of +10% in between 2017 and 2021

36 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

China: Michelin brand leadership on a structurally growing market driven by ≥ 18” demand

PC ≥ 18” tires in China*

	2017	2018	2019e	2020e	2021e
OE	100	113	128	156	171
RT	100	115	133	163	193

CAGR 18-21: **16%**

*base 100 in 2017, in units

PC tires in China*

	2017	2018	2019e	2020e	2021e
OE	100	94	90	97	100
RT	100	97	100	113	124

CAGR 18-21: **5%**

*base 100 in 2017, in units

Brand Power Score in China** *in %, based on total consumers in 2018*

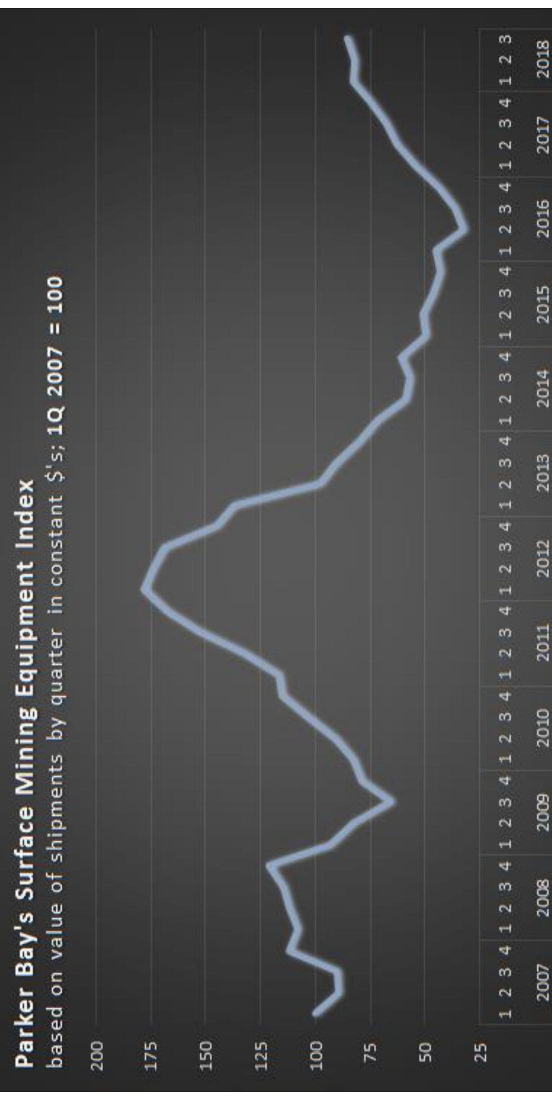
Michelin	Bridgestone	Goodyear	Dunlop	Pirelli	Continental	Hankook	Kumho
42,2%	11.8%	11.7%	9.8%	9.0%	7.5%	4.9%	3.2%

*** BCM study conducted by market research institute Millward Brown, based on the reduced brand list of 8 brands*

Partner dealership chains* that showcase the Group's products
Michelin boasts industry-leading global coverage
North America
TBC CORPORATION
NTW
MIDAS
MERCHANTS
tireamerica
TIRE KINGDOM
2,520
Quality
T&W TIRE
SNIDER FLEET SOLUTIONS
MICHELIN TYRES & CAR SERVICE
70
North America
blackcircles.com
allopneus.com
ATU
EUROMASTER
Nex
Europe
2,850
Russia & CIS
TYREPLUS
125
China
TYREPLUS
1,450
Africa, India, Middle East
TYREPLUS
MICHELIN TYRES & CAR SERVICE
140
Penta
261
ASEAN
TYREPLUS
TYRELINE
Beaurepaires
Partner wholesalers: NTW, Ihle, Meyer Lissendorf
A vast network of strategic wholesalers* as of late 2018: ~ 7,416 including Penta in Indonesia following the acquisition of Multistrada
*Proprietary or franchised dealers, plus minority stakes in partners
38
2018 Annual Results – February 11, 2019
MICHELIN
A BETTER WAY FORWARD

Mining business: a growing trend far from peak demand

- Parker Bay's Surface Mining Equipment Index, 2007 – 2018 *



*base 100 in 2007

39 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

A new close-to-the-customer organization

Former organization	Transferring products to serve customers better	New organization
RS1 Passenger car and Light truck tires & related distribution	RT Light truck* →	**RS1** Automotive & related distribution
RS2 Truck tires & related distribution	Construction truck tires* →	**RS2** Road transportation & related distribution
RS3 Specialties		**RS3** Specialties & related distribution

*And related distribution

40 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

2017 effects of the new organization by RS

(in € millions)	2017**	2017	Change
RS1 net sales	**11,953**	12,479	*- 4 %*
Operating income*	***1,464***	1,552	*- 6 %*
Operating margin*	12.3 %	12.4 %	*- 0.1 pt*
RS2 net sales	**5,964**	6,123	*- 3 %*
Operating income*	***483***	497	*- 3 %*
Operating margin*	8.1 %	8.1 %	*0 pt*
RS3 net sales	**4,061**	3,358	*+ 21 %*
Operating income*	***794***	693	*+ 15 %*
Operating margin*	19.6 %	20.6 %	*- 1 pt*

** for the segment*
***new organization*

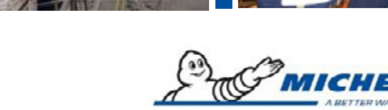
41 **2018 Annual Results – February 11, 2019**

MICHELIN A BETTER WAY FORWARD

H1 2018 acquisitions and partnerships: aligned with business plans

- TBC & TCi joint venture:
  - Create a leading US tire wholesaler
  - Gain access to more than 2,400 retail locations
  - Capitalize on TBC's expertise in importing Tier 3 and Tier 4 tires
  - ⇒ Market pioneer, with a clear governance structure and agile management

- Fenner acquisition:
  - Leverage the full value of the Group's technological leadership in materials in non-tire segments
  - Expand the Group's portfolio for mining customers with a leading conveyor belt manufacturer
  - Estimated synergies raised to £60m from the initially projected £30m by 2022



42 2018 Annual Results – February 11, 2019

Acquisition of Camso to create the world leader in off-the-road mobility solutions

- Manufactures and supplies high performance products and services for off-the-road mobility markets
  - Technological leadership in rubber tracks and solid tires
  - Competitive production facilities, particularly in Sri Lanka and Vietnam.
- Up to $55m in identified synergies by 2021 and around $20m in WCR optimization
- Accretive to EPS from year one and creation of major value
- First joined meetings confirming a strong potential

Camso* key figures

(in $ millions)	2018	2012
• Net sales	974	865
• EBITDA	136	105
• EBITDA margin	14%	12%

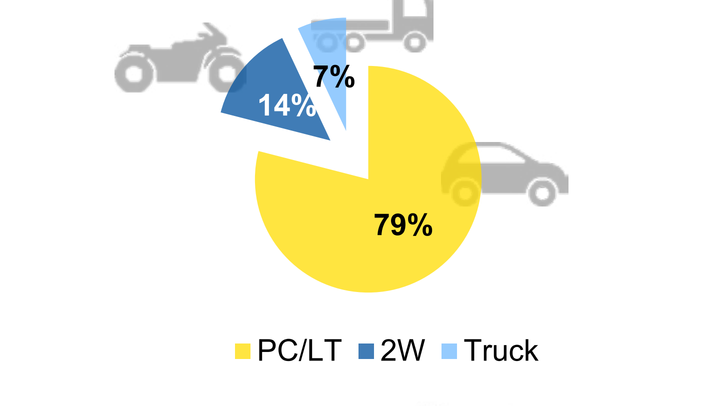
- Fast growth and major improvement in margins
- 7,700 employees in 26 countries, of whom around 5,500 in Sri Lanka and 300 in Magog, Quebec
- 17 plants and 3 research centers

*Fiscal year ends March 31

2018 Annual Results – February 11, 2019

Multistrada : Michelin gains competitive Tier2/Tier3 production capacity and strengthens its presence in Indonesia

- A very competitive, immediately available plant (a comparable Tier 2 greenfield project of equivalent capacity would have required USD900 million in capex)
- Quickly convertible at limited cost to Tier 2 PC/LT tire production, by leveraging our technical expertise
  - Free up production capacity for the MICHELIN brand in Asia
  - Support growth in Tier 2 PC/LT tire volumes worldwide, by gradually replacing Tier 3 exports with Tier 2
- Strengthening Michelin in Indonesian PC/LT, Truck and 2W markets with high growth potential
  - Enhanced market access with the acquisition of a 20% stake in wholesaler PT Penta
- Around USD70m in synergies in purchasing, sales and manufacturing costs
- Valued at USD700 million (plant, additional land and wholesale operations), i.e., 6.3 times EBITDA after synergies

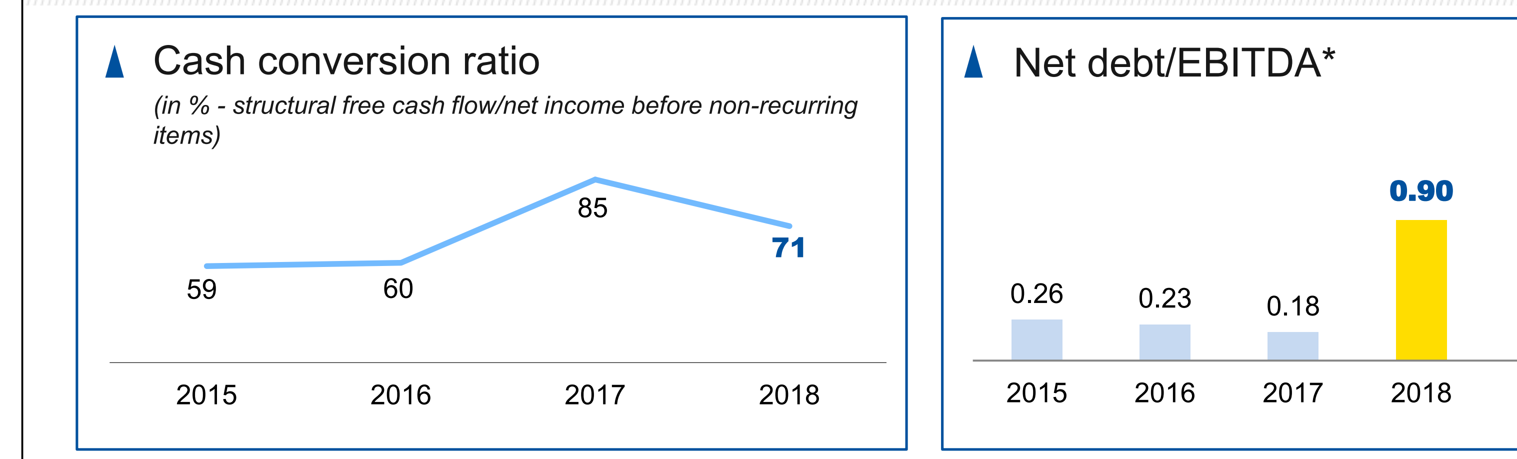


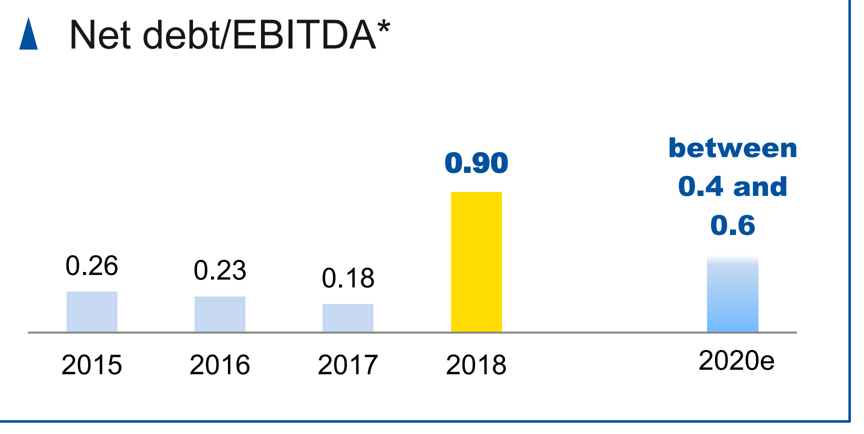
* Rolling 12 months as at end of Sept. 2018

MICHELIN
A BETTER WAY FORWARD

44 2018 Annual Results – February 11, 2019

High free cash flow and a robust financial position





- The net debt/EBITDA ratio peaked in 2018 due to cash out for acquisitions during the year, but is expected to ease to between 0.4 and 0.6 by 2020
- Moody's, Standard & Poor's and Fitch all confirmed Michelin's A-/A3 credit rating
- Two successful bond issues in 2018 totaling €2.9bn (of which a 20-year tranche for €750m)

*See the 2017 Registration Document, notes 3.7.2 and 26 to the consolidated financial statements

45 2018 Annual Results – February 11, 2019

2016-2020: profitability levers

46 2018 Annual Results – February 11, 2019

2018 net sales by currency and EBIT impact

Currency	% of sales	2018 FY € change vs. currency	Dropthrough sales/EBIT*
ARS	1%	+65%	80% - 85%
AUD	2%	+7%	80% - 85%
BRL	3%	+20%	-20% / - 30%
CAD	3%	+4%	25% - 30%
CNY	6%	+2%	25% - 30%
EUR	34%	NA	-
GBP	3 %	+1%	25% - 30%
INR	1%	+10%	25% - 30%
JPY	1%	+3%	80% - 85%

Currency	% of sales	2018 FY € change vs. currency	Dropthrough sales/EBIT*
MXN	1%	+7%	25% - 30%
PLN	1%	0%	25% - 30%
RUB	1%	+12%	25% - 30%
SEK	1%	+6%	80% - 85%
THB	1%	-0%	-100% / -130%
TRY	1%	+34%	80% - 85%
USD	35%	+5%	25% - 30%
ZAR	1%	+3%	80% - 85%
Other	4%		80% - 85%

*actual dropthrough linked to the export/manufacturing/sales base

47 2018 Annual Results – February 11, 2019

Raw materials in 2018

Raw material purchases in *(€4,9bn)*

- 25 % Natural rubber
- 25 % Synthétique rubber
- 18 % Filler
- 15 % Chemicals
- 10 % Steel cord
- 7 % Textiles

€/$ exchange rate:

Average 2017 : **1,129**

+5 %

Average 2018 : **1,182**

Brent, in USD

150
100
50
0
2013 2014 2015 2016 2017 2018

in USD/kg

RSS3
TSR20

350
300
250
200
150
100
50
0
2013 2014 2015 2016 2017 2018

indexed

Synthetic rubber
Manufacturing BLS

300
250
200
150
100
2014 2015 2016 2017 2018

MICHELIN
A BETTER WAY FORWARD

48 2018 Annual Results – February 11, 2019

Natural Rubber price trend

At end of December 2018 *(per kg, base 100 in Q1'16)*

Source : SICOM

49 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Brent price trend: up 29% in 2018

▲ At end of December 2018 *(per barrel, base 100 au Q1'16)*

Brent in $

Quarterly average Brent in $ & quarterly change in %

Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
35	47	47	51	55	51	52	61	67	75	76	68
-21.7 %	+33.2 %	+0.3 %	+8.8 %	+7.2 %	-7.0 %	+2.2 %	+17.9 %	+9.2 %	+11.4 %	+1.2 %	-9.6 %

250
200
150
100
50
0

50 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Butadiene price trend

At end of December 2018 *(per ton, base 100 in Q1'16)*

— Butadiene Europe
Quarterly average Butadiene in $ & quarterly change in %

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Average Butadiene ($)	515	618	670	773	1 363	1 500	783	800	808	1037	1142	1058
Quarterly change	-18 %	+20 %	+8 %	+15 %	+76 %	+10 %	-48 %	+2 %	+1 %	+28 %	+10 %	-7 %

Y axis: 0, 50, 100, 150, 200, 250, 300, 350

MICHELIN A BETTER WAY FORWARD

51 2018 Annual Results – February 11, 2019

Carbon Black price trend: up 19% in 2018

At end of December 2018 *(base 100 in Q1'16)*

Carbon Black BLS index — Quarterly average variation in %

	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Quarterly average variation		+3.0 %	+3.7 %	+2.0 %	+4.7 %	+0.4 %	-1.6 %	+4.3 %	+8.6 %	+2.0 %	+7.5 %	+1.2 %

200, 180, 160, 140, 120, 100, 80, 60, 40, 20, 0

Source : Carbon Black Manufacturing BLS

52 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

A robust balance sheet after recent acquisitions, confirmed by the rating agencies

Gearing
Net debt/equity, in %

2011	2012	2013	2014	2015	2016	2017	2018
22	12	2	7	11	9	6	31

Long-term ratings confirmed following the Multistrada acquisition

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

MICHELIN
A BETTER WAY FORWARD

53 2018 Annual Results – February 11, 2019

A confortable cash position

Debt maturities at Dec. 31, 2018 *(carrying amount, in € millions)*

54 2018 Annual Results – February 11, 2019

Outstanding bond issues (as of December 31, 2018)

Issuer	Compagnie Générale des Etablissements MICHELIN	Compagnie Générale des Etablissements MICHELIN	Compagnie Générale des Etablissements MICHELIN	Compagnie Générale des Etablissements MICHELIN	Compagnie Générale des Etablissements MICHELIN	MICHELIN Luxembourg	MICHELIN Luxembourg	MICHELIN Luxembourg	MICHELIN Luxembourg
Issue	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note
Type	Bond	Bond	Bond	Convertible	Convertible	Bond	Bond	Bond	Bond
Principal Amount	€ 750 mn	€ 1'000 mn	€ 750 mn	$ 600 mn	$ 500 mn + TAP $100 mn	€ 302 mn	€ 300 mn	€ 300 mn	€ 400 mn
Offering price	99,099%	99,262%	99,363%	95,50%	100% & 103,85%	98,926%	99,967%	99,081%	99,912%
Rating corporation at Issuance date	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	A- (S&P) A3 (Moody's)	BBB+ (S&P) Baa1 (Moody's)
Current coporation rating	A- (S&P) ; A3 (Moody's) ; unsolicited A- (Fitch)								
Coupon	0,875% p.a	1,75% p.a	2,50% p.a	ZERO Conv premium 130%	ZERO Conv premium 128%	3,25% p.a	1,125% p.a	1,75% p.a	2,75% p.a
Issue Date	3-sept.-18	3-sept.-18	3-sept.-18	05/jan/2018	05/jan/2017 & 25/apr/2017	21/sep/2015 & 27/sep/2016	19-mai-15	19-mai-15	11-juin-12
Maturity	3-sept.-25	3-sept.-30	3-sept.-38	10-nov.-23	10-janv.-22	30-sept.-45	28-mai-22	28-mai-27	20-juin-19
Interest payment	Annual Sept 03	Annual Sept 03	Annual Sept 03	N/A	N/A	Annual Sept 30	Annual May 28	Annual May 28	Annual June 20
ISIN	FR0013357845	FR0013357852	FR0013357860	FR0013309184	FR0013230745	XS1298728707	XS1233732194	XS1233734562	XS0794392588
Denomination	€ 100'000 with min. tradable amount € 100'000	€ 100'000 with min. tradable amount € 100'000	€ 100'000 with min. tradable amount € 100'000	$ 200'000 with min. tradable amount $ 200'000	$ 200'000 with min. tradable amount $ 200'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000

55 2018 Annual Results – February 11, 2019

2018: another year in line with our 2020 roadmap

Group segment operating income and margin & ROCE*

* With standard taxe rate at 28% for 2017 and 26% for 2018 and excluding goodwill, acquired intangibles, associates and joint ventures for 2017 and 2018

56 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

Disclaimer

"This presentation is not an offer to purchase or a solicitation to recommend the purchase of Michelin shares. To obtain more detailed information on Michelin, please consult the documents filed in France with *Autorité des marchés financiers*, which are also available from the http://www.michelin.com/eng/ website.

This presentation may contain a number of forward-looking statements. Although the Company believes that these statements are based on reasonable assumptions as at the time of publishing this document, they are by nature subject to risks and contingencies liable to translate into a difference between actual data and the forecasts made or inferred by these statements."

57 2018 Annual Results – February 11, 2019

Contacts

Edouard de PEUFEILHOUX
Matthieu DEWAVRIN
Humbert de FEYDEAU

+33 (0)4 15 39 84 68

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

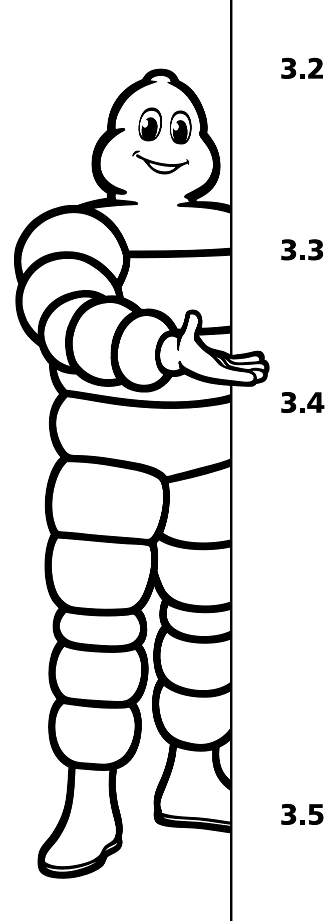
23, place des Carmes Dechaux
63040 Clermont-Ferrand Cedex 9

investor-relations@michelin.com

58 2018 Annual Results – February 11, 2019

MICHELIN A BETTER WAY FORWARD

REPORT OF THE MANAGING PARTNERS



3.1 TIRE MARKETS **74**

3.1.1 A Global Market Worth Some $170 Billion in 2017 74
3.1.2 Tire Markets in 2018 74
3.1.3 Passenger Car and Light Truck Tire Markets in 2018 75
3.1.4 Truck Tire Markets in 2018 78
3.1.5 Specialty Tire Markets in 2018 80

3.2 SALES **81**

3.2.1 Analysis of Sales 81
3.2.2 Sales by Reporting Segment 82
3.2.3 Changes in Exchange Rates for the Main Operating Currencies 84
3.2.4 Sales by Region 84

3.3 CONSOLIDATED INCOME STATEMENT REVIEW **85**

3.3.1 Analysis of Segment Operating Income 86
3.3.2 Segment Operating Income 87
3.3.3 Other Income Statement Items 89

3.4 CONSOLIDATED BALANCE SHEET REVIEW **93**

3.4.1 Goodwill 94
3.4.2 Intangible Assets 94
3.4.3 Property, Plant and Equipment 94
3.4.4 Non-current Financial Assets and Other Assets 94
3.4.5 Investments in Associates and Joint Ventures 94
3.4.6 Deferred Tax Assets and Liabilities 94
3.4.7 Trade Working Capital 95
3.4.8 Cash and Cash Equivalents 95
3.4.9 Equity 95
3.4.10 Net Debt 96
3.4.11 Provisions 97
3.4.12 Employee Benefits 97

3.5 CONSOLIDATED CASH FLOW STATEMENT REVIEW **98**

3.5.1 Cash Flows from Operating Activities 98
3.5.2 Capital Expenditure 99
3.5.3 Available Cash Flow and Free Cash Flow 100
3.5.4 Structural Free Cash Flow 100

3.6	**RETURN ON CAPITAL EMPLOYED (ROCE)**	**101**
3.7	**OUTLOOK**	**101**
3.8	**SHARE INFORMATION**	**102**
	3.8.1 The Michelin Share	102
	3.8.2 Share Data	103
	3.8.3 Per-Share Data	103
	3.8.4 Capital and Ownership Structure	103
3.8	**HIGHLIGHTS**	**104**
	3.8.1 Strategy	104
	3.8.2 Products – Innovation – Services	105
	3.8.3 Sustainable development	107
	3.8.4 Competition	107

3.1 TIRE MARKETS

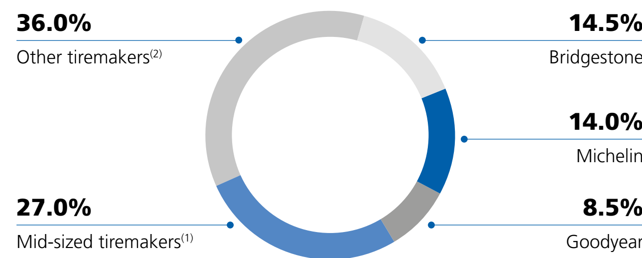
3.1.1 A GLOBAL MARKET WORTH SOME $170 BILLION(1) IN 2017

The global tire market totaled $170 billion in 2017[1], with light-vehicle tires accounting for around 60% of sales and truck tires 30%[2]. By volume, it represented more than 1.5 billion car and light truck tires and a little more than 225 million truck and bus tires[2]. In all, three out of four tires were sold in the replacement market.

Over the 2017-2023 period, Michelin expects new tire demand to grow by an average of 2.5% a year in the Passenger car and Light truck segment and by an average 1.5% a year in the new Truck tire segment. Over the same period, the mining tire market is forecast to expand by an average 5% a year and the agricultural tire market by 1%.

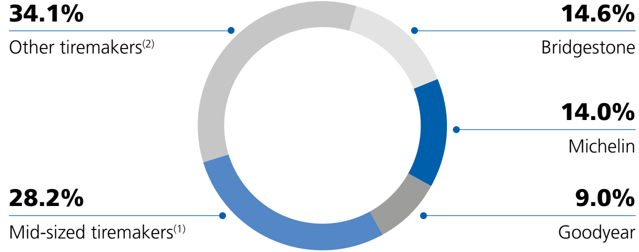
Longer term, tire demand is likely to expand by 1-2% a year in mature markets and by 5-10% a year in the new markets.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2017



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

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2016



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

New standards for tires

Tire performance ratings displayed on standardized labels have been mandatory across the European Union since November 2012, with stricter standards introduced in November 2016 and upgraded in November 2018. Similar legislation has been in effect in South Korea since 2012 (labeling) and 2013 (thresholds) for Passenger car tires and since 2014 for Light truck tires, while the standardized labeling introduced in Japan in 2010 is being extended to other parameters, such as rolling noise. Legislation introducing minimum performance standards for rolling resistance and wet traction was passed in the United States in December 2015 and will probably be implemented in 2019, and a new labeling system to help consumers is scheduled for launch in 2019. Regulated tire labeling systems are also under consideration in China and Brazil.

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

3.1.2 TIRE MARKETS IN 2018

Tire markets had a mixed year in 2018.

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

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

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

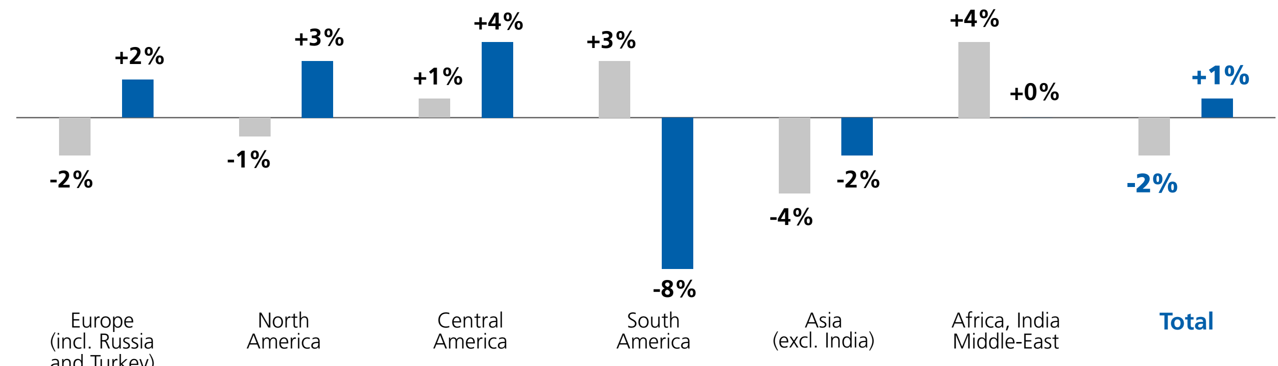
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number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

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

3.1.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2018

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

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



Michelin estimates.

3.1.3 a) Original equipment

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

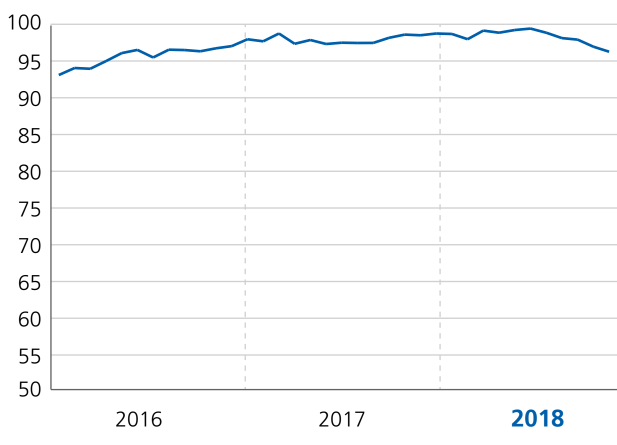
Passenger car and Light truck tire markets Original equipment *(in millions of tires)*	**2018**	**2017**	**2018/2017**	**Second half 2018/2017**	**Fourth quarter 2018/2017**	**Third quarter 2018/2017**	**First half 2018/2017**	**Second quarter 2018/2017**	**First quarter 2018/2017**
Europe[(1)]	102.5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

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

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

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN EUROPE

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

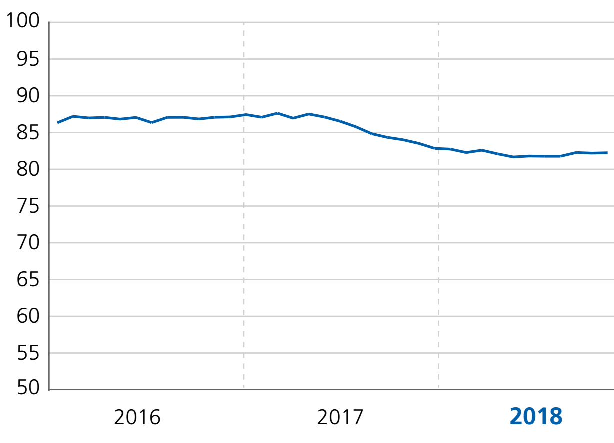


Michelin estimates.

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

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN NORTH AMERICA

(in millions of tires – moving 12 months)



Michelin estimates.

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

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

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

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

3.1.3 b) Replacement

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

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

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

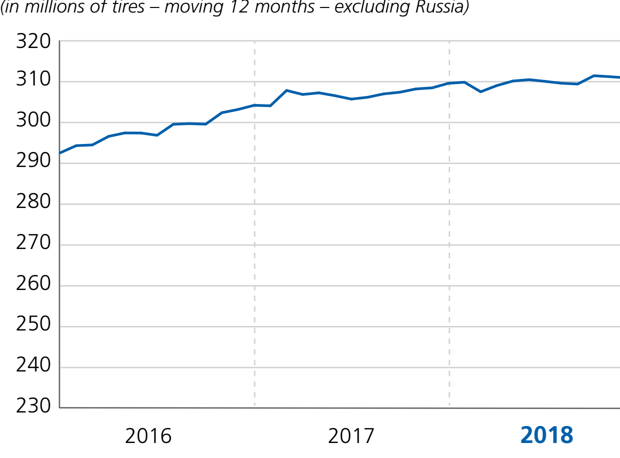
The **European** market grew by 2% overall in 2018, as demand rose by a vigorous 11% in Eastern Europe but only by 1% in Western Europe. The robust growth observed in France and Italy (up 5%), Poland and the Nordic countries (up 4%) and Spain (up 3%) was amply offset by the impact of Brexit on the UK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

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

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

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

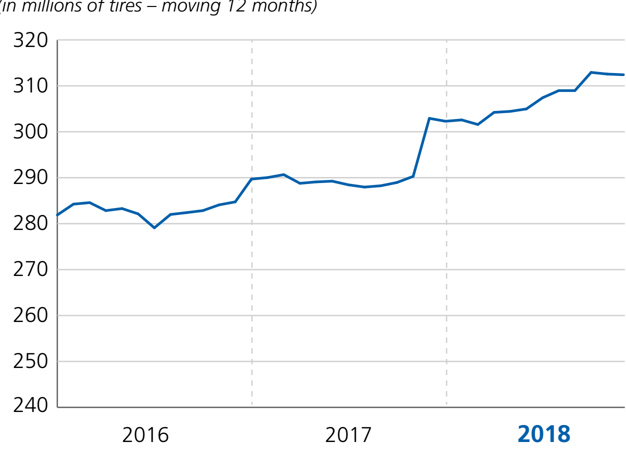
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

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

(in millions of tires – moving 12 months)



Michelin estimates.

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

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

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

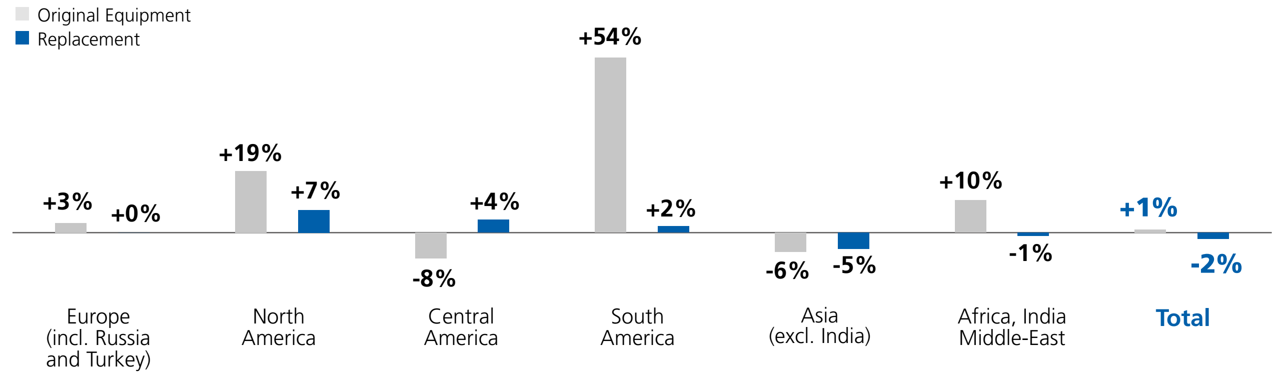
In **South America,** demand fell 8% over the year with a steep 13% plunge in the second half, reflecting the impact of the recession in Argentina (down 18%) and the political and economic instability in Brazil (down 15%).

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

3.1.4 TRUCK TIRE MARKETS IN 2018

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

THE GLOBAL TRUCK TIRE MARKET, 2018 VS. 2017



Michelin estimates - new tire market only.

3.1.4 a) Original equipment

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

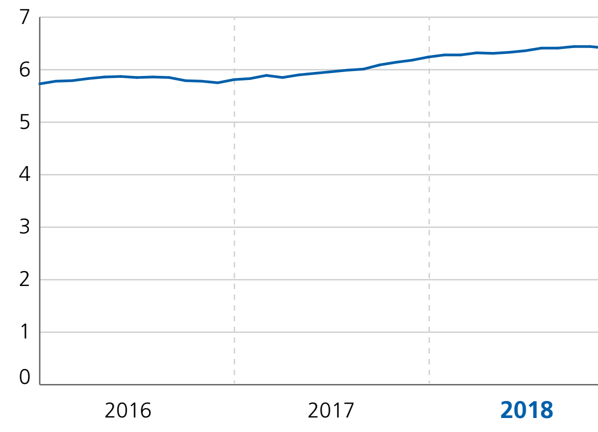
Truck tire markets Original equipment *(in millions of tires)*	2018	2017	2018/2017	Second half 2018/2017	Fourth quarter 2018/2017	Third quarter 2018/2017	First half 2018/2017	Second quarter 2018/2017	First quarter 2018/2017
Europe(1)	7.3	7.0	+3%	+1%	-1%	+3%	+6%	+4%	+8%
North America(2)	6.7	5.7	+19%	+22%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

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

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

THE OE TRUCK TIRE MARKET IN EUROPE

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

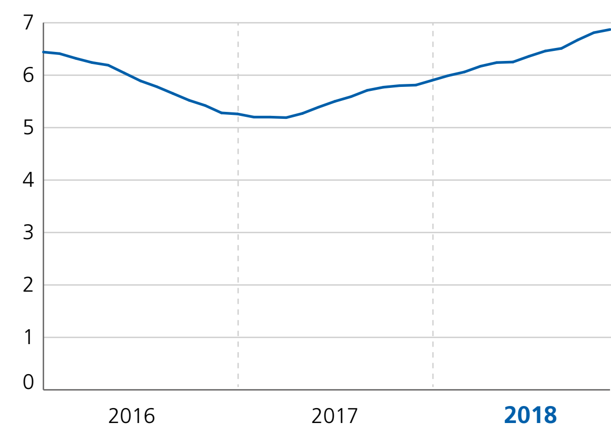


Michelin estimates.

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

THE OE TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

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

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

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

3.1.4 b) Replacement

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

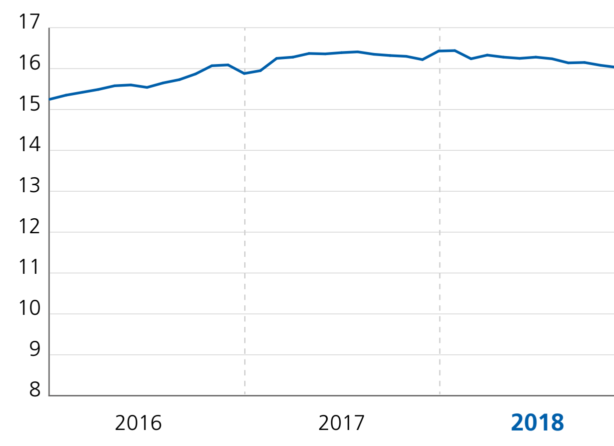
Truck tire markets Replacement *(in millions of tires)*	2018	2017	2018/2017	Second half 2018/2017	Fourth quarter 2018/2017	Third quarter 2018/2017	First half 2018/2017	Second quarter 2018/2017	First quarter 2018/2017
Europe(1)	24.2	24.2	+0%	-2%	-1%	-3%	+2%	+3%	+1%
North America(2)	23.2	21.6	+7%	+9%	+5%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

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

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

THE REPLACEMENT TRUCK TIRE MARKET
IN EUROPE

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

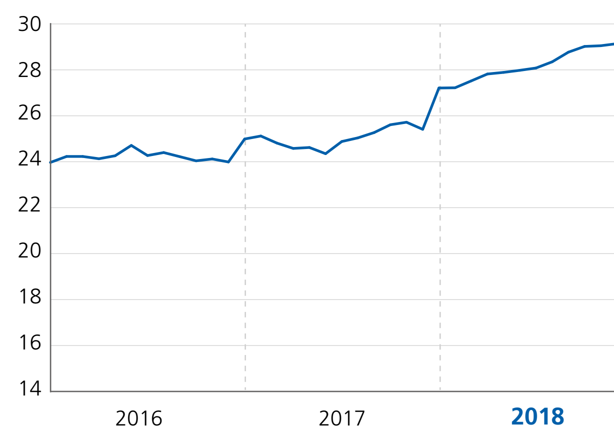


Michelin estimates.

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

THE REPLACEMENT TRUCK TIRE MARKET
IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

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

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

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

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

3.1.5 SPECIALTY TIRE MARKETS IN 2018

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

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

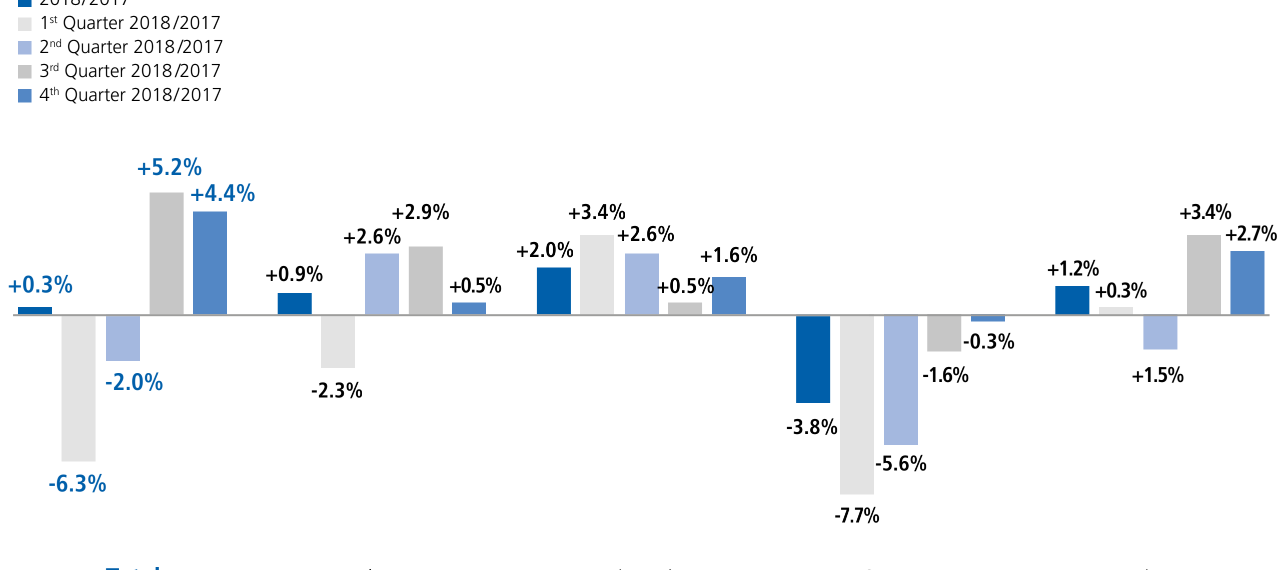
In Construction, demand continued to trend upwards in both the OE and replacement segments.

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

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

3.2 SALES

3.2.1 ANALYSIS OF SALES



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

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

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

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

3.2.2 SALES BY REPORTING SEGMENT

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

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

3.2.2 a) Automotive and related distribution – Analysis of sales

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2.2 c) Specialty businesses – Analysis of sales

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

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

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

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

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

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

3.2.3 CHANGES IN EXCHANGE RATES FOR THE MAIN OPERATING CURRENCIES

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

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

Sales break down as follows by currency:

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

3.2.4 SALES BY REGION

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

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

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

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

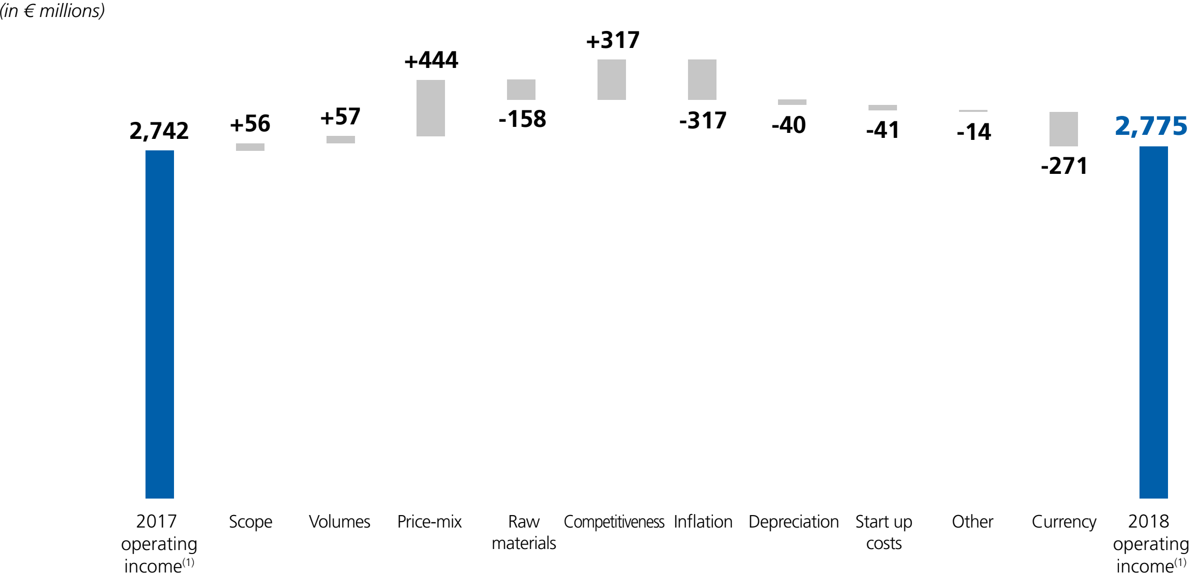
3.3 CONSOLIDATED INCOME STATEMENT REVIEW

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

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

3.3.1 ANALYSIS OF SEGMENT OPERATING INCOME

(in € millions)



(1) Segment operating income.

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

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

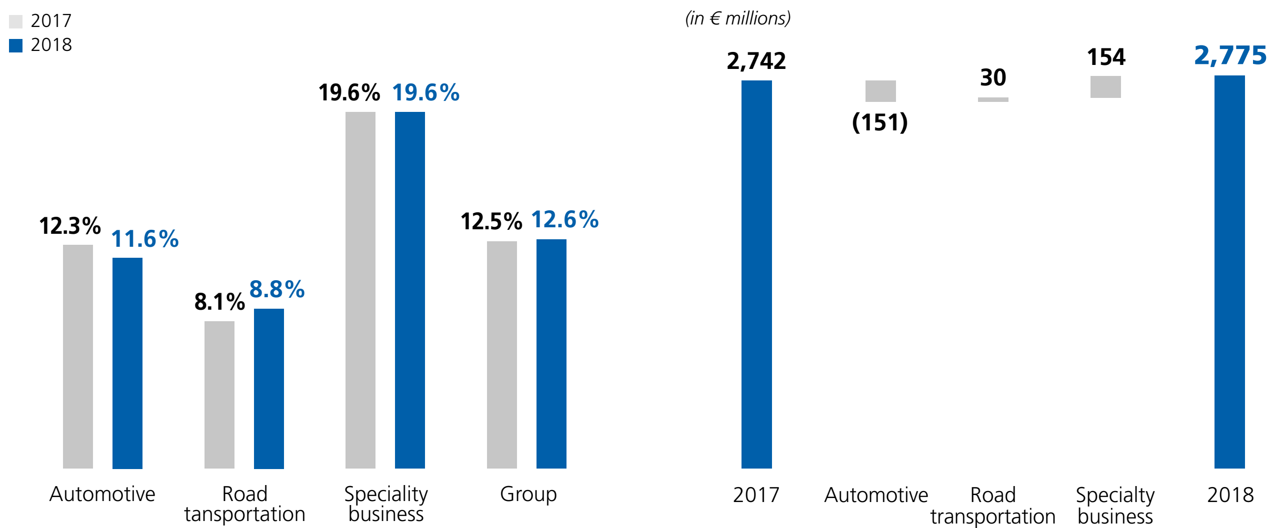
- a €56 million increase from changes in the scope of consolidation, with the positive contribution from Fenner PLC over seven months only partially offset by the removal of TCi;
- a €57 million increase from the 0.9% growth in sales volumes;
- a €286 million net increase from changes in the price-mix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

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

3.3.2 SEGMENT OPERATING INCOME

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

3.3.2 a) Segment operating margin



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.3.3 OTHER INCOME STATEMENT ITEMS

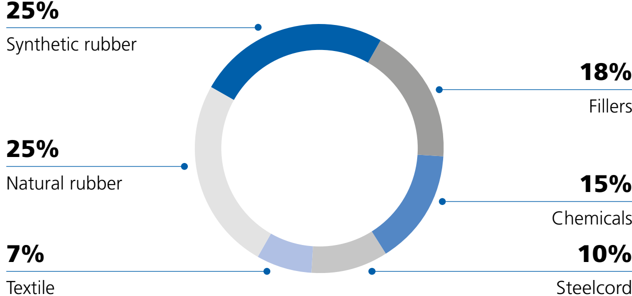
3.3.3 a) Raw materials

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

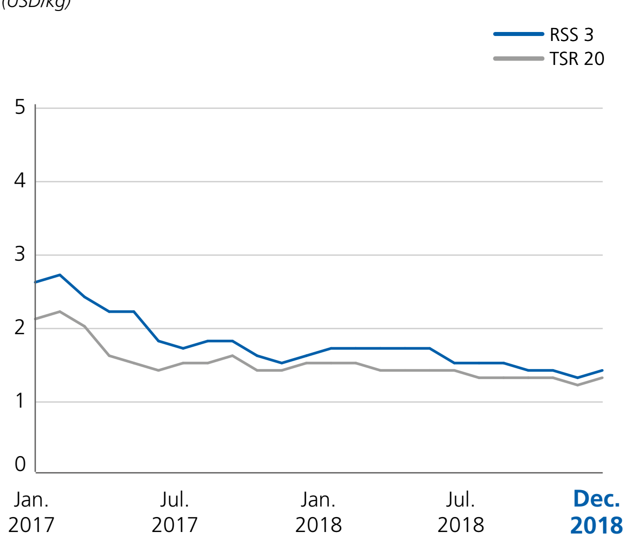
- the price and mix of the Group's raw materials purchases;
- production and sales volumes;
- the valuation of raw materials, semi-finished and finished product inventories using the weighted average cost method. This method tends to spread fluctuations in purchase costs over time and delay their recognition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

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

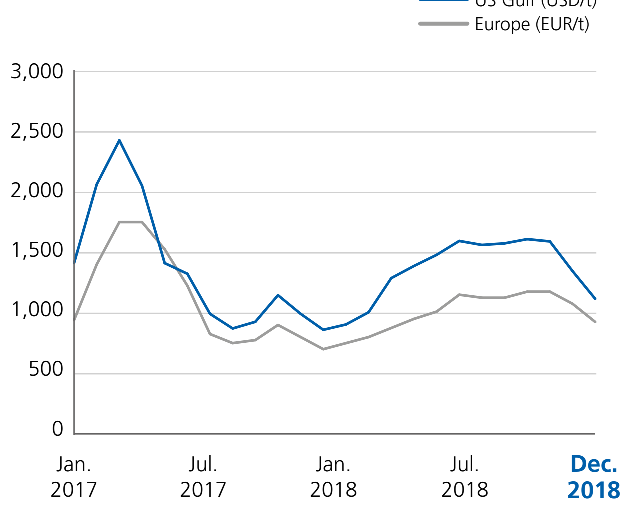
RAW MATERIALS RECOGNIZED IN 2018 COST OF SALES (€4.9 BILLION)



NATURAL RUBBER PRICES (SICOM)



BUTADIENE PRICES

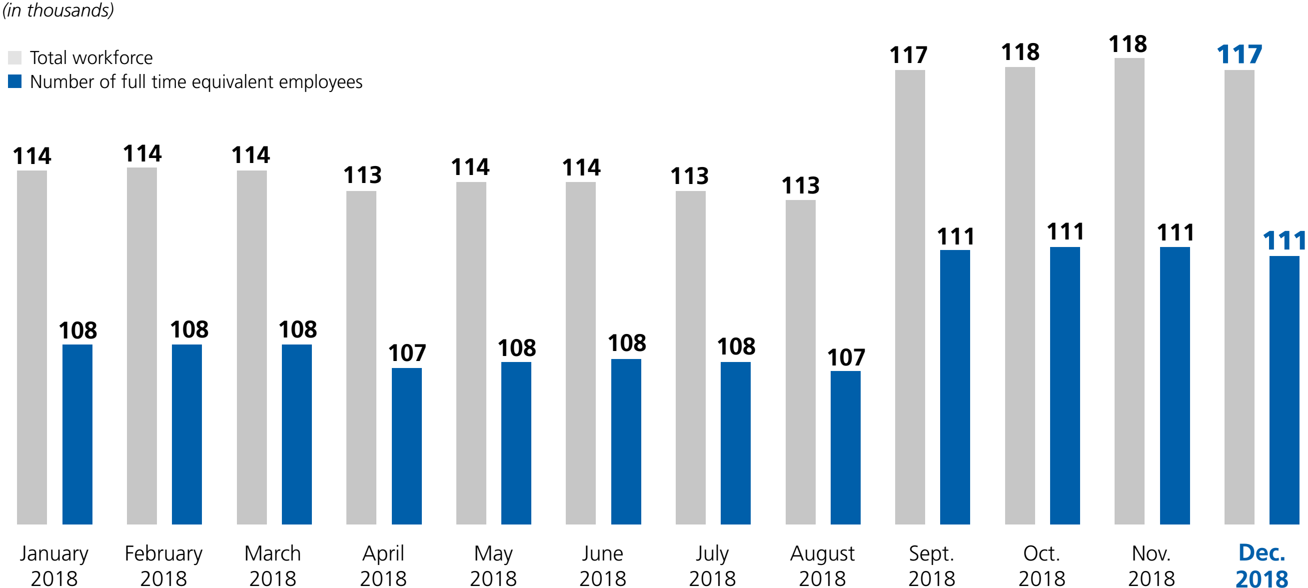


3.3.3 b) Employee benefit costs and number of employees

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

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

NUMBER OF EMPLOYEES

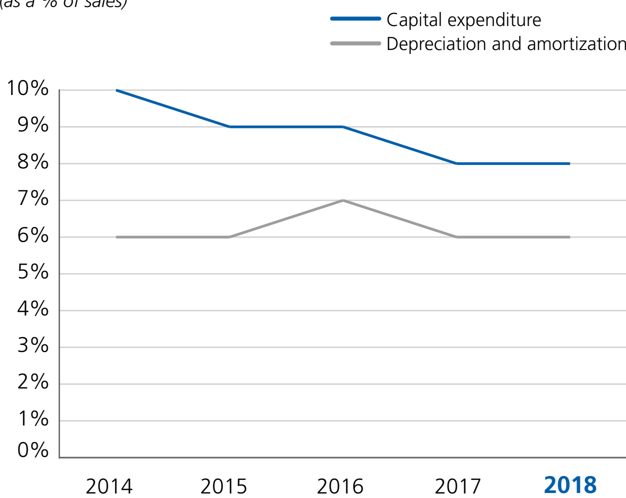


Fenner employees are integrated in the Group from September 2018.

3.3.3 c) Depreciation and amortization

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

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



3.3.3 d) Transportation costs

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

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

3.3.3 e) Sales and marketing expenses

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

3.3.3 f) Research and development expenses

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

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

3.3.3 g) General and administrative expenses

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

3.3.3 h) Segment other income and expenses

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

3.3.3 i) Other operating income/(loss)

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

3.3.3 j) Cost of net debt

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

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

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

3.3.3 k) Other financial income and expenses

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

Other financial income and expenses represented net income of €17 million in 2018, corresponding primarily to the recovery of the ICMS tax in Brazil.

3.3.3 l) Income tax

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

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

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

3.3.3 m) Consolidated net income and earnings per share

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

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

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

3.4 CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

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

EQUITY AND LIABILITIES

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

3.4.1 GOODWILL

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

3.4.2 INTANGIBLE ASSETS

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

3.4.3 PROPERTY, PLANT AND EQUIPMENT

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

3.4.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

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

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

3.4.5 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

3.4.6 DEFERRED TAX ASSETS AND LIABILITIES

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

3.4.7 TRADE WORKING CAPITAL

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

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

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

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

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

3.4.8 CASH AND CASH EQUIVALENTS

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

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

3.4.9 EQUITY

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

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

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

3.4.10 NET DEBT

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

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

CHANGES IN NET DEBT

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

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

3.4.10 a) Gearing

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

3.4.10 b) Credit ratings

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

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

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

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

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

3.4.11 PROVISIONS

Provisions and other non-current liabilities amounted to €1,315 million, versus €1,676 million at December 31, 2017. Excluding the currency effect, they declined €369 million year-on-year, mainly reflecting the impact of commitments undertaken as part of the reorganization and alignment of the Group's operations in Europe, as well as the recognition in current liabilities of a portion of the provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions.

3.4.12 EMPLOYEE BENEFITS

CHANGE IN THE FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in € millions)	Pension plans	Other defined benefit plans	2018	2017
At January 1	**2,149**	**1,820**	**3,969**	**4,763**
Translation adjustments	9	14	23	(180)
Contribution paid to the funds	(189)	-	(189)	(190)
Benefits paid directly to the beneficiaries	(33)	(107)	(140)	(154)
Changes in scope of consolidation	27	(6)	21	-
Net cost recognized in operating expenses				
Current service cost	47	60	107	107
Actuarial (gains) or losses recognized on other long term benefit obligations	-	(5)	(5)	-
Past service cost resulting from the introduction of new plans or plan amendments	40	14	54	(56)
Past service cost arising from plan curtailments and settlements	(13)	(8)	(21)	(183)
Effect of any plan settlements	-	-	-	-
Other items	13	-	13	13
Net cost recognized in operating expenses				
Net interest on net defined benefit obligation (asset)	43	46	89	115
Costs recognized in other comprehensive income				
Actuarial (gains) or losses	(11)	(76)	(87)	(296)
Portion of unrecognized asset due to the application of the asset ceiling	16	-	16	30
NET OBLIGATION AT DECEMBER 31	**2,098**	**1,752**	**3,850**	**3,969**

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

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

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

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

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

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

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

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

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

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

3.5 CONSOLIDATED CASH FLOW STATEMENT REVIEW

3.5.1 CASH FLOWS FROM OPERATING ACTIVITIES

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

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

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

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

3.5.2 CAPITAL EXPENDITURE

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

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

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

Automotive tires:

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

Road transportation tires:

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

Specialty products:

- Agricultural tires,
- Aircraft tires.

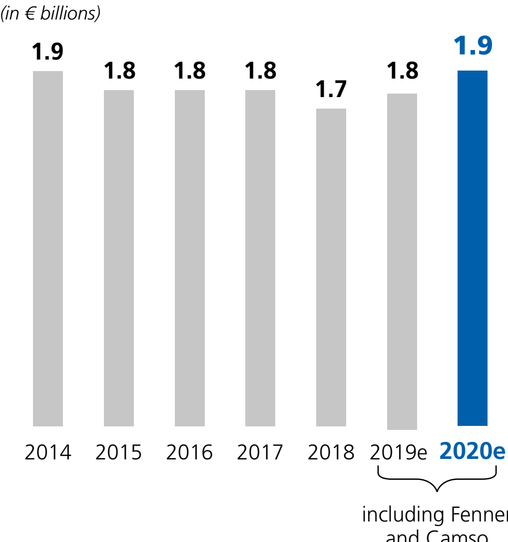
In addition, Michelin is actively investing in the following areas:

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

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

CAPITAL EXPENDITURE

(in € billions)



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

3.5.3 AVAILABLE CASH FLOW AND FREE CASH FLOW

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

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

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

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

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

3.5.4 STRUCTURAL FREE CASH FLOW

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

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

3.6 RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving an annual return on capital employed (ROCE) after tax and excluding goodwill, acquired intangible assets and associates & joint ventures, of at least 15% by 2020 is one of Michelin's strategic objectives.

ROCE is measured as:

- net operating profit after tax (NOPAT), calculated at a standard tax rate of 26%, corresponding to the Group's average effective tax rate;
- divided by the average economic assets employed during the year (excluding associates and joint ventures), *i.e.*, all of the Group's intangible assets (excluding acquired intangible assets), property, plant and equipment, loans and deposits, and net working capital requirement.

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

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

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

(in € millions)	2018	2017
Segment operating income	2,775	2,742
Average standard income tax rate used for ROCE calculation	26%	31%
Net operating profit after tax (NOPAT)	**2,053**	**1,892**
Intangible assets and property, plant and equipment	11,379	11,668
Loans and deposits	76	74
Total non-current financial assets	13,684	11,742
Working capital requirement	2,640	2,708
Economic assets at December 31	14,867	14,450
Average economic assets	**14,661**	**15,172**
Consolidated ROCE	**14.0%**	**13.0%**
Passenger car/Light truck tires & related distribution ROCE	14.4%	13.4%
Truck tires & related distribution ROCE	11.4%	7.6%
Specialty businesses & related distribution ROCE	18.4%	23.8%

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

3.7 OUTLOOK

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

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

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

3.8 SHARE INFORMATION

3.8.1 THE MICHELIN SHARE

Traded on the Euronext Paris stock exchange

- Compartment A;
- Eligible for the SRD deferred settlement system;
- ISIN: FR 0000121261;
- Par value: €2.00;
- Traded in units of: 1.

Market capitalization

- €15,593 million at December 31, 2018.

Average daily trading volume

- 649,347 shares since January 1, 2018.

Indices

The Michelin share is included in two leading stock market indices. As of December 31, 2018, it represented:

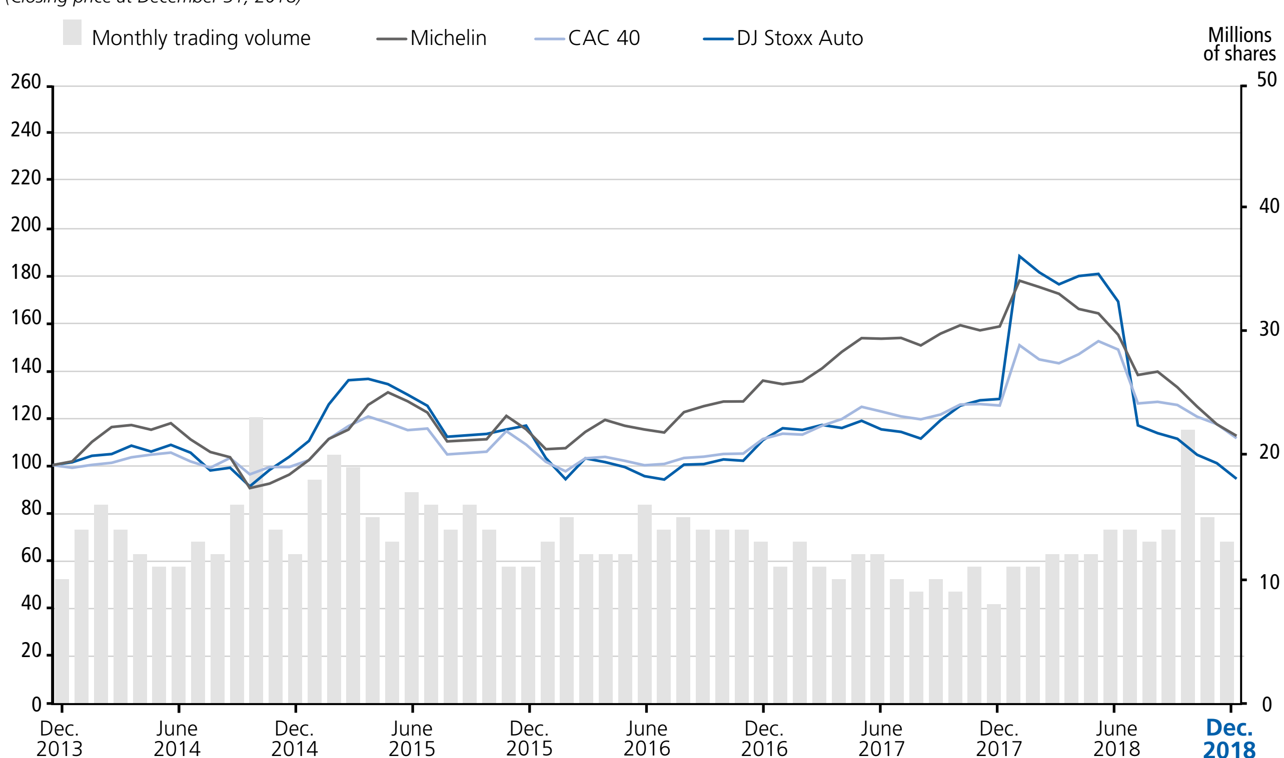
- 1.41% of the CAC 40 index;
- 0.65% of the Euronext 100 index.

Michelin is also included in the main Socially Responsible Investing (SRI) Indices:

- FTSE4Good;
- Ethibel Sustainability Index (ESI) Europe.

SHARE PERFORMANCE

(Closing price at December 31, 2018)



3.8.2 SHARE DATA

Share price *(in €)*	2018	2017	2016	2015	2014	2013
High	130.85	128.40	106.80	103.90	94.33	84.71
Low	82.68	98.93	77.40	71.60	65.10	57.23
High/low ratio	1.58	1.30	1.38	1.45	1.45	1.48
Closing price, end of period	86.70	119.55	105.70	87.90	75.27	77.25
Average share price over the period	109.40	115.65	91.97	90.26	82.10	72.28
Change over the period	-27.48%	13.10%	20.25%	16.78%	-2.56%	+7.91%
Change in the CAC 40 index over the period	*-10.95%*	*9.26%*	*4.86%*	*8.53%*	*-0.54%*	*+17.99%*
Market value *(at end of period, in € billion)*	**15.59**	**21.45**	**19.03**	**15.98**	**13.98**	**14.35**
Average daily trading volume over the period	649,347	503,534	554,262	719,709	662,063	719,464
Average shares outstanding	179,384,513	182,212,806	182,122,667	185,960,394	185,954,390	184,901,269
Volume of shares traded over the period	165,583,378	128,401,095	142,445,218	184,245,619	168,826,055	183,463,371
Share turnover ratio	**92%**	**71%**	**78%**	**99%**	**91%**	**99%**

3.8.3 PER-SHARE DATA

(in € per share, except ratios)	2018	2017	2016	2015	2014
Net assets per share	67.8	62.7	59.1	52.5	51.3
Basic earnings per share	9.30	9.39	9.21	6.28	5.52
Diluted earnings per share[(1)]	9.25	9.34	9.03	6.19	5.45
Price-earnings ratio	**9.4**	**12.7**	**11.5**	**14.0**	**13.6**
Dividend for the year	3.70*	3.55	3.25	2.85	2.50
Pay-out ratio	36.4%	36.0%	36.5%	37.0%	40.6%
Yield[(2)]	4.3%	3.0%	3.1%	3.2%	3.3%

(1) Earnings per share adjusted for the impact on net income and on average shares outstanding of the exercise of outstanding dilutive instruments.
(2) Dividend/share price at December 31.
** To be submitted to shareholder approval at the Annual Meeting on May 17, 2019.*

3.8.4 CAPITAL AND OWNERSHIP STRUCTURE

At December 31, 2018, Michelin's share capital amounted to €359,695,264.

	At December 31, 2018			At December 31, 2017		
	Number of shareholders	Shares outstanding	Voting rights outstanding	Number of shareholders	Shares outstanding	Voting rights outstanding
French institutional investors	3,793	26.5%	28.7%	2,923	25.3%	27.3%
Non-resident institutional investors		59.4%	58.2%		60.3%	60.3%
Individual shareholders	126,622	11.8%	10.1%	94,337	12.4%	9.7%
Employee Shareholder Plan	83,437	2.3%	3.0%	74,397	2.0%	2.7%
TOTAL	**213,852**	**179,847,632 SHARES***	**246,076,593 VOTING RIGHTS**	**171,657**	**179,520,987 SHARES***	**247,029,830 VOTING RIGHTS**

** All fully paid up.*

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

3.8 HIGHLIGHTS

3.8.1 STRATEGY

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

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

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

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

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

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

Enforcement of the partial share buyback agreement

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

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

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

Succession plan for Jean-Dominique Senard

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

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

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

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

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

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

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

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

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

Michelin announces a new acquisition of Klinge IT Business

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

The Michelin Man "Icon of the Millennium"

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

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

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

A new synthetic rubber plant for the Group

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

Michelin acquires Tablet

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

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

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

3.8.2 PRODUCTS – INNOVATION – SERVICES

3.8.2 a) Automotive and related distribution

Launch of the MICHELIN Primacy 4 in Europe

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

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

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

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

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

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

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

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

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

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

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

3.8.2 b) Road transportation and related distribution

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

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

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

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

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

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

3.8.2 c) Specialty businesses and related distribution

/ Two-wheel tires

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

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

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

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

/ Aircraft tires

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

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

/ Experience

First MICHELIN guide for the city of Guangzhou

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

3.8.3 SUSTAINABLE DEVELOPMENT

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

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

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

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

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

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

Michelin presents sustainable mobility at the 2018 Paris Motor Show

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

3.8.4 COMPETITION

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

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

Volkswagen and Michelin smash the record for Pikes Peak!

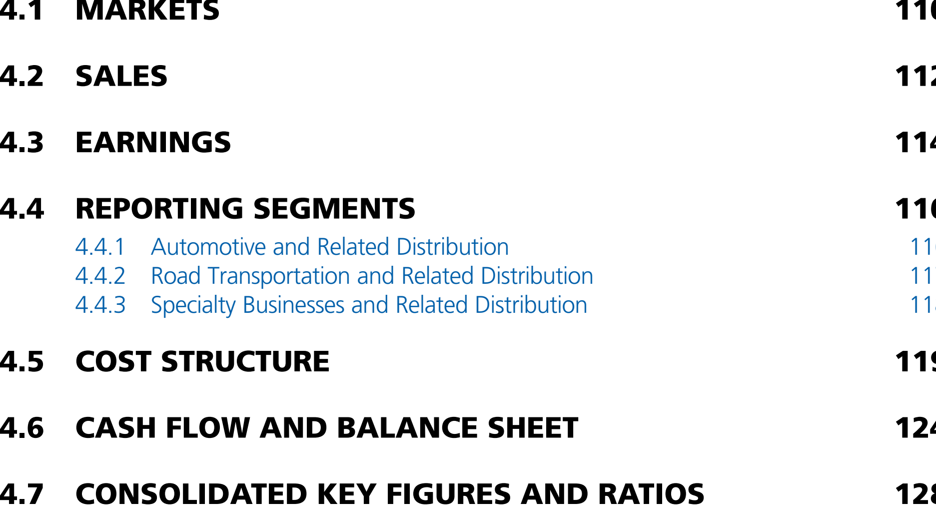
(June 24, 2018) – Volkswagen called on the services of its partner Michelin to provide the rubber for its new all-electric prototype. Michelin rose to the challenge with specific tires featuring advanced technology and Frenchman Romain Dumas steered the I.D.R. to a new record for the Colorado 'Race to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

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

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

4

FINANCIAL HIGHLIGHTS



4.1 MARKETS 110

4.2 SALES 112

4.3 EARNINGS 114

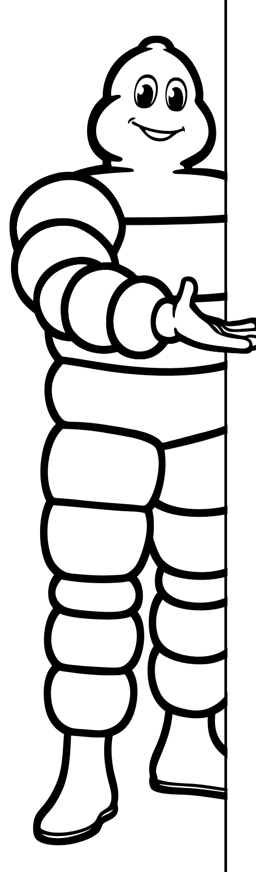
4.4 REPORTING SEGMENTS 116

4.4.1 Automotive and Related Distribution 116
4.4.2 Road Transportation and Related Distribution 117
4.4.3 Specialty Businesses and Related Distribution 118

4.5 COST STRUCTURE 119

4.6 CASH FLOW AND BALANCE SHEET 124

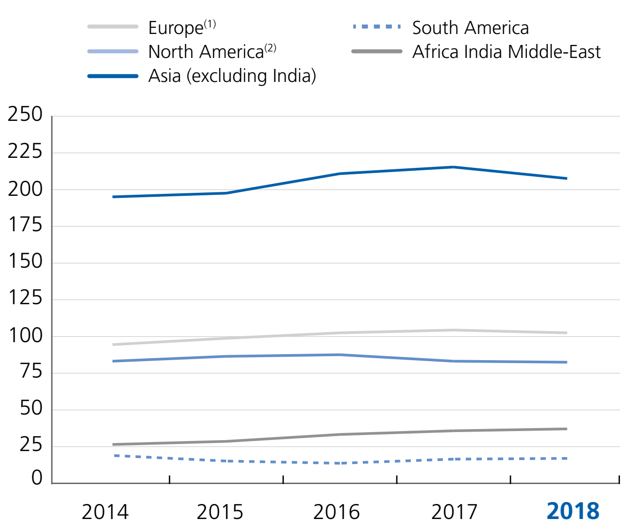
4.7 CONSOLIDATED KEY FIGURES AND RATIOS 128



4.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

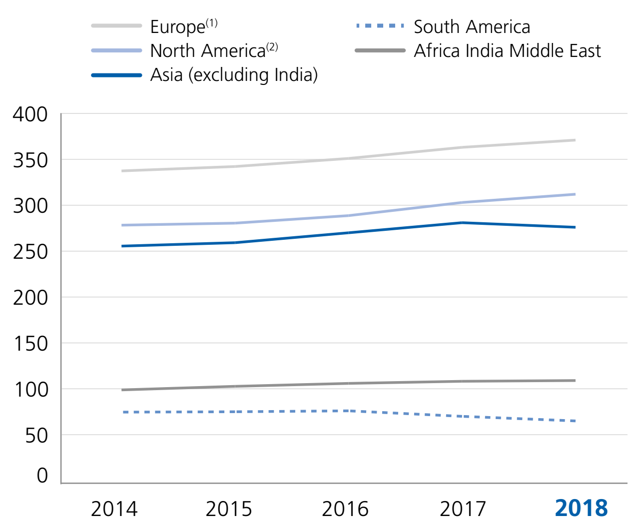
(in millions of tires)



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

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

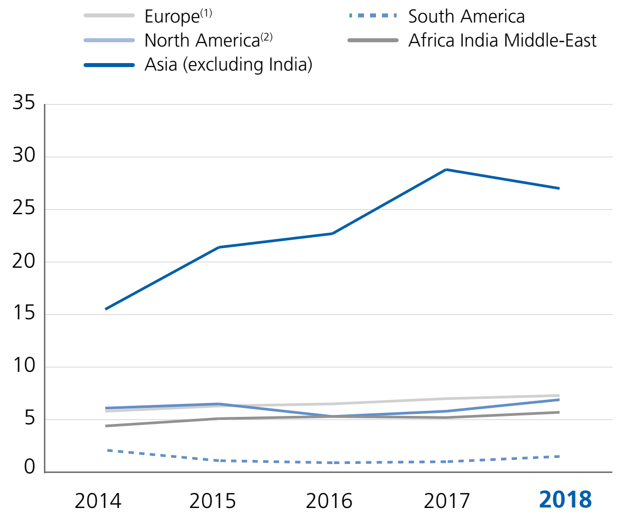
(in millions of tires)



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

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

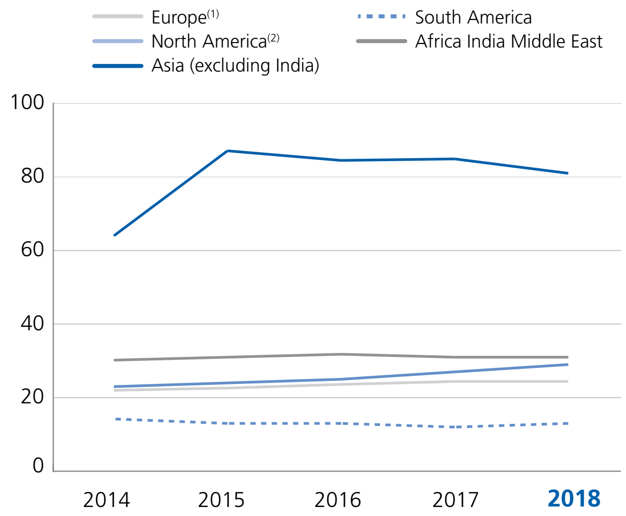
(in millions of new tires)



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

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

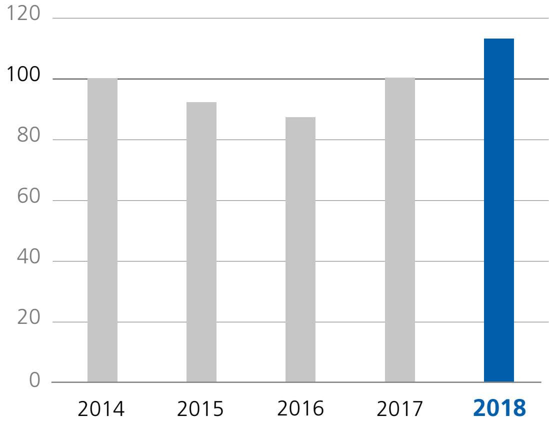
(in millions of new tires)



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

THE EARTHMOVER MINING TIRE MARKET

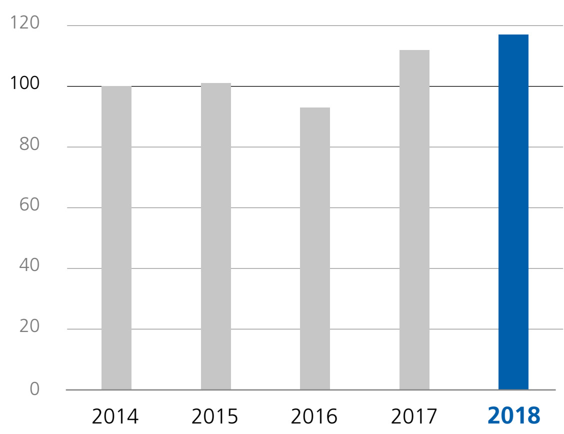
(base 100 in 2014 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

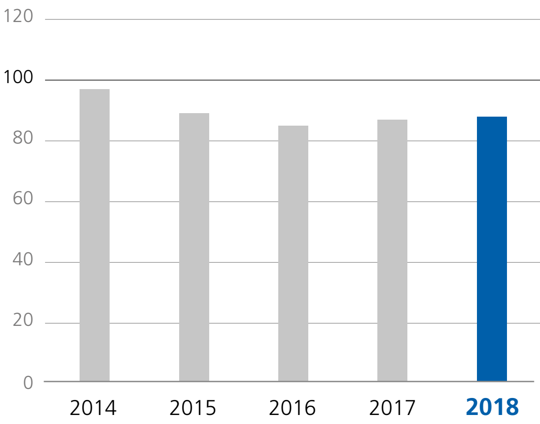
(base 100 in 2013 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

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

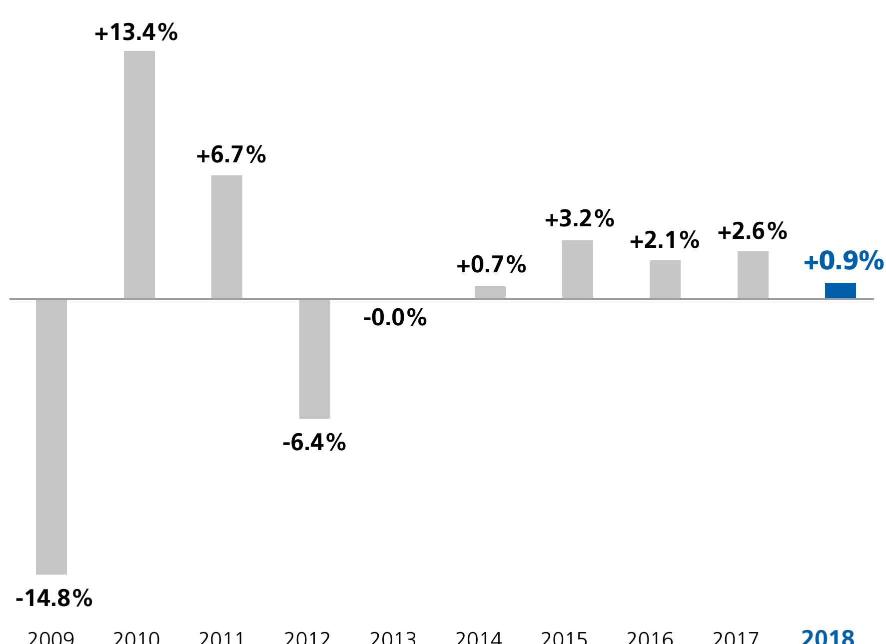


Michelin estimates.

4.2 SALES

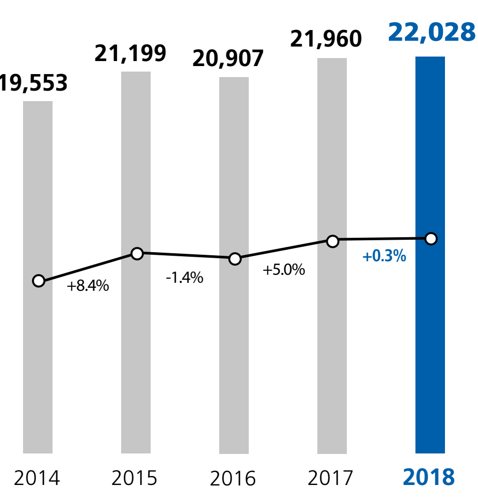
SALES VOLUME

(in tons)



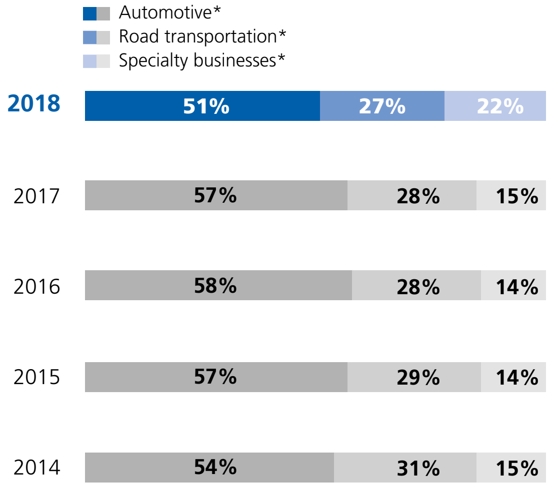
NET SALES

(in € million)



NET SALES BY REPORTING SEGMENT – BREAKDOWN

(in value)



* *And related distribution.*

NET SALES BY REGION – BREAKDOWN

(in value)

	Europe (incl. Central and Eastern)	North America (incl. Mexico)	Other
2018	39%	36%	26%
2017	38%	37%	25%
2016	39%	37%	24%
2015	39%	38%	23%
2014	41%	35%	24%

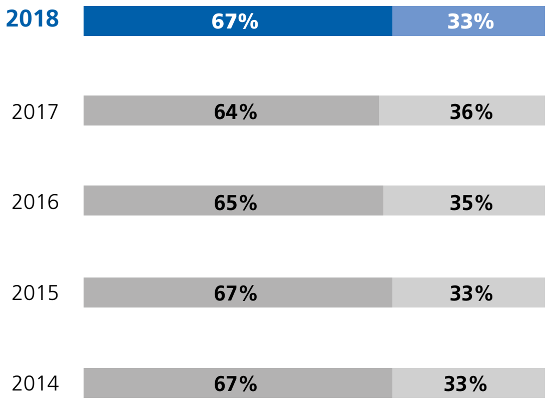
SALES BY REGION – BREAKDOWN

(in tons)

	Europe (incl. Central and Eastern)	North America (incl. Mexico)	Other
2018	38%	36%	27%
2017	36%	36%	27%
2016	34%	38%	28%
2015	37%	38%	25%
2014	36%	38%	26%

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

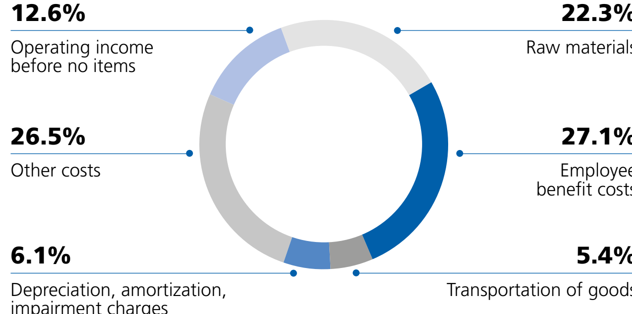


* *Mature markets: United States, Canada, Western Europe and Japan.*

4.3 EARNINGS

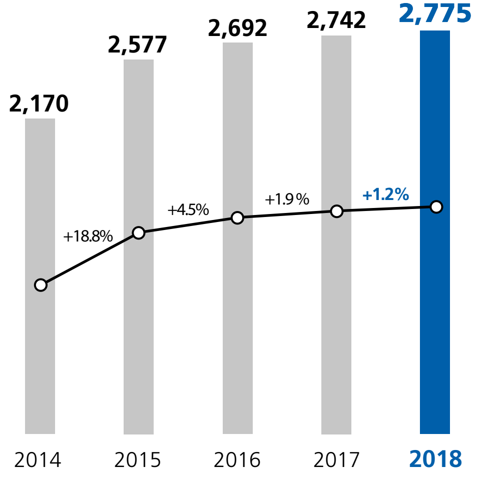
ANALYSIS OF OPERATING EXPENSES

(as a % of 2018 net sales)



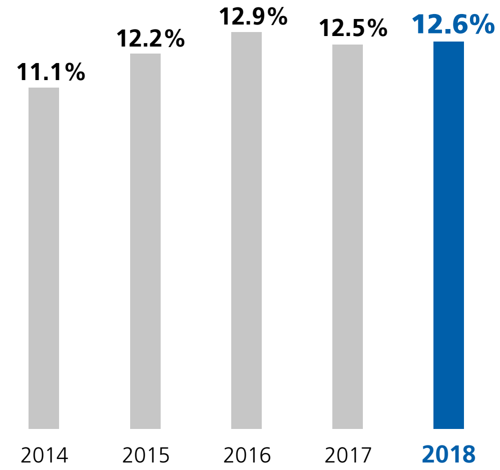
SEGMENT OPERATING INCOME

(in € million)



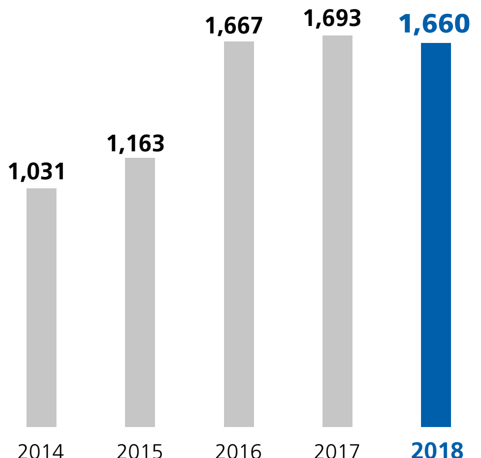
SEGMENT OPERATING MARGIN

(as a % of net sales)



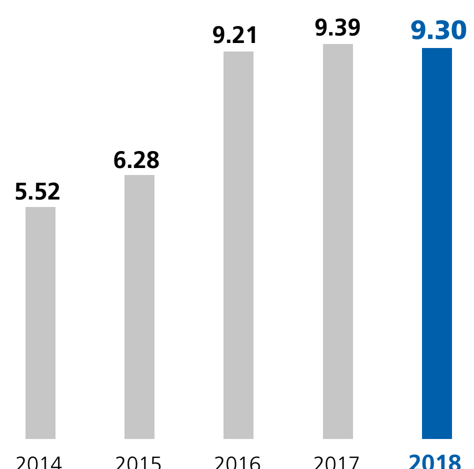
NET INCOME

(in € million)



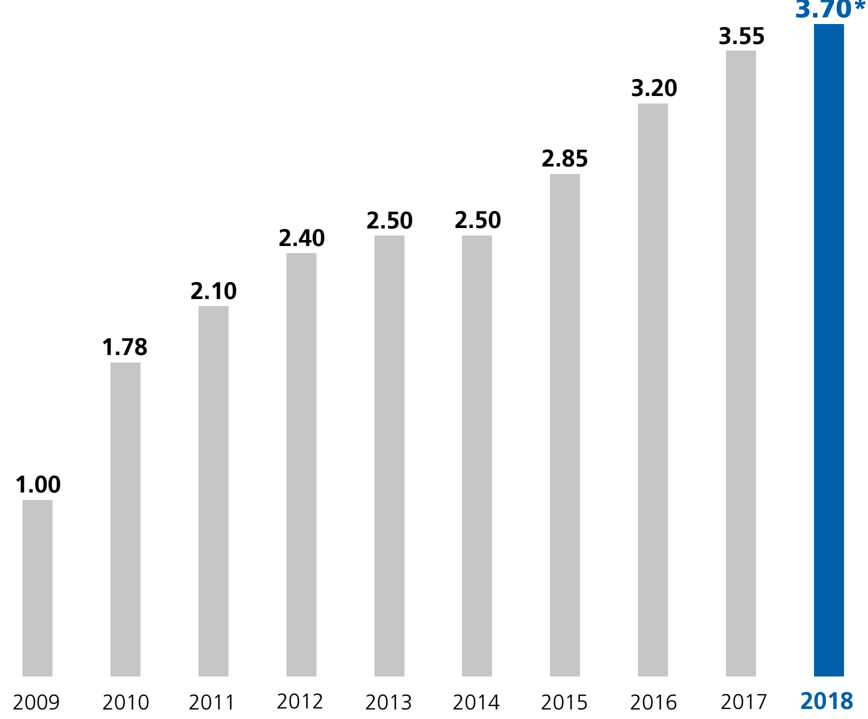
BASIC EARNINGS PER SHARE

(in €)



DIVIDEND PER SHARE

(in €)



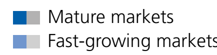
* *Subject to approval by the Annual Meeting of May 17, 2019.*

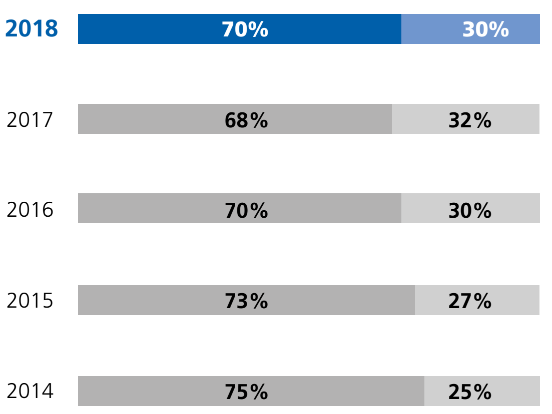
4.4 REPORTING SEGMENTS

4.4.1 AUTOMOTIVE AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

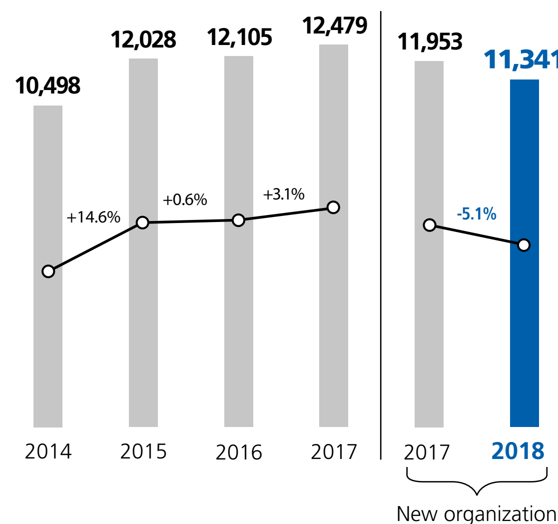




* *Mature markets: United States, Canada, Western Europe and Japan.*

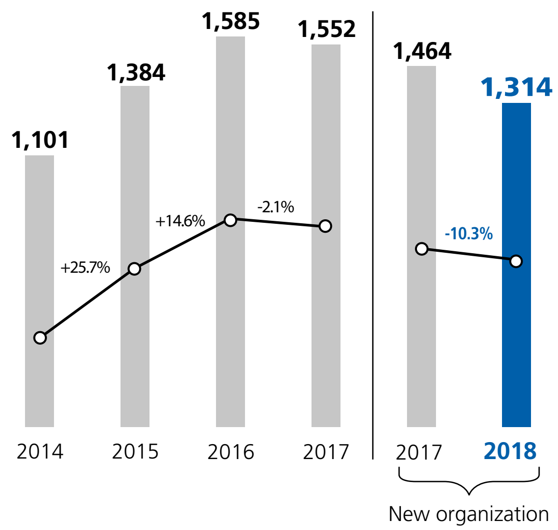
SALES

(in € million)



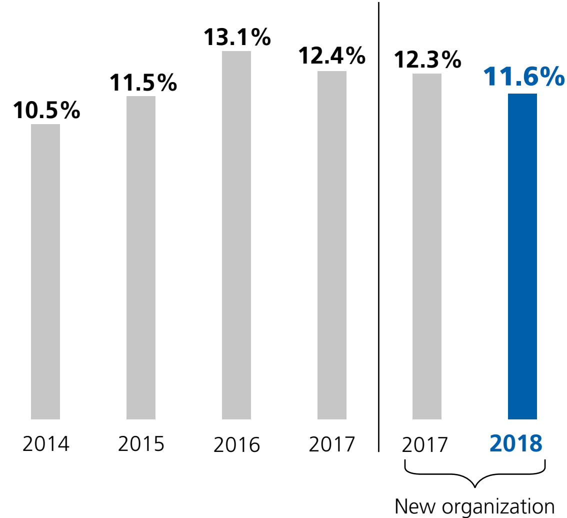
SEGMENT OPERATING INCOME

(in € million)



SEGMENT OPERATING MARGIN

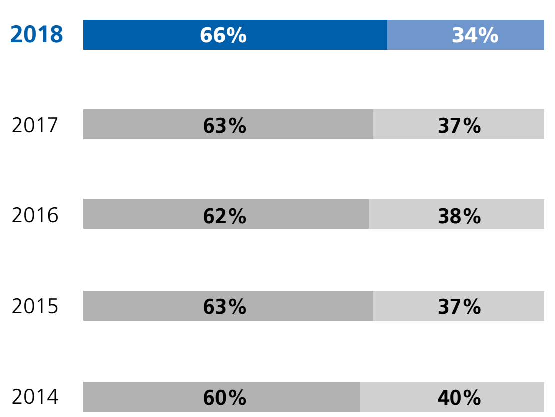
(as a % of sales)



4.4.2 ROAD TRANSPORTATION AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

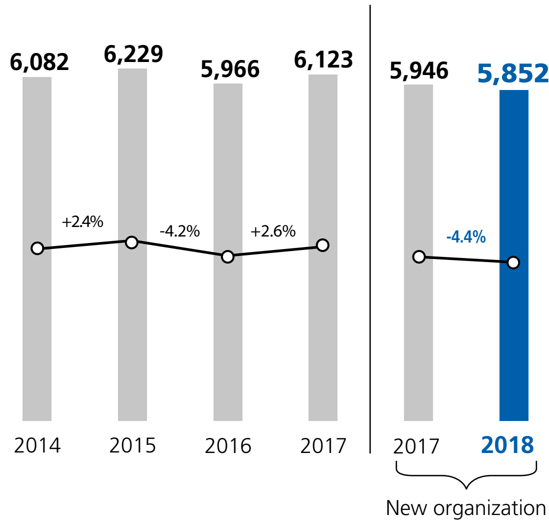
(in tons)



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

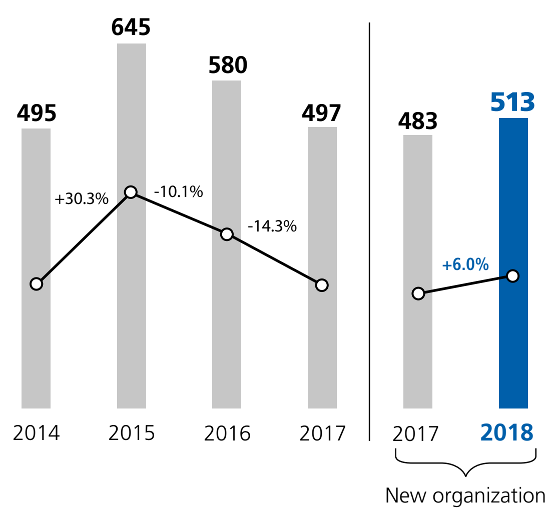
SALES

(in € million)



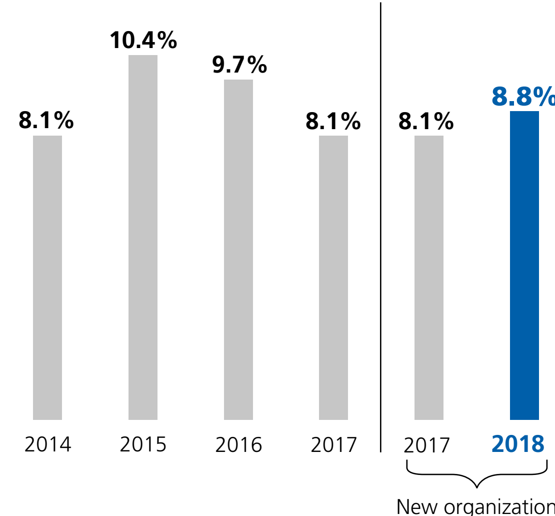
SEGMENT OPERATING INCOME

(in € million)



SEGMENT OPERATING MARGIN

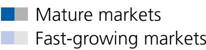
(as a % of sales)

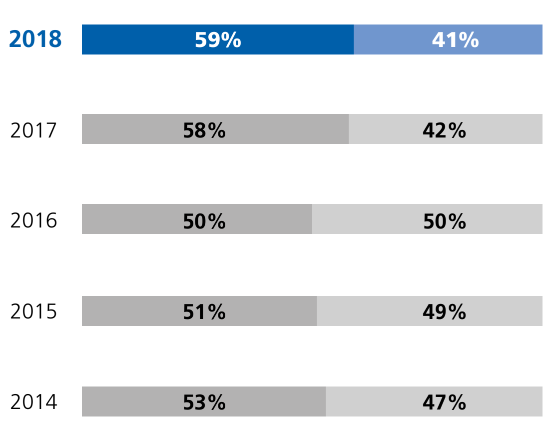


4.4.3 SPECIALTY BUSINESSES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

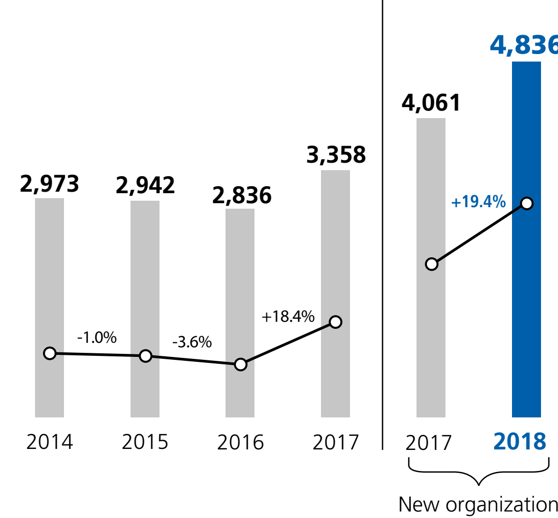




* *Mature markets: United States, Canada, Western Europe and Japan.*

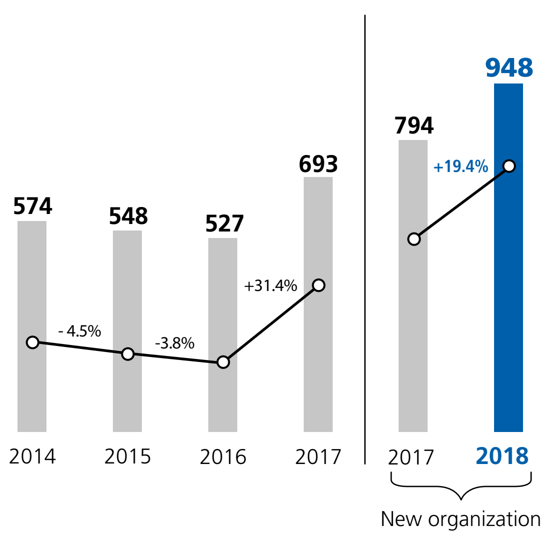
SALES

(in € million)



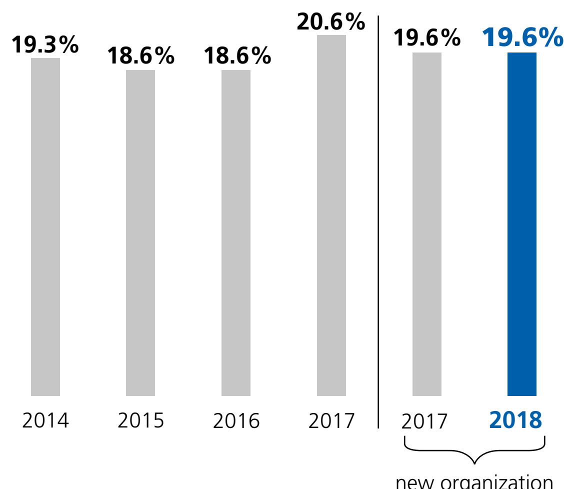
SEGMENT OPERATING INCOME

(in € million)



SEGMENT OPERATING MARGIN

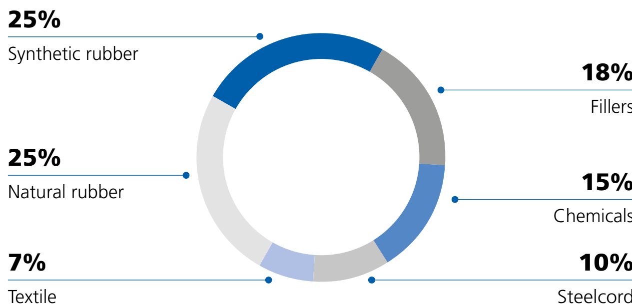
(as a % of sales)



4.5 COST STRUCTURE

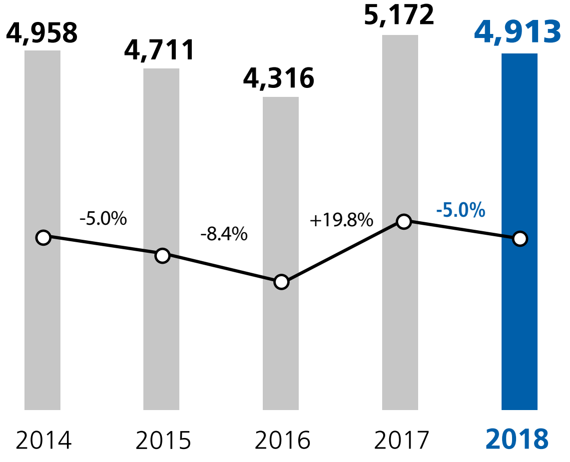
BREAKDOWN OF RAW MATERIAL NEEDS

(in %, in 2018)



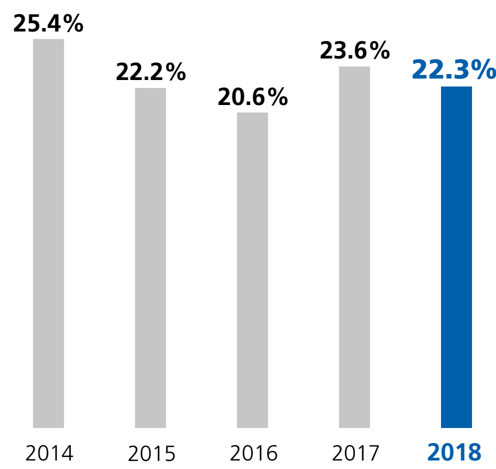
RAW MATERIAL COST

(in € million)



RAW MATERIAL COST

(as a % of sales)

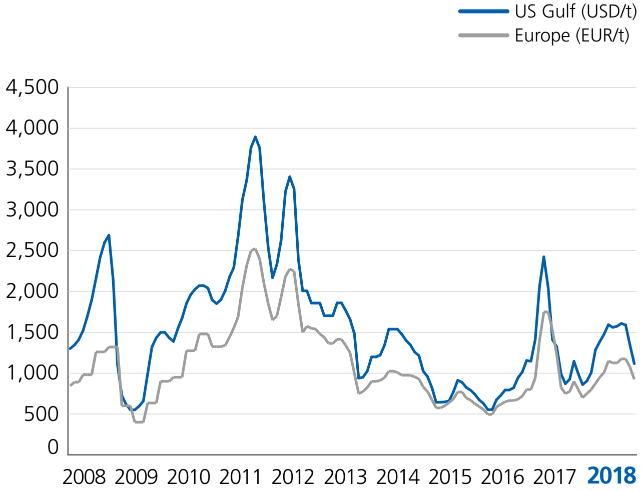


NATURAL RUBBER PRICES*

(in $/kg)

* *Monthly average.*

BUTADIENE PRICES*



* *Monthly average.*

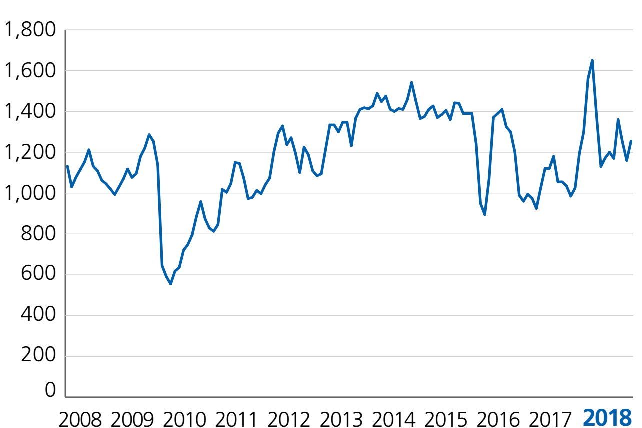
BRENT PRICES*

(in $/bbl)

* *Monthly average.*

STYRENE PRICES*

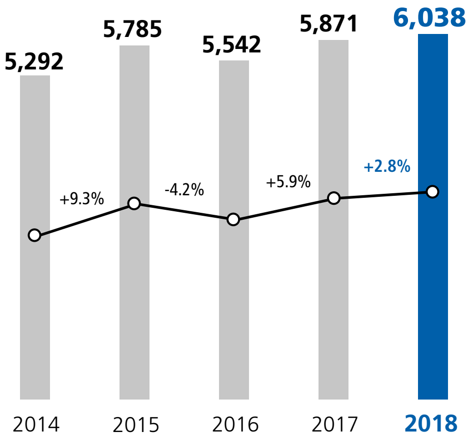
(in €/ton)



* *Monthly average.*

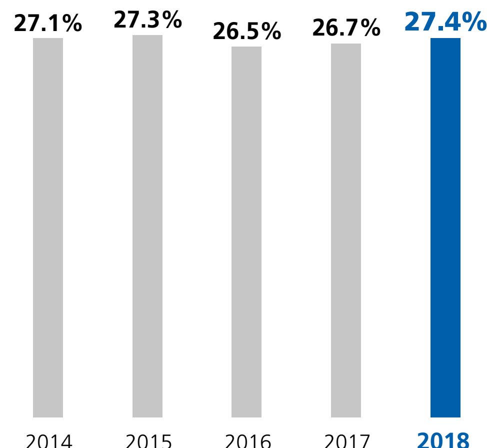
EMPLOYEE BENEFIT COSTS

(in € million)



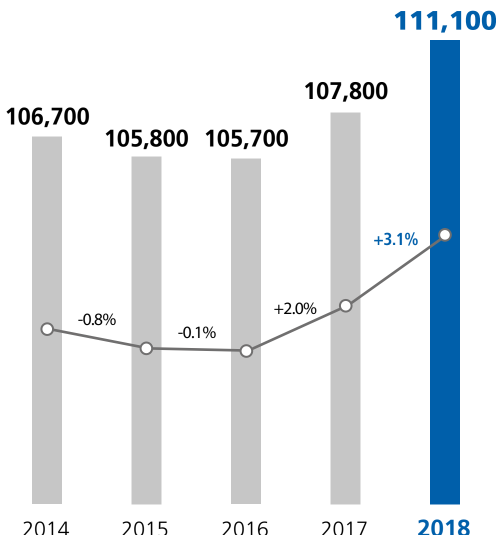
EMPLOYEE BENEFIT COSTS

(as a % of net sales)



NUMBER OF EMPLOYEE

(full-time equivalent employees at December 31)



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

	2017	2016	2015	2014	2013
Europe	65,800	61,900	61,200	61,400	61,300
North America	20,800	21,800	22,000	21,700	21,900
Asia (excluding India)	15,200	15,000	14,800	15,000	15,400
South America	7,500	7,400	6,000	6,000	6,300
Africa India Middle-East	1,800	1,700	1,700	1,700	1,800
TOTAL	**111 100**	**107 800**	**105 700**	**105 800**	**106 700**
including mature countries[(1)]	*64%*	*64%*	*67%*	*67%*	*66%*
including fast-growing countries	*36%*	*36%*	*33%*	*33%*	*34%*

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

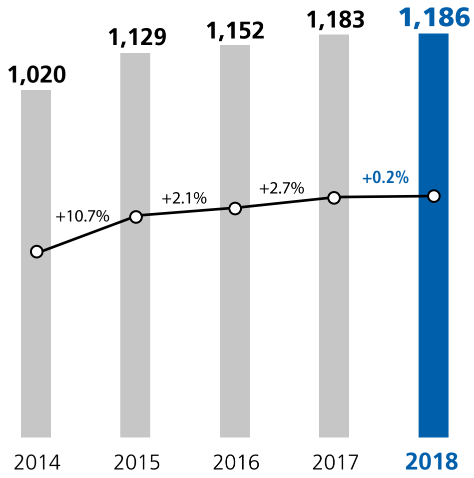
EMPLOYEES BY JOB CATEGORY

(total workforce at December 31)

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

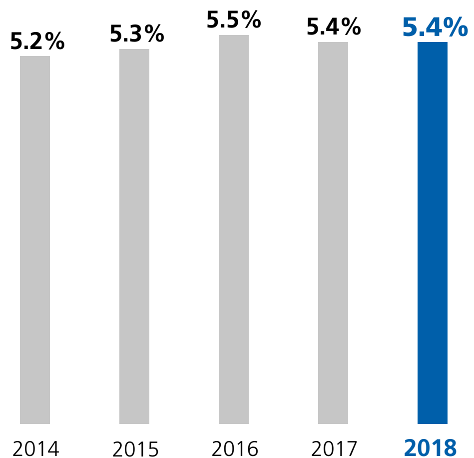
TRANSPORTATION COSTS

(in € million)



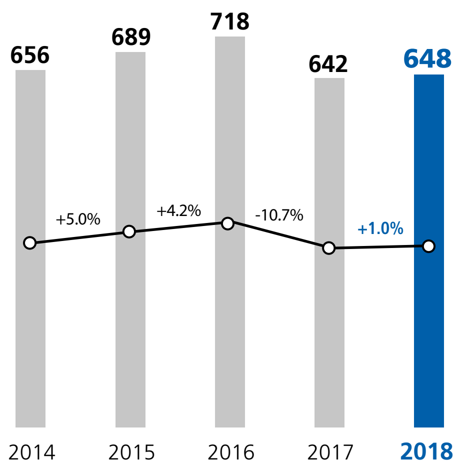
TRANSPORTATION COSTS

(as a % of sales)



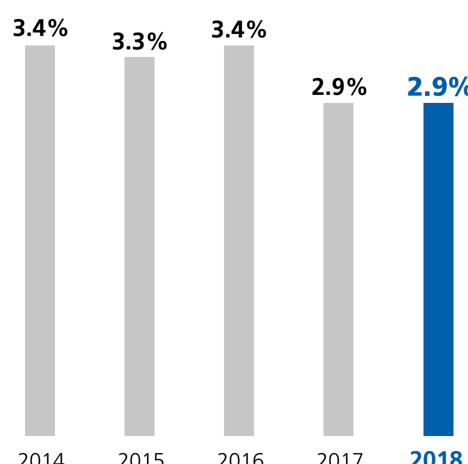
RESEARCH AND DEVELOPMENT COSTS

(in € million)



RESEARCH AND DEVELOPMENT COSTS

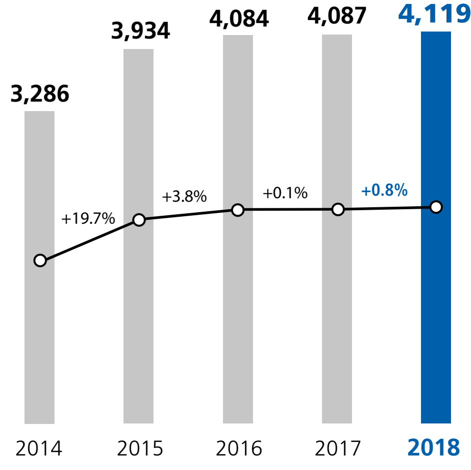
(as a % of sales)



4.6 CASH FLOW AND BALANCE SHEET

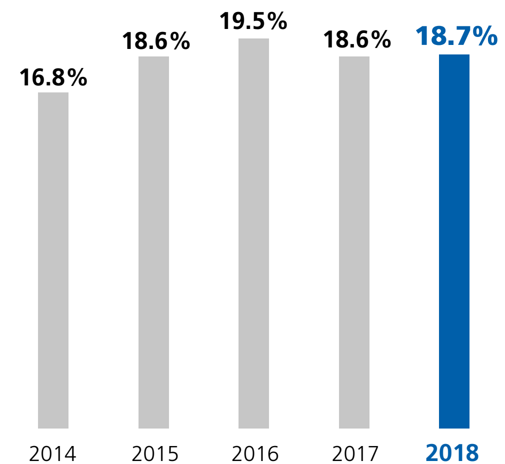
SEGMENT EBITDA[(1)]

(in € million)



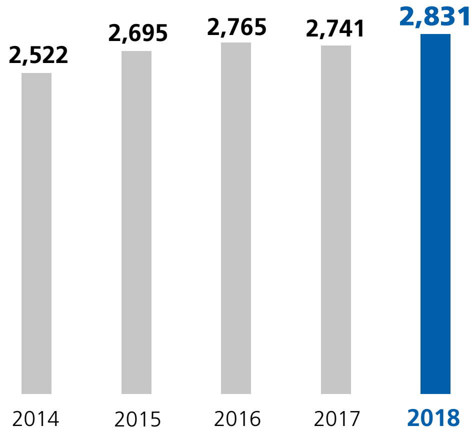
SEGMENT EBITDA[(1)]

(as a % of sales)



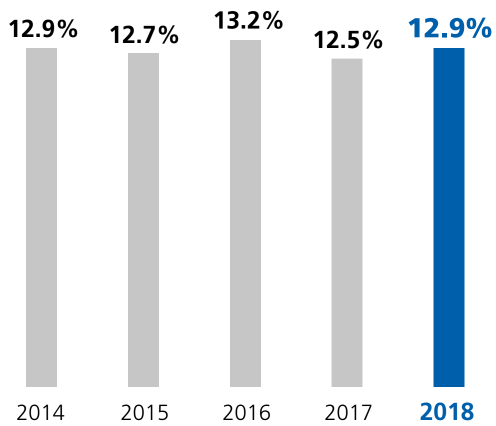
CASH FLOWS FROM OPERATING ACTIVITIES

(in € million)



CASH FLOWS FROM OPERATING ACTIVITIES

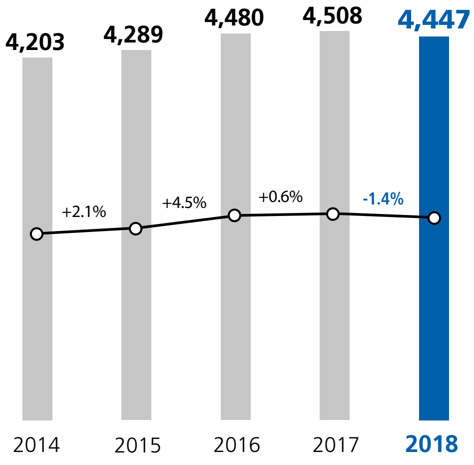
(as a % of sales)



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

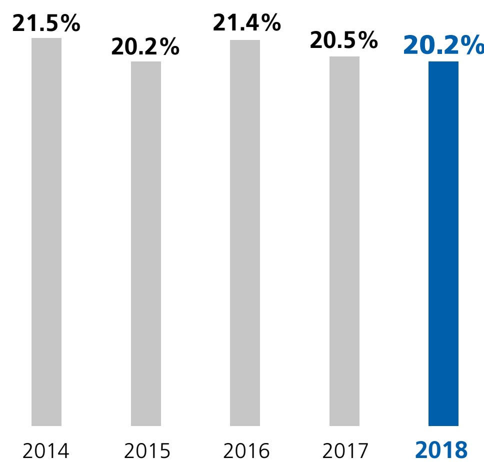
INVENTORIES

(in € million)



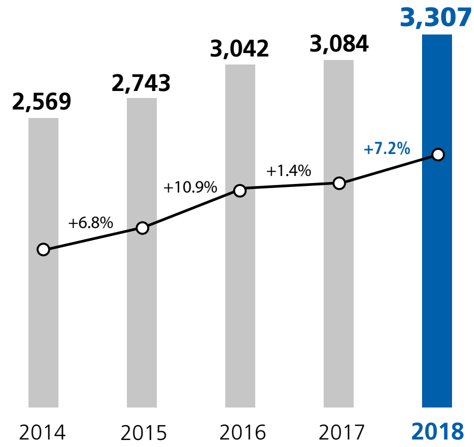
INVENTORIES

(as a % of sales)



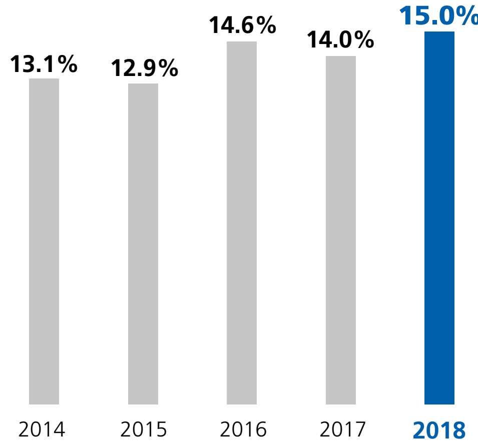
TRADE RECEIVABLES

(in € million)



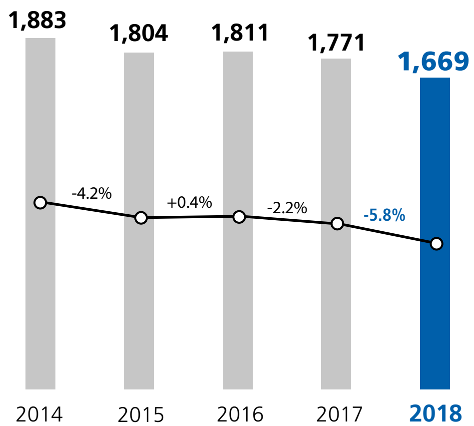
TRADE RECEIVABLES

(as a % of sales)



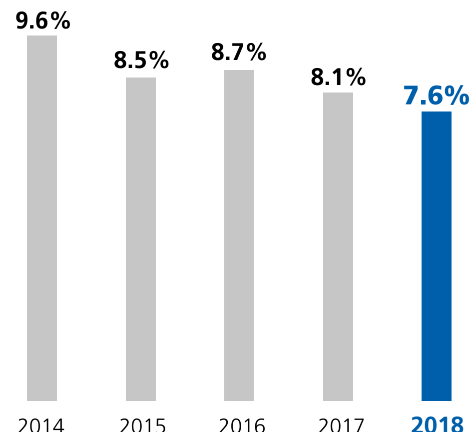
CAPITAL EXPENDITURE

(in € million)



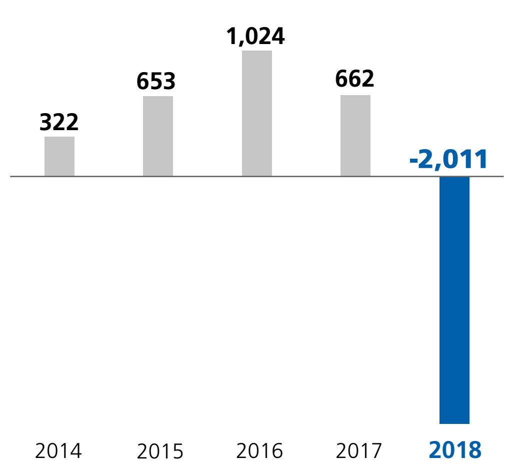
CAPITAL EXPENDITURE

(as a % of sales)



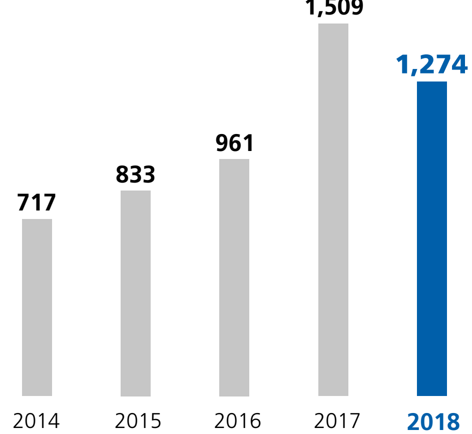
FREE CASH FLOW[1] (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)

(in € million)



STRUCTURAL FREE CASH FLOW[1]

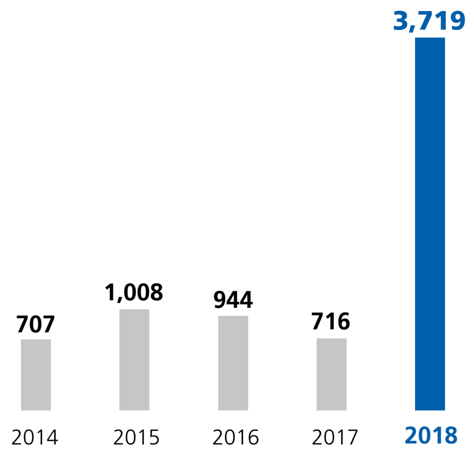
(in € million)



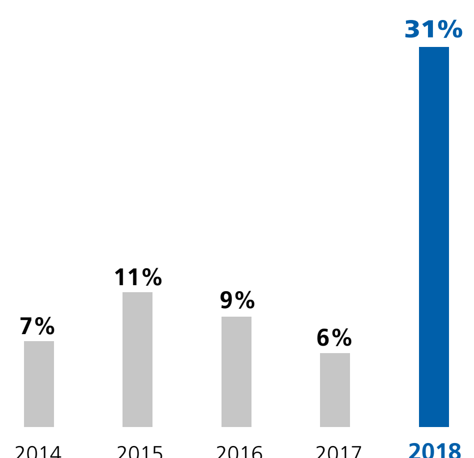
(1) This indicator is defined in section 2.5.3 of the present document.

NET DEBT[1]

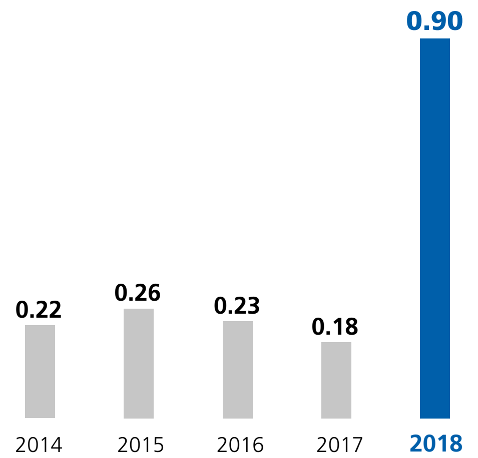
(in € million)



NET DEBT-TO-EQUITY RATIO[1]

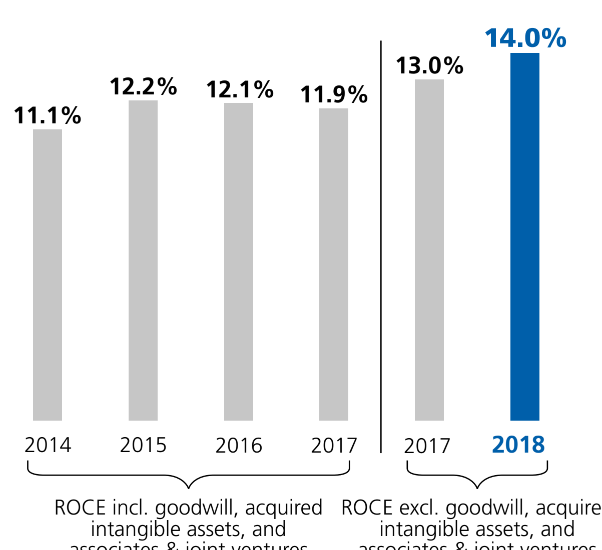


NET DEBT[1]-TO-EBITDA RATIO[2]



RETURN ON CAPITAL EMPLOYED[3]

(after tax)



(1) This indicator is defined in note 26 to the consolidated financial statements.

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

(3) This indicator is defined in section 2.6 of the present document.

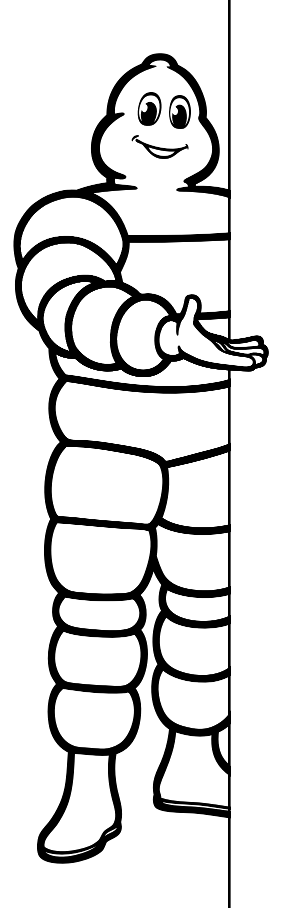
4.7 CONSOLIDATED KEY FIGURES AND RATIOS

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

(1) As defined in note 3.7.2 to the consolidated financial statements.
(2) Including the dividends paid in shares.
(3) Net debt: financial liabilities - cash and cash equivalents (excluding cash flows from cash management financial assets and borrowing collaterals) +/- derivative assets, as defined in note 26 to the consolidated financial statements.
(4) Net interest charge: interest financing expenses - interest income from cash and equivalents.
(5) Free cash flow: cash flows from operating activities - cash flows from investing activities (excluding cash flows from cash management financial assets and borrowing collaterals), as defined in section 3.5.3.
(6) ROE: net income attributable to shareholders/shareholders' equity excluding non-controlling interests.
(7) ROCE: segment operating result profit after tax (NOPAT)/capital employed (intangible assets and PP&E + long-term financial assets + working capital requirement), as defined in section 3.6 – tax rate at 31%.
(8) Operating ROCE: net segment operating result after tax (NOPAT)/capital employed (intangible assets and PPE + long-term financial assets + working capital requirement – goodwill – acquired intangible assets – associates & joint ventures) – tax rate at 26% in 2018, 31% in 2017.
(9) Net assets per share: net assets/number of shares outstanding at the end of the period.
(10) P/E: Share price at the end of the period/basic earnings per share.
(11) Subject to approval at the Annual Shareholders Meeting on May 17, 2019.
(12) Distribution rate: Dividend/Net income.
(13) Dividend yield: dividend per share/share price at December 31.
(14) Share turnover rate: number of shares traded during the year/average number of shares outstanding during the year.

5

CONSOLIDATED FINANCIAL STATEMENTS



5.1 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018 130

Consolidated Income Statement 131
Consolidated Statement of Comprehensive Income 132
Consolidated Statement of Financial Position 133
Consolidated Statement of Changes in Equity 134
Consolidated Cash Flow Statement 135
Notes to the Consolidated Financial Statements 136

5.1 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

DETAILED SUMMARY OF THE NOTES OF THE CONSOLIDATED STATEMENTS

Note 1	General Information	136
Note 2	Basis of Preparation	136
Note 3	Accounting Policies	140
Note 4	Change in the Scope of Consolidation	149
Note 5	Segment Reporting	151
Note 6	Expenses by Nature	152
Note 7	Employee Benefits Costs	153
Note 8	Segment other Income and Expenses	153
Note 9	Other Operating Income and Expenses	153
Note 10	Cost of Net Debt and other Financial Income and Expenses	155
Note 11	Income Tax	156
Note 12	Earnings per Share	157
Note 13	Goodwill and Intangible Assets	158
Note 14	Property, Plant and Equipment	162
Note 15	Non-current Financial Assets and Other Assets	163
Note 16	Derivative Financial Instruments	164
Note 17	Equity Method Investments	167
Note 18	Taxes	168
Note 19	Inventories	170
Note 20	Trade Receivables	170
Note 21	Current Financial Assets	171
Note 22	Other Current Assets	171
Note 23	Cash and Cash Equivalents	172
Note 24	Share Capital and Share Premiums	172
Note 25	Reserves	173
Note 26	Financial Liabilities	174
Note 27	Employee Benefit Obligations	177
Note 28	Share-Based Payments	191
Note 29	Provisions and other Non-Current Liabilities	193
Note 30	Other current liabilities	193
Note 31	Details of the Cash Flow Statement	194
Note 32	Commitments and Contingencies	195
Note 33	Financial Risk Management	196
Note 34	Related Party Transactions	202
Note 35	Events after the Reporting Date	202
Note 36	List of Consolidated Companies	203
Note 37	Statutory Auditors’ Fees	211

CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2018	Year ended December 31, 2017
Sales	5	22,028	21,960
Cost of sales		(14,912)	(14,815)
Gross income		**7,116**	**7,145**
Sales and marketing expenses		(1,862)	(1,861)
Research and development expenses		(648)	(641)
General and administrative expenses		(1,826)	(1,866)
Segment other income and expenses	8	(5)	(35)
Segment operating income	5	**2,775**	**2,742**
Other operating income and expenses	9	(225)	(111)
Operating income/(loss)		**2,550**	**2,631**
Cost of net debt	10	(200)	(176)
Other financial income and expenses	10	16	-
Net interest on employee benefit obligations	27.1	(90)	(115)
Share of profit/(loss) from associates		(46)	14
Income/(loss) before taxes		**2,230**	**2,354**
Income tax	11	(570)	(661)
NET INCOME/(LOSS)		**1,660**	**1,693**
▶ Attributable to the shareholders of the Company		1,677	1,700
▶ Attributable to the non-controlling interests		(17)	(7)
Earnings per share *(in €)*	12		
▶ Basic		9.30	9.39
▶ Diluted		9.25	9.34

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Note	Year ended December 31, 2018	Year ended December 31, 2017
Net income/(loss)		**1,660**	**1,693**
Post-employment benefits	27.1	71	266
Tax effect – Post-employment benefits	18	(101)	(135)
Equity investments – change in fair value		-	
Tax effect – equity investments – change in fair value		-	
Other items of comprehensive income that will not be reclassified to income statement		**(30)**	**131**
Equity investments – change in fair values	15.1	-	10
Tax effect – equity investments – change in fair values	18	-	3
Equity investments – (gain)/loss recognized in income statement		-	-
Currency translation differences		(57)	(532)
Other		(11)	(1)
Other items of comprehensive income that may be reclassified to income statement		**(68)**	**(520)**
Other comprehensive income		**(98)**	**(389)**
COMPREHENSIVE INCOME		**1,562**	**1,304**
▶ Attributable to the shareholders of the Company		1,577	1,315
▶ Attributable to the non-controlling interests		(15)	(11)

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in € million)	Note	December 31, 2018	December 31, 2017
Goodwill	13	2,667	1,092
Intangible assets	13	1,828	785
Property, plant and equipment (PP&E)	14	11,379	10,883
Non-current financial assets and other assets	15	691	479
Investments in associates	17	938	356
Deferred tax assets	18	740	890
Non-current assets		**18,243**	**14,485**
Inventories	19	4,447	4,508
Trade receivables	20	3,307	3,084
Current financial assets	21	314	285
Other current assets	22	1,037	1,132
Cash and cash equivalents	23	2,100	1,773
Current assets		11,205	**10,782**
TOTAL ASSETS		**29,448**	**25,267**
Share capital	24	360	359
Share premiums	24	2,923	2,942
Reserves	25	8,862	7,925
Non-controlling interests		22	35
Equity		**12,167**	**11,261**
Non-current financial liabilities	26	5,020	2,366
Employee benefit obligations	27.1	3,850	3,969
Provisions and other non-current liabilities	29	1,315	1,676
Deferred tax liabilities	18	326	113
Non-current liabilities		**10,511**	**8,124**
Current financial liabilities	26	1,134	493
Trade payables		2,506	2,501
Trade payables under factoring contracts	3.26	440	503
Other current liabilities	30	2,690	2,385
Current liabilities		**6,770**	**5,882**
TOTAL EQUITY AND LIABILITIES		**29,448**	**25,267**

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € million)	**Share capital** (note 24)	**Share premiums** (note 24)	**Reserves** (note 25)	**Non-controlling interests**	**Total**
At January 1, 2017	**360**	**3,024**	**7,215**	**47**	**10,646**
Net income/(loss)	-	-	1,700	(7)	**1,693**
Other comprehensive income	-	-	(385)	(4)	**(389)**
Comprehensive income	**-**	**-**	**1,315**	**(11)**	**1,304**
Issuance of shares	1	16	-	-	**17**
Purchase of shares	-	-	(101)	-	**(101)**
Cancellation of shares	(2)	(99)	101	-	**-**
Dividends and other allocations	-	-	(612)	-	**(612)**
Share-based payments – cost of services rendered	-	-	7	-	**7**
Other	-	1	-	(1)	**-**
At December 31, 2017	**359**	**2,942**	**7,925**	**35**	**11,261**
Net income/(loss)	-	-	1,677	(17)	**1,660**
Other comprehensive income	-	-	(100)	2	**(98)**
Comprehensive income	**-**	**-**	**1,577**	**(15)**	**1,562**
Issuance of shares	2	56	-	-	**58**
Purchase of shares	-	-	(75)	-	**(75)**
Cancellation of shares	(1)	(74)	75	-	**-**
Dividends and other allocations	-	-	(647)	(1)	**(648)**
Share-based payments – cost of services rendered	-	-	7	-	**7**
Other	-	(1)	-	3	**2**
AT DECEMBER 31, 2018	**360**	**2,923**	**8,862**	**22**	**12,167**

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in € million)	Note	Year ended December 31, 2018	Year ended December 31, 2017
Net income		1,660	1,693
Adjustments			
▶ Cost of net debt	10	200	176
▶ Other financial income and expenses	10	(16)	-
▶ Net interest on benefits	27.1	90	115
▶ Income tax	11	570	661
▶ Amortization, depreciation and impairment of intangible assets and PP&E	6	1,344	1,345
▶ Other operating income and expenses	9	225	111
▶ Share of loss/(profit) from associates		46	(14)
Segment EBITDA	3.7.2	**4,119**	**4,087**
Other operating income and expenses (cash) and change in provisions	31	(413)	(346)
Cost of net debt and other financial income and expenses paid	31	(182)	(373)
Income tax paid	18.2	(497)	(563)
Change in working capital, net of impairments	31	(196)	(64)
Cash flows from operating activities		**2,831**	**2,741**
Purchases of intangible assets and PP&E	31	(1,716)	(1,668)
Proceeds from sale of intangible assets and PP&E		100	65
Equity investments in consolidated companies, net of cash acquired		(3,166)	(396)
Disposals of equity investments in consolidated companies, net of cash sold		161	28
Purchases of unconsolidated equity investments		(18)	(91)
Proceeds from sale of unconsolidated equity investments		29	5
Cash flows from other financial assets	31	(224)	(3)
Cash flows from investing activities		**(4,834)**	**(2,060)**
Proceeds from issuances of shares	24	58	17
Purchase of shares	24	(75)	(101)
Dividends paid to the shareholders of the Company	24	(637)	(584)
Cash flows from financial liabilities	31	3,020	(68)
Other cash flows from financing activities		(38)	17
Cash flows from financing activities		**2,328**	**(719)**
Effect of changes in exchange rates		**2**	**(15)**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**327**	**(53)**
Cash and cash equivalents at January 1		**1,773**	**1,826**
Cash and cash equivalents at December 31	23	**2,100**	**1,773**

The notes 1 to 37 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Compagnie Générale des Établissements Michelin (CGEM or the "Company") and its subsidiaries (together "the Group") manufacture, distribute and sell tires throughout the world.

The Company is a *société en commandite par actions* (Partnership Limited by Shares) incorporated in Clermont-Ferrand (France).

The Company is listed on Euronext Paris (Eurolist Compartment A).

After a review by the Supervisory Board, these consolidated financial statements were authorized for issue by the Managing Chairman on February 8, 2019.

Except as otherwise stated, all amounts are presented in € million.

NOTE 2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements:

- are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union at closing date with a mandatory application (available on the internet website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm);
- are also in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB); and
- have been prepared under the historical cost convention, as modified by the measurement of unconsolidated equity investments and financial assets and liabilities (including derivatives) at fair value through profit and loss or other items of comprehensive income.

2.2 Accounting policies

The accounting policies applied in the preparation of the Group consolidated financial statements are set out in note 3 "Accounting policies". These policies have been consistently applied to all the years presented.

2.3 New standards, amendments and interpretations to existing standards effective from January 1, 2018 in the European Union

/ 2.3.1 IFRS 9 "Financial Instruments"

The standard IFRS 9 has been adopted since January 2018. This standard, retrospectively applied, has been adopted without the restatement of comparative information in accordance with the transitory method indicated in paragraph 7 of IFRS 9. The reclassifications and adjustments related to the new rules concerning impairment loss are presented in equity at January 1, 2018.

2.3.1.1 Impact of the transition for the Group

The adjustments booked for each line of the consolidated statement of financial position are shown below. The lines that have not been impacted by the adoption of IFRS 9 are not shown.

(in € million)	December 31, 2017 as published	IFRS 9	January 1, 2018 restated
Non-Current assets			
Financial assets and other non-current assets	479	5	484
Current assets			
Trade receivables	3,084	(4)	3,080
Current financial assets	285	-	285
Cash and cash equivalent	1,773	-	1,773
Equity	**11,261**	**1**	**11,262**

Financial assets and other non-current assets

The Group has chosen to use for some of its investments in equity shares, the irrevocable option to measure those investments at fair value through other comprehensive income as these investments are held with a strategic goal and are not expected to be sold in the short or medium term. If the investments are disposed, the realized gain or loss remains in equity and does not impact the income statement.

The exception of booking at cost is no longer allowed. For this reason, the measurement at fair value of some unconsolidated equity investments that were measured at cost had an impact of +€5 million at January 1, 2018.

Trade receivables

The Group applies the simplified approach in order to determine the expected credit loss of trade receivables. The model uses a matrix of the probabilities of default established by each company of the Group based on historical write-offs, customer payment behavior and expected losses.

Following the adoption of the expected credit loss model, an increase in the allowance for doubtful trade receivables has been recognized for an amount of €4 million at January 1, 2018.

Cash and cash equivalent

Cash and cash equivalents include cash in hand, on demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less. Term deposits maturing in more than three months, but with early withdrawal terms of less than three months with guaranteed capital and negligible penalties are also classified as treasury and treasury equivalents. The Group decided to measure the term deposits at amortized cost.

The money market funds "OPCVM" are measured at fair value through income statement.

Cash and cash equivalents at amortized cost are subject to the new impairment model based on expected credit losses.

Hedging instruments

Derivative instruments qualified as hedge accounting at December 31, 2017 are eligible for hedge accounting under IFRS 9.The risk management policy and the hedging documentation are in line with the requirements of IFRS 9 and hedging relationships are treated in a continuous way. The application of the cost of hedging on the hedge relationships has no significant impact.

/ 2.3.2 IFRS 15 "Revenue from Contracts with Customers"

IFRS 15, "Revenue from Contracts with Customers", published in May 2014 and adopted by the European Union in September 22, 2016, together with the amendment "Clarifications to IFRS 15" are effective for annual periods beginning on January 1, 2018. Their scope covers all contracts with customers, with the exception of leases, insurance contracts and financial instruments which are covered by other standards.

The accounting policies and critical judgements deriving from the application of IFRS 15 are described in note 3.8 "Revenue recognition".

Impact of the transition

IFRS 15 is applied retrospectively with the cumulative effect of initially applying the Standard recognized as an adjustment to the opening balance of retained earnings.

The analysis carried out, with regard to the new standard, of all contractual relationships with customers has led to the conclusion that the application of IFRS 15 does not have a significant impact on the amount of revenue recognized by the Group and on the timing of its recognition. As a consequence, the Group assessed that the implementation of IFRS 15 does not result in any change to the presentation of its consolidated financial statements and have no impact on equity at January 1, 2018.

The breakdown of revenue from ordinary activities used within the Group to assess the performance is presented, by operating segment, in note 5 "Segment reporting".

/ 2.3.3 IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

According to IFRIC Interpretation 22 "Foreign currency transactions and advance consideration", purchase or sale transactions must be translated at the exchange rate prevailing on the date the asset or liability is initially recognized. In practice, this is usually the date on which the advance payment is paid or received. In the case of multiple advances, the exchange rate must be determined for each payment and collection transaction.

The interpretation is mandatory for financial years beginning on or after January 1, 2018. Its prospective adoption did not have any significant impact on the Group's consolidated financial statements.

2.4 Newly published standards, amendments and interpretations to existing standards that are not yet effective

/ 2.4.1 IFRS 16 "Leases"

IFRS 16 "Leases", published in January 2016, endorsed by the European Union in November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretative guidance.

Significant changes to the lessee's accounting model are introduced as the current distinction between operating and finance leases is removed. The lessee must recognize an asset, corresponding to the right of use, and a liability corresponding to the lease commitment.

With regard to the transition options, the Group will implement the standard from its mandatory adoption date of January 1, 2019 and apply the simplified transition approach without restating comparative amounts for the year prior to first adoption. In addition, the Group is going to adopt the exceptions provided for short-term leases, including contracts with a term of less than twelve months after the application date and those relating to low-value assets.

The Group launched a project in 2016 to assess the impacts of this standard and manage all aspects of the transition. In particular, the Group implemented a tool in which lease contracts, their relevant characteristics and key assumptions (like maturity and discount rate) are stored in order to compute the amounts that will need to be accounted for in relation to the amortization of the right-of-use asset, the financial expense and the remaining liability.

Most of the lease contracts are operating leases where the Group is the lessee. Leased assets are mainly real estate assets (Points of sale for the Group's integrated distribution network, sales or administrative offices), cars and forklifts.

Key assumptions that the Group is applying for implementing the standard are as follows:

- Terms: For each contract, the Group reviewed the renewal and the early termination options within the term of the arrangement and determined, after taking into account all the relevant facts and circumstances, what would be the date at which the Group reasonably expects the contract to be terminated. For certain categories of leased assets, (mainly vehicles), the Group assesses that there is no reasonably certain extension option, consequently the duration selected coincides with the first term of the lease contract. For real estate lease arrangements, the Group defines the reasonable end date of the contracts, while taking into account the renewal and early termination options stated in the agreements, in line with the asset's expected period of use. Thereby for contracts with residual term of more than ten years, the first enforceable exit option is chosen unless specific information leads to define a longer period.
- Discount rates: The Group determined discount rates reflecting each subsidiary's specific credit risk, the currency of the contract and the weighted average maturity of the reimbursement of the lease liability. For the transition, the incremental borrowing rate used is the rate applicable to the residual term of the contracts.

Based on the contracts analyzed, the Group assesses that the impact on the amount of the liability representing the future lease payments, as well as the value of the right-of-use of assets will be, on January 1, 2019, in the range between €750 and €850 million (excluding the impact, not yet assessed, related to the Group CAMSO).

/ 2.4.2 IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC Interpretation 23 "Uncertainty over income tax treatments" clarifies the recognition and valuation principles applicable to income tax risks. These risks arise when there is uncertainty related to a tax position adopted by the Group that could be challenged by the tax administration.

This interpretation was adopted by the European Union in October 2018 and is applicable for financial years beginning on January 1, 2019 and subject to retrospective application, with or without comparative information restatement for the first year of application. The Group does not expect the application of the interpretation as from January 1, 2019 to have any significant impact.

There are no other new standards, updates and interpretations published but not yet effective and that would be expected to have a material impact on the Group.

2.5 Impacts of the Group's organizational change on financial information

/ Main characteristics of the new organization

On January 1, 2018, the Group changed its managerial and operational organization:

- 14 Business Lines (LB) were created with the mission of developing every aspect of the strategy for their product / customer segment. They manage their profitability, their industrial sourcing, their pricing policy, their product and service offers and their market approach as well as partnership / mergers and acquisitions.
- The Regions, numbering 10, market products and services, with no hierarchical link to the LBs.
- It all relies on eight operational directions that provide expertise and support to LBs and Regions.
- Four Business Directions (DB), each headed by a member of the Group's Executive Committee, supervise the LBs according to their field of activity, which correspond, with very few exceptions, to those of the Product Lines in the former organization. Three Business Directions are dedicated to Tires activities ("Tires" DB). Another DB encompasses activities associated with Tire DBs such as Distribution, Services and Solutions, Mobility Experiences offers to consumers (like Guides and Maps) and Competition, as well as High Technology Materials activities.

The roles and responsibilities assigned to each one of the above mentioned entities were significantly modified by the new organization, in particular interactions between Business Lines and Regions. In the former organization, the vertical organization of Product Lines was spread in the geographical zones into entities which had broad responsibilities on the means and resources they need for their activity (industrial assets, development, marketing and sales). The organization in place as from 2018 is a transversal organization, in which the different players are acting collectively for achieving the targeted performance and results. Their performance metrics are reflecting their level of responsibilities.

The key performance indicators, in particular "Sales" and "Segment Operating Income" – SOI, are regularly reviewed and analyzed by the Management of the Group at the level of the three Tires DBs, to which the activities of the DB4 are allocated according to their respective synergies.

/ Impact on the segment reporting

Considering (i) the activities encompassed by the DBs and (ii) the way they are monitored by the Management of the Group, as reflected in the Group dashboard, the Group assesses that the new organization does not have a significant impact on the structure of the segment reporting disclosed and described more in details in Note 5 "Segment reporting".

/ Impact on the definition of CGUs and group of CGUs

In the context of the new organization, the Group redefined the scope of responsibilities relating to the management of the industrial assets used for the production of tires finished products. Consequently, an analysis was undertaken to determine the potential impact of the reorganization on the definition of the CGUs.

For tires relating activities, Cash generating Units are defined on the basis of groups of industrial assets used for producing finished products that are consistent in terms of industrial criteria (similar technologies) and in terms of market served (offers and geographical zone), This approach has resulted in recognizing "Tires" CGUs, that differ little from the CGUs as defined in the former organization.

Furthermore, with no change compared to the former organization, Services and Solutions activities, Experiences, High Technology Materials and Distribution activities are split into "Non Tire" CGUs.

The definition of the indicators of potential impairment was revised consequently for Tires CGUs and they are described in Note 3.17 "Impairment of non-financial assets".

In respect of groups of CGUs, management of goodwill, which reflects the way synergies identified from acquisitions are operationally implemented, is now performed at a worldwide level for all the Tires activities, when this management was done at a regional level in the former organization for both Passenger Car and Light Trucks activities and Truck activities. This change applies notably to Services and Solutions activities (Sascar and Nextraq).

Should the impairment test had been done at the level of groups of CGUs as defined in the former organization, the Group would not have identified any indication of goodwill impairment.

The note 13.2 "Goodwill" describes in more details the CGUs and the groups of CGUs, as well as the results of the impairment test which were carried out at December 31, 2018.

2.6 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires that management use assumptions and estimates reflected in the value of assets and liabilities at the date of the consolidated statement of financial position and in the amount of income and expenses for the reporting period. The actual results could differ from those estimates.

The main critical accounting estimates requiring key assumptions and judgments are the impairment of non-financial assets, the employee benefit obligations, the income taxes and goodwill, intangible assets acquired through business combinations and their residual useful life.

/ 2.6.1 Impairment of non-financial assets

The cash generating units' (CGU) future cash flows used in the calculation of value in use (note 3.17 "Impairment of non-financial assets") are derived from the Group's five-year strategic plan. The construction of the strategic orientations is an exercise involving the various actors within the Business Lines and the Business Directions and the projections are validated by the Managing Chairman. It requires critical estimates and judgments, especially in the determination of market trends, raw material costs and pricing policies. Consequently, the actual cash flows may differ from the estimates used in the calculation of CGU's value in use.

Quantitative information is provided in note 13.2 "Goodwill".

/ 2.6.2 Employee benefit obligations

The Group plans are defined contribution plans which generally require, on top of the part financed by the Group, a contribution from each salaried employee defined in percentage of the compensation.

Some subsidiaries also book in their accounts liabilities for various pension plans, jubilees and other post-employment benefits linked to rights acquired by the employees in these subsidiaries plans or to some legal obligations.

The valuation of these benefits is carried out annually with the assistance of independent actuaries. The actuarial method used is the Projected Unit Credit Method.

According to this method, statistical information and various assumptions are used in calculating the expense, the liability and the asset related to the benefit plans. Assumptions include mainly the discount rate, the inflation rate, the long term salary increase rate and the expected rate of growth in future medical costs. Statistical information is mainly related to demographic assumptions such as mortality, employee turnover, disability and retirement age.

Assumptions and statistical information are determined according to internal guidelines in consultation with the actuaries.

The discount rates are determined using tools from the actuaries having the same maturity as the liabilities.

The rate of salary increases is determined by each country based on a long term salary policy and includes all elements related to market practices as well as career development, promotion and seniority.

The inflation rates having standard maturities are determined using several methods:

- by using the tools from the actuaries based on target rates published by Central Banks, forecasts from the Consensus Economics organization and inflation swap curves;
- by taking the spread between inflation-linked bonds and conventional securities. The rates are then adjusted with a spread which represents the liquidity and risk premium embedded in the inflation-linked bonds;
- based on historical averages.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, disability) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The actual data (such as inflation, mortality and real return on assets) may differ from the long term actuarial assumptions used. The resulting difference is recognized as a gain or loss in other comprehensive income.

Quantitative information is provided in note 27 "Employee benefit obligations".

/ 2.6.3 Income taxes

Significant judgment and estimates are required in determining the deferred tax assets resulting from tax losses carryovers or deductible temporary differences.

The expected reversal of tax losses is based on the forecast of future results validated by the local management and reviewed by the Group Tax and Accounting Departments. The analyses are also performed in order to ensure the coherence of these forecasted future results with the strategic plans of the Group, validated by the Managing Chairman. Analyses to support the deferred tax positions are performed periodically, at a date as close as possible to closing.

The period of reversal of tax losses carried forward is based on a reasonable horizon taking into account the specific circumstances of each Group company, such as:

- the origin of the historical tax losses (generally exceptional and non-recurrent: restructuring, significant increases in production capacity...);
- the forecasted future results;
- the tax planning opportunities;
- the possibility of internal reorganizations; and
- the time limit for the recovery of historical losses.

Quantitative information is provided in notes 11 "Income tax" and 18 "Taxes".

The Group companies operate in legal and regulatory contexts, including tax, different and sometimes uncertain. They may be involved, in the course of their activities, in litigations, disputes or other procedures. Each of the known litigation or ongoing proceedings, in which the Group or one of the Group companies are involved, was examined at the closing date, when needed with the assistance of external consultants, and provisions have, if necessary, been established to cover the estimated risks. The main ongoing tax litigation is described in note 32.2 "Contingencies".

/ 2.6.4 Goodwill, intangible assets acquired and their residual useful life

As part of its acquisition process the Group identifies, measures and recognizes intangible assets (brands and customer relationships, for example) and to determine their residual useful lives. The difference between the fair value of assets acquired and liabilities assumed, on one hand, and the consideration transferred, on the other hand, represents goodwill which is allocated to the CGUs or to the groups of CGUs benefiting from the synergies expected from the business combination. In order to perform the purchase price allocation, the Group takes into account the various strategic and operational objectives underlying the acquisition and relies on the expertise of valuation firms.

The value of assets and liabilities recognized in the frame of business combinations may be impacted in the future if judgments, estimates and key hypotheses made at the time of the acquisition, like turnover growth rate, operating margin or discount factors should differ.

During the second half of 2018, the Group achieved the purchase price allocation relating to Fenner (note 4.2 "Acquisition of Fenner Plc") and recognized brands and customers relationships that are detailed in note 13.1.1 "Fenner Plc". The Group also allocated the assets of Fenner, including goodwill, to CGUs as described in this same note.

NOTE 3 ACCOUNTING POLICIES

3.1 Consolidation

The Group consolidated financial statements include all subsidiaries, joint arrangements and associates of Compagnie Générale des Établissements Michelin.

The Group treats transactions with non-controlling interests, as long as they do not result in a change of control from the Group over the entities (no loss or gain of control), as equity transactions having no impact on the comprehensive income. Expenses occurring from these operations are directly accounted for in equity. At the date the Group gains control of an entity, the carrying amount of previously held non-controlling interests, if any, is adjusted to fair value and the difference is recognized in the income statement. All other related items that were recognized in the comprehensive income are reclassified in the income statement. When the Group loses control over an entity but keeps some non-controlling interests in the entity, such a transaction is analyzed as an exchange, i.e. the disposal of a controlling interest and the acquisition of a non-controlling interest.

Shareholdings in companies which are not subsidiaries, joint arrangements or associates are not consolidated. They are accounted for as non-derivative financial assets (note 3.18 "Non-derivative financial assets").

/ 3.1.1 Subsidiaries

Subsidiaries are all entities (including structured entities) that the Group controls. The Group controls an entity when it has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany transactions and balances as well as unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

/ 3.1.2 Joint ventures and associates

Joint ventures are joint arrangements (arrangements of which the Group has control jointly with one or more other parties) in which the Group has rights to the net assets. Joint control is defined as the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Generally, associates are entities in which the Group has a shareholding between 20% and 50% of the voting rights.

Investments in joint ventures and associates are accounted for using the equity method and are initially recognized at cost. The Group investment in joint ventures and associates includes goodwill identified at acquisition date and are presented net of any accumulated impairment losses.

The Group share of its joint ventures' or associates' post-acquisition profits and losses is recognized in the income statement and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income until the date that significant influence ceases. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group share of losses in an associate or a joint venture equals or exceeds its interest in the investee, the Group does not recognize future losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group interest in the investee. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

The profit resulting from downstream transactions carried out with a joint venture or an associate is deducted from the net profit of this entity by the percentage representing the Group's interest in the company accounted for using the equity method.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Management.

The Managing Chairman regularly examines segment operating income to assess their performance. He has therefore been identified as the chief operating decision maker of the Group.

3.3 Foreign currency

/ 3.3.1 Presentation and functional currency

The financial statements of the Group entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate and corresponds for most of them to their local currency.

The consolidated financial statements are presented in Euros, which is the Company's functional currency.

/ 3.3.2 Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange differences on non-consolidated equity investments are included in other items of comprehensive income until the investment is sold.

/ 3.3.3 Translation

The financial statements of the Group entities whose functional currency is different from the Group's presentation currency are translated into Euros as follows: assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position, income and expenses are translated at the average rate of the period (as it is considered a reasonable approximation to actual rates at transaction date), and all resulting exchange differences are recognized in other items of comprehensive income.

Cash flows are also translated at the average rate of the period. When an entity is disposed of, the translation differences accumulated in other items of comprehensive income are recycled in the income statement as part of the gain or loss on disposal.

On the acquisition of an entity, goodwill and fair value adjustments recognized are treated as assets and liabilities of the acquired entity and translated at the spot rate on the transaction date.

/ 3.3.4 Exchange rates of major currencies

	Closing rates		Average rates	
Against €:	**2018**	**2017**	**2018**	**2017**
US dollar (USD)	1.146	1.193	1.182	1.129
Canadian dollar (CAD)	1.560	1.505	1.530	1.465
Mexican peso (MXN)	22.546	23.502	22.703	21.307
Brazilian real (BRL)	4.440	3.956	4.283	3.601
British pound (GBP)	0.905	0.888	0.884	0.877
Chinese yuan (CNY)	7.860	7.808	7.803	7.631
Indian rupee (INR)	80.218	76.579	80.611	73.522
Thai baht (THB)	37.136	38.917	38.172	38.311

3.4 Derivative financial instruments

Derivative financial instruments are used to manage financial exposures.

All derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see hedging policy below).

All changes in fair value of derivatives not designated as hedging instruments are recorded as financial income or expense in the period in which they arise.

Fair values are based on market values for listed instruments or on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into account market data.

Embedded derivatives are recognized separately if not closely related to the host contract.

3.5 Hedging

Some derivative financial instruments are eligible for hedge accounting and are therefore designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges);
- hedges of highly probable forecast transactions (cash flow hedges);
- net investment hedges.

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategies. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives are accounted for differently depending on the type of hedge.

/ 3.5.1 Fair value hedges

Changes in fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

/ 3.5.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognized in other reserves. The ineffective portion of the gain or loss is recognized immediately in the income statement.

When options are used to hedge future transactions, the Group qualifies the intrinsic value and the time value in relation to the hedged item ("aligned time value") in hedge accounting. These items are recorded in other reserves.

For forward contracts used to hedge future transactions, the Group classifies the spot component and the forward points in hedge accounting.

Amounts accumulated in other reserves are recognized in the income statement over the period during which the hedged item affects the profit and loss, as follows:

- when the hedged item is a non-financial asset (for example, a consolidated investment or an inventory), deferred gains or losses, as well as deferred gains or losses on the time value of the option or contract forward points are included in the initial cost of the asset;
- the gains or losses resulting from the interest rate hedge are recognized in financial income at the same time as the interest on the loans that are hedged.

When a hedging instrument is sold or expires, or when a hedging instrument no longer meets the criteria required to qualify for hedge accounting, the amount accumulated in other reserves at that date is immediately recognized in profit or loss.

/ 3.5.3 Net investment hedges

Certain loans and borrowings denominated in foreign currencies are considered, in essence, as an integral part of the net investment in a subsidiary whose functional currency is not the euro, when the settlement is neither planned nor likely in a foreseeable future.

Foreign exchange differences relating to these loans and borrowings are recognized in other comprehensive income. This specific treatment applies until the definitive disposal date of the net investment or when the partial or total repayment of these borrowings or debts becomes highly probable.

Net investment hedges in foreign currencies are accounted for in a similar manner to cash flow hedges. Any gain or loss on the hedging instrument is recognized in other comprehensive income for the portion relating to the hedged risk (effective portion). The ineffective portion is immediately recognized in the income statement.

/ 3.5.4 Derivatives not qualified in hedge accounting

Certain other financial derivative instruments, while offering effective economic hedging in terms of the Group's financial policy, do not meet the criteria for hedge accounting or have not been treated as hedging instruments (refer to the policy relating to financial derivative instruments, above). Changes in the market value of these derivatives must therefore be recognized in profit or loss. For example, foreign exchange derivatives used to hedge the currency exposure of financial assets and liabilities recognized in the consolidated statement of financial position are not designated as hedging instruments.

3.6 Fair value of financial instruments

The fair value measurements are disclosed by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices in active markets. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the consolidated statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments (essentially cash and cash equivalents as well as quoted unconsolidated equity investments) are included in level 1.

- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value these instruments are observable, these instruments (essentially cash management financial assets and derivative instruments) are included in level 2.
- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument (essentially non-quoted unconsolidated equity investments) is included in level 3.

Specific valuation techniques used to value, generally internally, financial instruments include:

- quoted market prices or dealer quotes for similar instruments (level 1);
- the fair value of interest rate swaps calculated internally as the present value of the estimated future cash flows based on observable yield curves (level 2);
- the fair value of forward foreign exchange contracts determined internally using forward exchange rates at the date of the consolidated statement of financial position, with the resulting value discounted back to present value (level 2).

Other techniques, such as discounted cash flow analysis, are used internally to determine fair value for the remaining financial instruments (level 3).

When observable yield curves include negative interest rates, those are used without change to determine the fair value of derivatives.

The Group assesses the counterparty risk included in the fair value of its OTC (over-the-counter) derivatives for which there is no exchange of collaterals. The Group includes the effect of its exposure to the credit risk of the counterparty or the counterparty's exposure to the credit risk of the Group. The valuation for long term derivatives with no exchange of collaterals is based on discounted cash flows using a rate including the counterparty credit risk.

3.7 Definition of certain indicators presented in the consolidated financial statements

/ 3.7.1 Net debt

Net debt is made up of current and non-current financial liabilities as they appear on the consolidated statement of financial position less:

- cash and cash equivalents as they appear on the consolidated statement of financial position;
- derivative instruments included in "Current financial assets and Non-current financial assets" on the consolidated statement of financial position;
- cash management financial assets included in "Current financial assets" on the consolidated statement of financial position (these assets are highly liquid, little affected by the interest rate risk and by the foreign currency risk); and
- borrowing collaterals included in "Current financial assets and Non-current financial assets" on the consolidated statement of financial position.

/ 3.7.2 Segment EBITDA

The Group defines Segment EBITDA as segment operating income less depreciation of property, plant and equipment and amortization of intangible assets.

3.8 Revenue recognition

The accounting principles concerning the recognition of income arising in the course of ordinary activities were updated in light of the new provisions of IFRS 15 standard. They are presented below:

The sale of tires, in the original equipment or replacement market, constitutes the major part of Group income. In this commercial relationship, the Group acts as a principal and not as an agent. The clients have the full and complete possibility to use the tires for their own benefit, or to market them, and in this case, to fix the resale price. Furthermore, they carry the inventory risk.

The trade terms offered by Group companies, in line with normal market practice, vary according to the category of clients and the country in which the sales are made. They anticipate however, that the payment for the goods sold will be made in a period appreciably less than one year and there is therefore no reason to adjust the amount of consideration received from customers to take into account the effects of a financing component.

Each delivery of tires, either in the original equipment market with car manufacturers or in the replacement market, represents a distinct and separate performance obligation to be fulfilled at a point in time and which corresponds to the loading of goods or their delivery, in accordance with the underlying contract.

The warranties offered to the buyers cover design or manufacturing defects, which may appear as irregular or excessive tires wear under normal conditions of use. These warranties, which do not provide the client with any supplementary guarantee, apart from the fact that the tire is exempt from defects, continue to be accounted for in conformity with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets.

The Group accepts, under certain conditions, to give trade concessions or to reimburse unsatisfied clients. It also gives, occasionally and under special circumstances, the right to return products already sold. This right gives rise to the recognition of a liability and a reduction in income as well as an asset representing the Group's right to recover the goods that customers will return.

In addition, the amount that the Group effectively receives for the tires delivered, as well as the revenue from sales booked to the income statement, can vary as a result of the deferred rebates, stipulated in contractual agreements and/or at the start of commercial campaigns, which will be paid to the customers at the end of the reference period and depending on the achievement of qualitative or quantitative objectives fixed for that period. Their value is determined using the expected value method. The Group relies on the analysis of historical data and its accumulated experience to estimate the probable amount of rebates and discounts to be given to customers. The revenue from ordinary activities is therefore recognized taking into account the uncertainty surrounding the different elements of variable consideration and to the extent that it is highly probable that the outcome of the uncertainty concerning the different elements of the variable consideration will not give rise to a significant reduction in the amount of sales already booked, once the uncertainty is resolved. The difference between the amounts invoiced to the customers and the revenue from ordinary activities booked results in the recognition of a liability as a future reimbursement booked in the position "Other short term liabilities" of the consolidated statement of financial position.

The other sales categories comprise, essentially, the management of tires for commercial fleets and the supply of telematics services, the latter having for objective the reduction in the consumption of fuel and the efficiency of fleets. The services supplied within the framework of these contracts consist of a single performance obligation satisfied over time for which the sales revenue is recognized according to the level of progress, measured on the basis of the efforts made and the costs incurred.

The Group is led to conclude multi-year agreements with customers, which include a commitment, relative to its capacity to supply the products, in exchange for a specific consideration. This is to be paid in advance of the obligations of supplying the products which will be spread over the duration of the contract. As such, this commitment is considered to be linked to the supply of the products and will be recognized as revenue as and when the supply obligations are fulfilled. When the payment is received, a contract liability is registered and split between the positions "provisions and other long term liabilities" and "other short term liabilities" of the consolidated statement of financial position, depending on the date of the execution of the performance obligations.

3.9 Cost of sales

Cost of sales comprises the costs of manufacturing products and the cost of goods purchased for resale.

It includes the purchase cost of raw materials, production costs directly related to the manufactured products and all production overheads, based on the normal capacity of production facilities.

Production overheads include depreciation of property, plant and equipment, amortization of intangible assets relating to production and write-downs of inventories.

Cost of sales also includes a relevant portion of general overheads to the extent that they are directly attributable to bringing the manufactured products to their present location and condition.

3.10 Research and development

Research costs cannot be capitalized. Development cost are capitalized as intangible assets when the conditions relating to the commercial and technical feasibility of the project, the ability to allocate the costs reliably and the probability of generating future economic benefits are fulfilled.

Development costs are reviewed annually in order to determine whether the criteria for recognition as intangible assets are met.

3.11 Segment operating income

The "Segment operating income" is measuring the performance of the operating segments and is one of the Group's management indicators.

3.12 Other operating income and expenses

"Other operating income and expenses" records items that are not taken into account by the Management when measuring the performance of the operating segments due to their nature or their significant, unusual or abnormal characteristics. They include, in particular, the costs related to the reorganization and adaptation of activities and those related to major litigations (and the adjustments in the corresponding provisions), as well as impairment of goodwill and acquisition-related costs. Given the recent major acquisitions made by the Group, the amortization of trademarks and customer relationships recognized as part of a business combination is also recognized in other operating income and expenses. They also include gain/loss on disposals and changes in impairment of property, plant and equipment and intangible assets, acquisition price adjustments as well as gains and losses related to changes in post-employment benefits. They are detailed in note 9 "Other operating income and expenses".

3.13 Income tax

Current and deferred taxes, plus any withholding tax on royalties and on distributions of retained earnings within the Group, are included in the income statement except if they relate to items recognized either in other comprehensive income or directly in equity, in which case they are also recognized, respectively, in other comprehensive income or directly in equity.

Current tax is based on the results of Group companies and is calculated according to local rules, including any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements, using enacted or substantially enacted tax rates that are expected to prevail when the temporary differences reverse.

A deferred tax asset or liability is recognized on initial recognition of transactions arising from business combinations and impacting the accounting or taxable result.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax losses carried forward and the temporary differences can be offset.

Deferred tax is calculated on temporary differences arising from investments in subsidiaries, joint ventures, and associates: deferred tax assets are recognized if the reversal is both under the entity's control and it is probable. Deferred tax liabilities are recognized unless their reversal is controlled and not probable.

3.14 Business combination and goodwill

When the Group obtains control of an entity, the business combination is valuated and accounted for by applying the acquisition method. Goodwill is computed at acquisition date as the difference between:

- the fair value of the consideration transferred including, if any, the fair value of contingent consideration;
- the fair value at the acquisition date of the identifiable acquired assets, the liabilities and contingent liabilities assumed.

The valuation period for a business combination does not exceed twelve months after acquisition date.

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination and that reflect the level at which the Group manages goodwill. Goodwill is tested for impairment annually.

3.15 Intangible assets

Intangible assets are recognized at cost. The cost of an intangible asset acquired as part of a business combination is its fair value at the acquisition date.

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment. Those with finite useful lives are amortized on a straight-line basis over their estimated useful life:

- Software: 3-7 years
- Brands and trademarks: 5-20 years
- Customer relationships: 5-20 years

3.16 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and, when necessary, impairment.

The gross carrying amount includes the cost of acquisition or production cost and other costs directly attributable to the acquisition or the construction of the asset (including borrowing costs). Investment grants are initially accounted for as deferred income and are subsequently recognized as income over the useful life of the related asset.

Repair and maintenance costs are expensed as incurred. Other subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset if the recognition criteria are met.

Property, plant and equipment are depreciated on a straight-line basis, except land which is not depreciated. Depreciation on property, plant and equipment reflects the pattern in which the asset's future economic benefits are expected to be consumed. Depreciation is allocated to cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

The following depreciation periods, based on the expected useful lives of the respective assets, are applied throughout the Group:

- Buildings and general installations of land and buildings: 25 years
- Industrial and commercial equipment: 2-12 years
- Computer and telecommunication equipment: 5 years
- Vehicles: 5 years
- Other: 5-12 years

The useful lives of the assets and their respective residual values are reviewed annually.

When assets are sold or otherwise disposed of, the difference between the net proceeds and the net carrying amounts of the assets is recognized in other operating income and expenses.

Property, plant and equipment which are financed by leases giving the Group substantially all of the risks and rewards of ownership are capitalized at the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease. The leased assets are depreciated over the shorter of the lease term and the useful life of the leased assets if the transfer of ownership of the leased assets is uncertain.

The obligations arising from future finance lease payments are discounted and recognized as a financial liability in the consolidated statement of financial position. The payments related to operating leases are expensed on a straight-line basis over the lives of the contracts.

3.17 Impairment of non-financial assets

When there is any indication that the recoverable amount of an asset (goodwill, intangible assets or property, plant and equipment) may be lower than its carrying amount, the recoverable amount of the asset is measured and if needed, an impairment is recognized.

Whether there is an indication of impairment or not, an annual impairment test for goodwill, intangible assets with indefinite useful life and intangible assets not ready for use is performed by comparing their carrying amount with their recoverable amount.

At individual asset level, indications of impairment generally come from a fall in market value, technical obsolescence or an anticipated change of use. The recoverable amount is usually based on the market value.

At Group level, non-financial assets are combined for impairment testing purposes in the smallest identifiable group of assets that generates cash flows that are largely independent of cash flows from other assets or group of assets (Cash Generating Units – CGUs).

For the tire business, CGUs are based on industrial asset groups, generally production plants, working together to manufacture and make available product offers meeting the customers' needs with similar expectations in homogeneous markets or market segments.

CGUs related to non-tires business (Services and Solutions, Experiences, High Technology Materials and Distribution) generally cover the perimeter of each of these activities.

CGUs to which goodwill have been allocated are tested annually or more frequently if events or changes in circumstances indicate a potential impairment. Those without goodwill are tested if there is a specific indication of impairment. For depreciation tests, goodwill is allocated to CGU or group of CGUs on the same basis as used by the Group management to monitor the performance of the businesses and assess synergies deriving from business combinations.

CGUs for which no goodwill is allocated are tested for depreciation only if there is any indication that they may be impaired. In assessing whether there is any indication that a CGU may be impaired, the Group has defined three indicators for tires business' CGUs. They measure respectively the trends (i) in the market served by the CGU, (ii) in the economic performance through the cost of sales' margin and (iii) in the use of the installed industrial capacities. For non-tires business' CGUs as well as for distributions' CGUs, the measurement of the trends in the economic performance is the triggering indicator of an impairment test.

The recoverable amount is the higher of the value in use and the fair value less cost of disposal.

For most CGUs or group of CGUs, recoverable amount is based on value in use, which is equal to future discounted cash flows using the Weighted Average Cost of Capital (WACC) as a discount rate. Future cash flows are mainly based on the CGU's five-year cash flow forecasts plus a terminal value, measured by dividing projected cash flows by the WACC. The discount rate is based on the cost of equity capital derived from the market-expected return on the Company's shares, the cost of financial debt and a risk premium reflecting the risks of the countries where the assets are located. The gearing and the beta are based on data from comparable segments and take into account specificities of certain activities.

The recoverable amount of the Distribution CGUs on the other hand is measured at fair value less costs of disposal. Since most of these assets are land and buildings, external appraisals or other real estate valuation techniques are applied to measure their fair value.

Any impairment loss is recognized first against goodwill and any remaining amount is allocated among the other non-current assets, based on their net carrying amounts at the closing date.

When the circumstances which previously caused non-financial assets to be impaired no longer apply, the impairment losses are reversed accordingly. However, goodwill impairment can never be reversed.

Changes in impairment losses are recognized in "Other operating income and expenses".

3.18 Non derivative financial assets

/ 3.18.1 Asset categories

The Group classified its financial assets to the IFRS 9 categories depending on the SPPI factors (Solely Payment of Principal and Interest) and its business model. This model can take two forms: either collect the contractual cash flows and keep the financial asset until maturity (HTC: held to collect); or collect the contractual flows and sell the asset (HTCS: held to collect and sell).

The Group classifies and measures its debt instruments in the following categories:

- Amortized cost: held to maturity financial assets in order to collect repayments from principal and interest;
- Fair value through income statement: financial assets that do not meet the criteria to be classified either in amortized costs (SPPI and HTC), nor in fair value through other comprehensive income (SPPI and HTCS).

The Group has not identified debt instruments that meet the fair value through other comprehensive income criteria.

The Group measures all its non-consolidated equity investments at their fair value. When the Group chooses to use the irrevocable option to record fair value variations in other comprehensive income, the realized gains or losses on disposal are not recycled in the income statement. The impairment losses recognized on equity investments are not shown separately from the other variations in fair value.

/ 3.18.2 Initial recognition and derecognition

Purchases and sales of non-derivative financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Non-derivative financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Non-derivative financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

/ 3.18.3 Measurement

Loans and receivables are measured at amortized cost using the effective interest rate method.

Financial assets at fair value are valued by direct reference to a price quoted in an active market or on the basis of market assumptions (note 3.6 "Fair value of financial instruments"). Gains and losses, realized or unrealized, arising from changes in the fair value of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

Gains and losses, realized or unrealized, arising from changes in the fair value of financial assets at fair value through comprehensive income are recorded in other comprehensive income and never impact the income statement.

/ 3.18.4 Impairment

At each closing, the Group seeks any objective indication of impairment of a financial asset recorded at amortized cost.

The model for calculating the expected credit loss is determined on the basis of the counterparty rating and the associated default probability. The Impairment is calculated over a period of 12 months given the non-deterioration of the credit risk of the counterparties. It is recognized in the income statement.

When the credit risk of a financial asset at amortized cost increases significantly, the expected credit loss is calculated over the life of the asset.

If there is no longer a reasonable way to recover the value of a financial asset at amortized cost, the asset is derecognized from the consolidated statement of financial position and impacts the income statement.

3.19 Inventories

Inventories are carried at the lower of cost and net realizable value.

The cost of raw material, supplies and purchased finished goods includes the purchase price and other costs directly attributable to the acquisition. The cost of work in progress and manufactured finished goods comprises direct labor cost, other direct costs and production overheads based upon normal capacity of production facilities. Borrowing costs are expensed as incurred. The measurement of inventories and of cost of sales with the standard cost method put in place by the Group is close, after taking variances into account, to what would be obtained using the actual cost method.

Net realizable value is the estimated selling price less the estimated costs of completion and sale.

An impairment loss is recognized when net realizable value is lower than cost and is reversed when it becomes apparent that the circumstances which previously caused inventories to be written down below cost no longer exist.

3.20 Trade receivables

Trade receivables are initially recognized at the amount unconditionally due by the customer. The Group manages its trade receivables in order to collect the contractual cash flows and measures its receivables at amortized cost, according to the effective interest rate method, after deduction of any impairment losses.

When payment terms are less than one year, the initial fair value and the subsequent amortized cost are equal to the nominal amount to the extent that the receivable does not include a significant financial component.

The Group applies the simplified approach of IFRS 9, which consists of calculating the expected credit loss over the life of the trade receivable. This model makes it possible to determine a credit loss expected at maturity for all trade receivables, as soon as they are registered.

Expected credit losses are based on customer payment patterns that have been observed over 36 months, and trade credit losses historically recorded during this period.

An impairment loss is also recognized in the presence of objective indications that the Group will not be able to cash all amounts due according to the terms of the original transaction. Bankruptcies, the legal processes of protection against creditors, cases of notorious insolvency or disappearance of the debtor, late payments of more than six months, the economic or political risks of the country of residence of the debtor, as well as the deterioration of its solvency are all indicators that suggest that a commercial debt must be impaired. The amount of the impairment loss is the difference between the carrying amount of the asset and the discounted value at the initial effective interest rate of the estimated future receipts. Before recognizing an impairment, the quality of the guarantees potentially obtained must be assessed, as well as the capacity to implement them. The impairment loss is recognized in commercial expenses.

When the receivable is uncollectable, it is canceled by compensation with the impairment previously recorded. Any subsequent receipts corresponding to previously derecognized receivables are recorded as a reduction of commercial expenses in the income statement.

3.21 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less. Term deposits maturing in more than three months, but with early withdrawal terms of less than three months with guaranteed capital and negligible withdrawal costs are also classified as cash and cash equivalents.

3.22 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are presented separately in reserves. The amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. When treasury shares are sold, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

3.23 Non-derivative financial liabilities

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated statement of financial position date.

Non-derivative financial liabilities are recognized initially at fair value, net of transaction costs, and subsequently at amortized cost. Any difference between the issue proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability at amortized cost. The remainder of the proceeds is allocated to the conversion option. This is recognized in financial liability.

To the extent that borrowings are hedged by qualifying fair value hedges, the carrying value of the hedged item is adjusted for the change in fair value attributable to the risk being hedged.

3.24 Employee benefits

Wages, salaries, social security contributions, payments to defined contribution plan, annual leave and sick leave payments, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by the employees.

Where employee benefits, such as pension, other post-employment benefits and other long-term benefits, are provided by the Group, a liability or an asset and the related costs are recognized.

/ 3.24.1 Pension and other post-employment benefits

Post-employment benefits are benefits payable after the completion of employment. The Group provides retirement benefits for most of its employees, either directly or by contributing to independently administered funds. The benefits provided by the Group vary according to the legal, tax and economic situation in each country and are usually based on one or more factors such as employees' remuneration, age and years of service. The obligations relate both to current retirees and to entitlements of future retirees.

The Group provides post-employment benefits under defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group pays fixed contributions to fund managers or insurance companies. Once the contributions have been paid, the Group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay the benefits expected by the beneficiaries.

The regular contributions are recognized as an expense for the year in which they are due and, as such, are included in cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

Group management policies regarding post-employment benefits have led to the transformation of defined benefit plans to defined contribution benefit plans since the early 2000's. Nevertheless a significant part of the post-employment benefit plans are still defined benefit plans. They are either externally funded plans (mainly pension plans), for which the plan assets are held separately in independently administered funds, or unfunded plans such as healthcare benefit plans and retirement bonus plans.

The post-employment benefit liabilities, and the related current service cost, are measured using the Projected Unit Credit Method.

A defined benefit plan is a plan that defines an amount of benefits that the Group is committed to pay to current and former employees.

All defined benefit plans are subject to actuarial calculations carried out annually for the largest plans and on a regular basis for other plans. These actuarial valuations are carried out with the help of independent actuaries. Actuarial assumptions, primarily discount rates, projected rates of remuneration growth, inflation rates and expected increase of healthcare costs are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. They take into account any unrecognized assets not available in form of refunds or reduction in future contributions.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds in the currency of the obligation that have maturities approximating the duration of the related benefit liability.

A net asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group in the form of refunds from the plan or reductions in future contributions.

When a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group determines whether paying these contributions may give rise to a surplus in that defined benefit plan. To the extent that the surplus in the plan exceeds the economic benefits available, the Group recognizes immediately a decrease in the defined benefit asset or an increase in the defined benefit liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

Past service costs may arise when new defined benefit plans are set up, when changes to benefits payable under an existing defined benefit plan are introduced or when curtailments occur. They are recognized immediately in the income statement.

The Group net benefit plan cost recognized in operating income consists of current service cost, curtailment and settlements gains and losses, past service cost as well as actuarial gains and losses arising under other long term benefit plans. Net interest on the net defined benefit liability (asset) is recognized outside the operating income.

/ 3.24.2 Share based payments

Employee share option plans

Benefits related to share options which can be granted to some Group employees are measured at grant date using a binomial model.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of options granted to them.

The binomial model is based on the spot price for Company shares, the exercise price, the historical volatility (over a period equal to the expected lifetime of the option), a risk-free interest rate (zero coupon government bonds with a maturity equal to the expected lifetime of the option), and a dividend stream based on market expectations.

Benefits are spread over the period during which the services are rendered. They are recognized in "Segment other income and expenses".

Performance share plans

The Group may adopt plans to grant free shares of the Company to certain of its employees.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of performance shares granted to them.

The fair value of the performance shares is based on the spot price of the Company's share at grant date, less the present value of expected dividends that will not be received by grantees during the vesting period.

The number of shares that will finally be issued at the end of the vesting period depends on the realization of Group performance and service conditions.

The total compensation cost is based on the fair value of the performance shares and the estimated number of shares that will finally be issued. This cost is recognized over the vesting period and is booked in "Segment other income and expenses".

Employee share purchase plans

The Group may offer to most of its employees the opportunity to subscribe to a share purchase plan that allows them to purchase Company shares.

These shares, which are subject to certain restrictions relating to their sale or transfer, are purchased by the employees at a subscription price based on the market prices of the Company shares set with a discount. The benefit of the employees equals the difference between the fair value of the purchased shares (after allowing for the five-year lock-up cost) and the price paid by the employee, multiplied by the number of shares subscribed.

The benefit granted to the employees is immediately expensed by the Group, as no vesting period applies, and is booked under Employee benefit costs – Share-based payments, within the "Segment other income and expenses".

3.25 Provisions

Provisions are recognized when a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated.

The provisions for reorganizations and adaptation of activities are recognized when the Group has a detailed formal plan that has been announced.

Provisions are recorded at the net present value of the estimated cash outflows.

3.26 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The Group has put in place paying agent contracts with some financial institutions. Under these agreements, the financial institution acts as a paying agent with respect to invoices due to our suppliers who have entered into a bilateral agreement with the financial institution in order to be in position to factor their trade receivables from the Group.

Given the nature of these contracts, the total balance of trade payables to such suppliers is presented on a separate line of the consolidated statement of financial position "Trade payables under factoring contracts".

In the consolidated cash flow statement, these operations are included in operating activities.

NOTE 4 CHANGE IN THE SCOPE OF CONSOLIDATION

4.1 Creation of a joint venture with Sumitomo Corporation of Americas

Michelin North America, Inc. and Sumitomo Corporation of Americas announced on January 3, 2018 an agreement to combine their respective North American wholesale and retail distribution activities into a joint venture named TBC, equally owned by both parties. The transaction is forming the second largest player in the wholesale tire market in the United Sates which will operate under a new brand, NTW.

The transaction was completed on April 5, 2018, after obtaining the required approvals.

The Group contributed to the joint venture its Tire Centers, LLC wholesale network in the United States for an amount of US$160 million, in addition to a cash consideration of US$470 million. In consideration for its contribution, the Group received 50% of the share capital of the joint venture and exercises joint control over TBC. Consequently, these shares have been included on the line "Investments in equity-accounted entities" of the consolidated statement of financial position. Furthermore, each party Michelin and Sumitomo has granted a US$200 million loan to the joint venture, thus completing its funding.

The Group accounted for the contribution of its wholesaler activity to the joint venture in accordance with IFRS 10.

The loss of control of Tire Centers, LLC led to (i) the derecognition of TCI's assets and liabilities from the consolidated statement of financial position, (ii) the recognition of the shares received in the newly formed joint venture TBC at their fair value, and (iii) the recognition of a disposal gain equal to the difference between the fair value of the shares received in counterpart of the TCI contribution and the net carrying amount of the assets and liabilities of the former subsidiary as a result of the loss of control. This disposal gain, amounting to €35 million, was recognized on the line "Other operating income and expenses" of the consolidated income statement.

The recognition of Michelin's share in net earnings of TBC is based on TBC's financial statements for the prior month (November 30, 2018 for the year end closing). As at December 31, 2018, the purchase price allocation is still in progress.

Quantitative data are presented in Note 17.1 "Joint venture with Sumitomo Corporation of Americas (TBC)".

4.2 Acquisition of Fenner Plc

In March 2018, the Group and Fenner Plc announced that they have reached an agreement on the terms of a recommended cash acquisition pursuant to which Michelin would acquire the entire issued and to be issued share capital of Fenner by means of a Court-sanctioned scheme of arrangement under Part 26 of the United Kingdom's Companies Act 2006.

After Fenner's shareholders approved the Scheme in May and clearance from the antitrust authorities was obtained, the Scheme was sanctioned by the Court and the acquisition became effective on May 31, 2018.

Each Fenner shareholder subject to the Scheme received 610 pence in cash for each Fenner Plc share on or before June 14, 2018, therefore valuing the acquired company at GBP1.2 billion. The Group has exclusive control over Fenner which is therefore fully consolidated since May 31, 2018.

Headquartered in Hessle, United Kingdom, Fenner is one of the leaders in heavy conveyor belts industry and a global player in the heavy and complex conveyor belt solution market so as a leading player in reinforced polymer technology.

By this acquisition, the Group's ambition is to provide mining industry customers with a comprehensive offering, ranging from tires to conveyor belts with related services and solutions, and to enhance both companies' geographical reach. Furthermore, the transaction is expected to broaden high-technology materials expertise and innovation.

Quantitative data are presented in Note 13.1.1 "Fenner Plc".

4.3 Acquisition of Camso Inc.

On December 18, 2018, the Group completed the acquisition of Camso Inc., after obtaining all of the required approvals from the relevant antitrust authorities. Headquartered in Magog, Quebec, Canada, Camso has been designing, manufacturing and marketing off-the-road mobility solutions since 1982. Camso is a market leader in rubber tracks for farm equipment and snowmobiles, and in solid and bias tires for material handling equipment. It also ranks among the top three players in the construction market, in tracks and tire solutions for small heavy equipment. Camso sales amounted to US$976 million for financial year ending March 31, 2018.

By joining its own activities with the ones of Camso, the Group will become the world leader on off-the-road markets. The transaction will enable to provide customers with a comprehensive range of offers, like premium radial tires and tracks in the agricultural market or radial, bias and tracks in the construction market. Deployment of new offers will be accelerated by the complementarity of both Michelin and Camso's distribution networks. In the technology field, the acquisition is expected to leverage the Group's innovation capacity in tracks and airless tires. Furthermore, Camso has a strong manufacturing presence in emerging countries, particularly in Sri Lanka and Vietnam.

The consideration fully paid in cash in exchange of 100% of the Camso shares amounts to US$1.36 billion.

Due to the transaction date, the Group was not in position to consolidate Camso according to the acquisition method prior to the closing date of the Group consolidated financial statements, given the unavailability of Camso's consolidated statement of financial position as at December 31, 2018, that will be the reference for the identification of acquired assets and liabilities assumed and their valuation at fair value. On a provisional basis, full acquisition price – €1.174 billion as at December 18, 2018 – was therefore accounted for as preliminary Goodwill in the consolidated statement of financial position. Camso net income and cash flow over the period covering December 19 to 31 are immaterial. Based on Camso audited and consolidated March 31, 2018 statement of financial position, the Group considers that elected provisional presentation has no significant impact on its consolidated statement of financial position.

Acquisition price allocation will be performed in the course of 2019 financial year.

4.4 Other acquisitions and non-controlling interests acquired

On February 12, 2018, Michelin entered into an agreement with Mobivia, the European leader in multi-brand vehicle servicing and parts in order to drive further growth in A.T.U. (Auto-Teile-Unger), the largest network of auto centers in Germany. To that end, the Group acquired a 20% minority stake in the Swiss holding company of the A.T.U. network for a total amount of €60 million. This partnership is assessed as an associate being accounted for using the equity method.

In October, the Group announced the acquisition of the U.S. company Tablet, an online travel agency specializing in luxury hotels offering their guests unforgettable and original experiences. Headquartered in New York, the company was founded in 2000 and is providing its services through a selection and booking platform. Tablet's selection currently has 3,500 hotels and 52% of Tablet clients are North-American customers. The acquisition by the Group should enable conquering wider and more geographically diverse audiences, by extending existing offers and proposing new ones.

The fair value at acquisition date of the transferred consideration, which includes an earn-out, amounts to €35 million. On a provisional basis, the acquisition price was fully accounted for as preliminary Goodwill in the Group's consolidated statement of financial position. Purchase price allocation will be performed in the course of 2019 financial year.

NOTE 5 SEGMENT REPORTING

As a result of the new organization put in place by the Group as of January 1, 2018 and described in note 2.5 "Impacts of the Group's organizational change on financial information", the segmental information is presented according to the following three operating segments:

- Automotive and related distribution;
- Road transportation and related distribution;
- Specialty businesses and related distribution.

Specialty businesses include the Specialty activities (Mines, Off-Road, Two-wheel, Aircraft and Conveyor belts) and High Technology Materials. These three operating segments are essentially identical to the previously presented segments, with the exception of the following reallocations:

(1) Transfer of the replacement light truck tires, from the "Automotive" segment (formerly the Passenger car and light truck) to the "Road transportation" segment.

(2) Transfer of construction truck tires, from the "Road transportation" segment (formerly Truck tires) to the "Specialty businesses" segment.

The 2017 segmental information has been restated to reflect these reallocations.

The operating segments performance is measured mainly on "Sales" and "Segment operating income" based on the same principles applied to the Group's consolidated income statement.

Segment assets consist of goodwill, intangible assets, property, plant and equipment, trade receivables and finished products inventories. Corporate intangible assets and property, plant and equipment are allocated to each segment in proportion of directly attributed assets. The amounts provided to the Managing Chairman with respect to segment assets are measured in a manner consistent with that of the consolidated financial statements. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

No operating liabilities are allocated to the segments in the Group internal reporting.

The segment information is as follows:

	2018				2017			
(in € million)	Automotive and related distribution	Road transportation and related distribution	Specialty businesses and related distribution	Total	Automotive and related distribution	Road transportation and related distribution	Specialty businesses and related distribution	Total
Profit and loss information								
Sales	11,340	5,852	4,836	**22,028**	11,953	5,946	4,061	**21,960**
Segment operating income	1,314	513	948	**2,775**	1,465	483	794	**2,742**
In percentage of sales	*11.6%*	*8.8%*	*19.6%*	**12.6%**	*12.3%*	*8.1%*	*19.6%*	**12.5%**
Depreciation and amortization[1]	(685)	(351)	(308)	**(1,344)**	(705)	(408)	(232)	**(1,345)**
Segment assets								
Goodwill, Intangible assets and PP&E[2]	6,765	3,753	4,197	**14,715**	6,684	3,665	2,411	**12,760**
Finished products inventories	1,208	822	691	**2,721**	1,425	818	638	**2,881**
Trade receivables	1,550	1,035	722	**3,307**	1,572	974	538	**3,084**
Total of segment assets	**9,523**	**5,610**	**5,610**	**20,743**	**9,681**	**5,457**	**3,587**	**18,725**
Other information								
Capital expenditure	879	440	349	**1,668**	1,024	461	286	**1,771**

(1) Excluding amortization of trademarks and customer relationships acquired through business combinations (notes 3.12 and 9.1).
(2) Excluding Camso.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	December 31, 2018	December 31, 2017
Segment assets	**20,743**	**18,725**
Camso provisional goodwill	1,159	-
Non-current financial assets and other assets	691	479
Investments in associates and joint ventures	938	356
Deferred tax assets	740	890
Other net inventories (raw materials and supplies, work in progress)	1,726	1,627
Current financial assets	314	285
Other current assets	1,037	1,132
Cash and cash equivalents	2,100	1,773
TOTAL GROUP ASSETS	**29,448**	**25,267**

The geographic information is broken down by zone hereunder:

	2018				2017			
(in € million)	Europe	North America	Other	Total	Europe	North America	Other	Total
Sales	8,570	7,824	5,634	**22,028**	8,315	8,056	5,589	**21,960**
Goodwill, Intangible assets and PP&E	6,590	4,178	3,947	**14,715**	5,804	3,217	3,739	**12,760**
Capital expenditure	824	435	409	**1,668**	866	533	372	**1,771**

Europe includes western and eastern European countries. North America includes Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in Other.

The Group sales information is based on the location of the customer.

The net sales in France amounted to €2,056 million (2017: €1,984 million). The intangible assets and PP&E located in France amounted to €2,352 million (2017: €2,298 million).

Approximately 80% of the North American net sales are done in the United States of America during these two years.

No single external customer amounted to 10% or more of the Group sales in 2018 and 2017.

NOTE 6 EXPENSES BY NATURE

The following operating costs from segment activities are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Raw materials and consumables used and changes in finished products inventories	(7,948)	(8,072)
Employee benefit costs	(5,972)	(5,909)
Transportation of goods	(1,186)	(1,183)
Depreciation and amortization[1]	(1,344)	(1,345)
Other expenses	(2,803)	(2,709)
EXPENSES BY NATURE	**(19,253)**	**(19,218)**

(1) Excluding amortization of trademarks and customer relationships acquired through business combinations.

NOTE 7 EMPLOYEE BENEFITS COSTS

The charges for employee benefits are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Wages and salaries	(4,732)	(4,617)
Payroll taxes	(907)	(963)
Defined benefit plan costs (note 27.1)	(169)	(64)
Defined contribution plan costs (note 27.2)	(223)	(220)
Share-based payments – cost of services rendered (note 25)	(7)	(7)
EMPLOYEE BENEFIT COSTS	**(6,038)**	**(5,871)**

The average number of employees in 2018 is 118,308 (2017: 114,438).

NOTE 8 SEGMENT OTHER INCOME AND EXPENSES

Segment other income and expenses are recognized within in the income statement:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Acquisition costs linked to business combinations	-	(10)
Employee shareholder plan cost	(13)	-
Share-based payments – cost of services rendered	(9)	(7)
Other operating income/(expenses)	17	(18)
SEGMENT OTHER INCOME AND EXPENSES	**(5)**	**(35)**

NOTE 9 OTHER OPERATING INCOME AND EXPENSES

The other operating income and expenses are detailed in the table below:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Amortization of brands, trademarks and customer relationships acquired (note 9.1)	(39)	-
Reorganization and adaptation of activities (note 9.2)	(113)	(55)
Impairment of fixed assets (note 9.3)	(70)	(54)
Retiree benefit costs (note 9.4)	(66)	37
Other operating income/(expenses) (note 9.5)	63	(39)
OTHER OPERATING INCOME AND EXPENSES	**(225)**	**(111)**

9.1 Amortization of intangible assets recognized in the course of a business combination

Amortization of intangible assets recognized in the course of a business combination amounts to €39 million in 2018. From this amount, €9 million are relating to amortization of brands or trademarks and €30 million to amortization of customer relationships. Amortization of identifiable intangible assets (except technology) accounted for as part of the acquisition of Fenner amounts for the seven months following the acquisition to €25 million.

9.2 Reorganizations and adaptation of activities

The Group announced in November 2018 its intention to close the Dundee site in the United Kingdom by mid-2020. The site manufactures 16-inch and smaller Michelin tires for passenger cars. The factory employs 845 people. The Groups intends to implement a personalized support program for each of the factory's employee. In addition to enhanced redundancy packages and early retirement measures for employees at the end of their career, a comprehensive plan will be proposed to assist the employees concerned to start a new career as quickly as possible. Michelin Development, the Group's entity dedicated to local economic development in the areas of its operations, will also be working with local stakeholders with the aim of creating an equivalent number of new jobs.

A provision amounting to €104 million has been recognized which will mainly cover the cost of the social elements of this project, as well as the costs necessary to deploy the revitalization plan to help the impacted area.

Other restructurings of activities took place in 2018 for which provisions have been recognized for a total amount of €45 million.

In 2017, the Group announced the project of the new global organization to better serve its customers. In France, the implementation of this new organization has repercussions on the workforce headcount, especially within the Clermont-Ferrand sites. A voluntary pre-retirement scheme for managers and employees of the sites concerned was proposed and agreed with the unions. In addition, for those employees who could not enter this pre-retirement scheme, the Group has extended by one year the term of the GPEC agreement concluded in 2016 and increased the possibility to be eligible to the scheme. The result of these two schemes was a net cost of €27 million, taking into account the amounts already provisioned for retirement benefits of the populations concerned.

In Germany a competitiveness improvement plan was announced in December 2017 concerning passenger car tire, truck tire and semi-finished production activities within five industrial sites. To support the consequent reductions in workforce, some departure assistance measures were put in place which resulted in a provision of €16 million.

9.3 Impairment of fixed assets

Impairment losses on non-reusable equipment arising out of the Dundee plant closure amount to €47 million.

Other Impairment losses were recognized in 2018, for a total amount of €24 million, in relation to capitalized expenditure for information systems whose roll-out will only be partial.

In 2017, impairment losses on previously recognized goodwill totaled €36 million. They concerned mainly BookaTable.

Impairment losses on non-reusable assets, due to the competitiveness improvement plan in Germany and the ongoing restructuring in Italy, amounted to €12 million.

9.4 Retiree benefit costs

A High Court judgment in the "Lloyds Bank" case has been published on October 26, 2018. This judgment aims to eliminate inequalities between males and females which may exist in pension schemes with a "Guaranteed Minimum Pensions (GMPs)". The conclusions of the judgment related to the GMPs equalization have been analyzed by the Group leading to recognize an expense (a positive past service cost) for an amount of €37 million.

In 2017, an income amounting to €62 million resulted from the evolution of provisions for employee benefits in relation to the pension plans in the United Kingdom and the healthcare plan in the United States of America. The income was partially offset notably by the introduction of new plans in Hungary and in Canada and by the retirees' benefits costs in the United States of America.

9.5 Other operating income and expenses

During the year 2018, the Group acquired both companies Fenner Plc and Camso Inc. As part of these transactions, expenses or fees relating to consulting, due diligence, valuation and audit were incurred for a total amount of €30 million

By a decision ruled in March 2017 (RE #574.706), Brazil's Federal Supreme Court (STF) concluded that amounts of ICMS, a tax comparable to VAT, that are invoiced to and collected from the customers should be excluded from the calculation basis of PIS and COFINS, two social contributions due by companies and based on their gross income. After this decision from STF, many courts have ruled in favor of taxpayers who had brought actions against the tax administration on this matter. The Group's Brazilian subsidiary was granted with a final and a favorable ruling in October 2018.

Consequently to the aforementioned decision, the subsidiary assessed the total amount of PIS/COFINS overpaid during the period from July 2005 to October 2018 and recognized a €51 million income. Interests calculated on the total amount of overpaid contributions amounts to €26 million. They have been accrued on the line "Other financial income and expenses" of the consolidated income statement.

In the United States of America, the disposal of the TCi activity to transfer it to the joint venture with Sumitomo Corporation of Americas has generated a profit of €35 million (note 4.1 "Creation of a joint venture with Sumitomo Corporation of Americas").

At December 31, 2017, an amount of €39 million was provided for in relation to the following matter:

A French subsidiary of the Group received formal notice, in 2013 and 2016, from the administration responsible for the collection of social security contributions, to pay a total amount of €114 million (excluding late payments fees).

A first adverse judgment was rendered in September 2017. The Group pursued its recourse but recognized the risks related to these claims and set aside the above mentionned provision.

NOTE 10 COST OF NET DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

Cost of net debt and other financial income and expenses are broken down in the table below:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Interest expenses	(210)	(177)
Interest income	2	5
Interest rate derivatives	(4)	(16)
Fees on credit lines	(3)	(5)
Capitalized borrowing costs	15	17
COST OF NET DEBT	**(200)**	**(176)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	3	19
Currency remeasurement (including currency derivatives)	(7)	(14)
Other	20	(5)
OTHER FINANCIAL INCOME AND EXPENSES	**16**	**-**

10.1 Derivatives not accounted for using hedge accounting

As described in the financial risk management policy, the Group financing activities are mostly centralized (note 33.1.2 "Liquidity risk") and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (note 33.1.4 "Interest rate risk"). As a consequence:

- borrowings are essentially raised in Euros (note 26 "Financial liabilities");
- part of these borrowings is subsequently swapped into foreign currencies to finance the foreign subsidiaries; and
- derivatives are contracted to manage the foreign currency interest rates (note 16 "Derivative financial instruments").

This process is described in the summary table in note 33.2.3 "Interest rate risk".

Although these transactions provide effective economic hedges, they do not qualify for hedge accounting under IFRS (and therefore they cannot be recognized as cash flow hedges as described in note 3.5 "Hedging"). Fluctuations in the derivatives' fair values are therefore accounted for in the income statement. The decrease in fair value during the year amounted to €5 million (2017: decrease of €17 million) and is included in "Interest rate derivatives (Cost of net debt)".

10.2 Ineffective hedges

The effectiveness of the hedge is determined since the beginning of the hedging relationship and through periodic prospective evaluations of effectiveness to ensure the existence of an economic relationship between the hedged item and the hedge instrument.

These hedging relationships may be ineffective if the timing of the planned transaction changes from the original estimate. In 2018, the Group hedged the purchase price of the companies Camso and Fenner (note 4 "Change in the scope of consolidation") using cash flow hedging derivatives.

The ineffective portion of the cash flow hedges amounted to €3 million over the period (2017: zero). It was recorded under Other financial income and expenses.

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Current tax expense (note 18.2)	(570)	(559)
Deferred tax income/(expense) (note 18.1)	-	(102)
INCOME TAX	**(570)**	**(661)**

Current tax includes €35 million of withholding tax on royalties and distribution of retained earnings between Group companies (2017: €81 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Income before tax	**2,230**	**2,354**
Tax calculated using domestic tax rates applicable to income in the respective countries	(483)	(631)
Tax effect from:		
▶ untaxed transactions	(22)	(9)
▶ deferred tax assets not recognized during the year	(84)	(36)
▶ net change in unrecognized deferred tax assets	35	8
▶ changes in tax rates	(32)	25
▶ taxes with no tax base (tax credits, withholding tax, etc.)	(1)	(52)
▶ other items	17	34
INCOME TAX	**(570)**	**(661)**

The Group has operations in various countries that have different tax laws and rates. The weighted average domestic tax rate of Group companies may therefore vary from year to year depending on the relative size of taxable incomes.

The recovery forecasts supporting deferred tax assets are periodically reviewed by the tax entity and may, if necessary, lead to the recognition of previously unrecognized deferred tax assets.

In 2018, deferred tax asset assets arising from tax losses carried forward were recognized in China and Germany for €61 million. These deferred tax assets have been recognized to the extent that it is probable that the Group will have future taxable profits against which these losses carried forward can be recovered. Recovery forecasts are analyzed according to the entity and its forecasted taxable income. These forecasts take into account assumptions that are consistent with the short- and medium-term budgets prepared by Group entities.

In China, the Group considers that an amount of €36 million of tax for loss carryforwards (tax base: €144 million) can be recognized in the consolidated statement of financial position. The amount recognized takes into consideration that tax losses can be carried forward for 5 years.

In Germany, following a reorganization of the tax consolidation, an amount of €25 million was recognized as tax losses carry forwards. Tax losses can be carried forward indefinitely. The use of tax losses is limited to 60% of the profits of the year if the taxable profit exceeds €1 million.

Following the Group's announcement of its intention to close the Dundee plant by mid-2020, the group has remeasured its deferred taxes in the United Kingdom. This remeasurement takes into account the new taxable profit projections and has led to a deferred tax expense of €30 million recognized through the income statement. In this context, loss carryforwards amounting to €229 million did not result in the recognition of deferred tax assets for €39 million.

In France, the Group applied provisions of the 2019 finance act (*Loi de finances*) relating to the taxation of industrial property royalties and reassessed its deferred tax assets, resulting in a deferred tax expense of €31 million.

The remaining difference between the Group's effective and theoretical tax rates can be explained mainly by deferred tax assets not recognized during the year and by withholding taxes, tax credits and other taxes whose base is not the income before tax.

In 2017, the French Constitutional Council pronounced, by a decision entered into force on October 8, 2017, the total invalidation of the contribution of 3% on the distributions of result introduced in 2012. Therefore and in application of IAS 12, a tax income has been recognized for an amount of €47 million which corresponds to the total value of the contributions paid in respect of financial years 2012 to 2016 included. In addition, remunerative interest of €5 million has been recognized in financial income. These sums were paid by the tax authorities before the end of the financial year. The effect of this refund is presented on the "other items" line, in the above table.

The tax reform that came into force in the United States at the end of December 2017 resulted in a decrease in the deferred tax expense recorded in the consolidated income statement of €25 million over the year. The decrease in the tax rate, from 38.0% (including local taxes) to 24.8%, is taken into account to value the outstanding deferred taxes of the Group's US subsidiaries at December 31, 2017.

NOTE 12 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing income attributable to the shareholders of the Company by the weighted average number of shares outstanding during the year, excluding shares purchased by the Group and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. On December 31, 2018 the Company has two types of dilutive potential shares: stock options (note 28.1 "Stock option plans") and performance shares (note 28.2 "Performance share plans"). For the stock options and when they are dilutives at closing date, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the stock options. Since performance shares are granted free of charge and are dilutives by definition, the number of shares that are expected to be issued is determined at closing date based on estimate.

Components of the basic and diluted earnings per share calculations are presented in the table below:

	Year ended December 31, 2018	Year ended December 31, 2017
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,677	1,700
▶ Less, estimated grants to the General Partners	(12)	(11)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,665**	**1,689**
▶ Plus, interest expenses on convertible bonds	-	-
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,665**	**1,689**
Weighted average number of shares *(thousands of shares)* **outstanding used in the calculation of basic earnings per share**	**178,990**	**179,889**
▶ Plus, adjustment for share option plans	129	257
▶ Plus, adjustment for convertible bonds	-	-
▶ Plus, adjustment for performance shares	857	689
Weighted average number of shares used in the calculation of diluted earnings per share	**179,976**	**180,835**
Earnings per share *(in €)*		
▶ Basic	9.30	9.39
▶ Diluted	9.25	9.34

Taking into account the evolution of the average share price in 2018, all the stock option plans as described in the note 28.1 "Stock option plans" are dilutive.

No transaction on shares having an impact on the weighted average number of shares entering in the calculation of basic earnings per share and diluted earnings per share has occurred after the 2018 reporting period.

NOTE 13 GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill and intangible assets are as follows:

(in € million)	Goodwill	Intangibles	Total
Gross carrying amounts at January 1, 2017	**993**	**1,956**	**2,949**
Translation adjustments	(106)	(84)	**(190)**
Additions (including new emission rights: €4 million)	-	190	**190**
Disposals	-	(73)	**(73)**
Changes in scope of consolidation	269	156	**425**
Transfers and other	(2)	29	**27**
Gross carrying amounts at December 31, 2017	**1,154**	**2,174**	**3,328**
Translation adjustments	(48)	(37)	**(85)**
Additions (including new emission rights: €21 million)	-	222	**222**
Disposals	-	(31)	**(31)**
Changes in scope of consolidation	1,631	1,088	**2,719**
Transfers and other	1	4	**5**
Gross carrying amounts at December 31, 2018	**2,738**	**3,420**	**6,158**
Amortization and impairment at January 1, 2017	**(30)**	**(1,326)**	**(1,356)**
Translation adjustments	2	42	**44**
Amortization	-	(154)	**(154)**
Net impairment	(36)	(3)	**(39)**
Disposals	-	56	**56**
Changes in scope of consolidation	2	(2)	**-**
Transfers and other	-	(2)	**(2)**
Amortization and impairment at December 31, 2017	**(62)**	**(1,389)**	**(1,451)**
Translation adjustments	-	1	**1**
Amortization	-	(175)	**(175)**
Net impairment	(9)	(25)	**(34)**
Disposals	-	19	**19**
Changes in scope of consolidation	-	(18)	**(18)**
Transfers and other	-	(5)	**(5)**
Amortization and impairment at December 31, 2018	**(71)**	**(1,592)**	**(1,663)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2018	**2,667**	**1,828**	**4,495**
Net carrying amounts at December 31, 2017	**1,092**	**785**	**1,877**

13.1 Purchase price allocation

/ 13.1.1 Fenner Plc

At acquisition date, May 31, 2018, the fair value of the consideration transferred amounts to €1,370 million and has been fully paid in cash. The measurement at their fair value of assets acquired and liabilities assumed are detailed in the following table:

(in € million)	**At acquisition date**
Intangible assets	1,056
Property, plant and equipment (PP&E)	241
Non-current financial assets and other assets	-
Deferred tax assets	16
Non-current assets	**1,313**
Inventories	120
Trade receivables and other current assets	165
Cash and cash equivalents	78
Current assets	**363**
Non-current financial liabilities	190
Provisions and other non-current liabilities	23
Deferred tax liabilities	256
Non-current liabilities	**469**
Current financial liabilities	8
Trade payables and other current liabilities	209
Current liabilities	**217**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**990**

The fair value of intangible asset was assessed, with the assistance of an external consultant, using the royalty relief method for the brands and trademarks and using an income approach for the customer relationships and the technology. The Fenner-Dunlop trademark, major reference for conveyor belting products, was valued at €178 million and will be amortized over a 20-year estimated useful life period. The various trademarks relating to reinforced polymers products were valued at €150 million and have an indefinite useful life. The technology was valued at €35 million; its useful life mirrors the indefinite useful life of the underlying trademark. The fair value of the customer relationships amounts to €687 million. They will be amortized over their remaining useful life of 20 years.

At acquisition date, the net carrying amount of trade receivables was €144 million, which properly reflected their fair value.

As of December 31, 2018, the provisional allocation of the purchase price, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for €380 million, calculated as follows:

(in € million)	**At acquisition date**
Fair value of consideration transferred (1)	1,370
Fair value of net assets acquired (2)	990
GOODWILL (1) - (2)	**380**

Goodwill rationale is mainly supported by expected synergies:

- on conveyor belts activities, the acquisition enables the Group to provide its mining industry customers with a comprehensive offering, ranging from tires to conveyor belts with related services and solutions, and to enhance both companies' geographical reach ;
- on high-technology materials activities, the transaction broadens the Group's high-technology materials expertise and innovation.

Net cash-flow generated by the acquisition is as follows:

(in € million)	At acquisition date
Fair value of consideration transferred	(1,370)
Cash acquired	78
Acquisition costs paid	(17)
CASH-FLOW FROM THE ACQUISITION	**(1,309)**

Over the seven months to December 31, 2018, Fenner contributed €512 million to the Group's sales, €24 million to its operating income and €14 million to its net income. Had the acquisition taken place on January 1, 2018, the sales in the consolidated income statement would have amounted to €22,388 million and consolidated net income for the year, after adjusting for Fenner's non-recurring elements over the pre-acquisition period, would have amounted to €1,665 million. In determining these amounts, the Group assumed that the fair value of the identifiable assets acquired and liabilities assumed as determined at the acquisition date would have been the same as if the acquisition had occurred on January 1, 2018.

/ 13.1.2 Acquisitions of 2017 finalized in 2018

During 2018, the Group completed the purchase price allocation and finalized the accounting under the acquisition method of the following business combinations done in 2017.

In October 2017, the Group acquired Lehigh Technologies in the United States. This company is specialized in the development and production of innovative raw materials based on the recycling of worn non-reusable tires and other rubber-based industrial products. The allocation of the purchase price to the assets acquired and to the liabilities assumed led to the recognition of final goodwill for an amount of €4 million immediately impaired.

In October 2017, the Group also acquired 100% of the truck tire distributor and service provider Tructyre, in the United Kingdom. In December, the acquisition of PTG (Germany) and Teleflow (France), two leaders in tire pressure control systems, was completed. The total amount of consideration paid in cash for these three acquisitions was €36 million. The purchase price allocation was finalized during the second half-year of 2018 and final goodwill totaling €24 million was recognized, of which €4 million were impaired during 2018 financial period.

13.2 Goodwill

As a consequence of the new managerial and operational organization put in place in the Group as from January 1, 2018, of which key features are described in the note 2.5 "Impact of the Group's organizational change on the financial information", goodwill previously recognized in the consolidated statement of financial position at December 31, 2017 has been allocated to CGUs and to groups of CGUs as they were redefined according to their operational monitoring modalities and they are presented in the column "December 31, 2017" of the table below.

At December 31, 2018, the amounts allocated to the CGUs are as follows:

(in € million)	Decembre 31, 2018	Decembre 31, 2017
Group of CGUs Passenger car tires – global brands	364	355
Group of CGUs Passenger car tires – regional brands	11	11
Group of CGUs Light Truck and Truck tires	606	622
Group of CGUs Mining[(1)]	235	-
CGU 2 Wheels tires	26	29
CGU Off road tires	35	14
Group of CGUs High Technology Materials[(1)]	136	-
Other CGUs	59	61
Preliminary goodwill for Camso and Tablet[(2)]	1,195	-
GOODWILL	**2,667**	**1,092**

(1) As indicated in the note 13.1, the Fenner conveyor belts' business is a separate CGU which is combined with the Mining CGU for the impairment tests purposes. Reinforced polymers' activities are shown in the "High Technology Materials" group of CGUs.
(2) Goodwill for Camso and Tablet correspond to the acquisition price for the reasons mentioned in notes 4.3 and 4.4.

As a reminder, goodwill was allocated to the CGUs or groups of CGUs at December 31, 2017, as follows:

(in € million)	**Decembre 31, 2017**
CGU Passenger car and light truck tires Southeast Asia/Australia	121
CGU Passenger car and light truck tires North America	115
CGU Passenger car and light truck tires Europe	112
Group of CGUs Truck tires South America	202
Group of CGUs Truck tires North America	273
Group of CGUs Truck tires Europe	109
CGU Bookatable	61
Other CGUs	99
GOODWILL	**1 092**

The impairment tests have been carried out taking into account the following two main assumptions:

- the terminal value takes into account an annual growth rate which depends on the nature of the activities and the countries where the assets are located;
- the rates used to discount the CGUs' future cash flows are based on after-tax WACC (Weighted Average Cost of Capital) and are applied on after-tax cash flows. They are determined in relation with the geographical zones and the activities features.

After-tax discount rates and perpetual growth rates used in 2018 for the valuation of the terminal value are presented in the table below:

(in percent)	**WACC**	**Perpetual growth rate**
Group of CGUs Passenger car tires – global brands	7.4	1.5
Group of CGUs Passenger car tires – regional brands	7.1	1.5
Group of CGUs light truck and truck tires	7.9	1.8
Group of CGUs Mining	9.2	1.9
CGU 2 Wheels tires	7.9	1.8
CGU Off road tires	7.4	1.6

A WACC increase of 100 basis points would not lead to recognize any impairment.

13.3 Intangible assets

In 2018, additions to intangible assets, amounting to €222 million (2017: €190 million) break down into the following categories:

- Software €188 million
- Emission rights – allowances granted €21 million
- Other €13 million

Changes in scope of consolidation amount to €1,088 million (2017: €156 million) and breaks down as follows:

- Brands and trademarks €330 million
- Customer relationships €691 million
- Technology €42 million
- Other €25 million

/ 13.3.1 Software

The net carrying amount of software at December 31, 2018 was €550 million (2017: €511 million). Software is initially recognized at cost. Cost includes cost of acquisition or production cost and other costs directly attributable to the acquisition or production.

/ 13.3.2 Trademarks

At December 31, 2018 the net carrying amount of trademarks was €383 million (2017: €77 million), of which €184 million related to trademarks with indefinite useful lives. These amounts correspond mainly to the fair value of trademarks recognized as part of business combinations.

/ 13.3.3 Emission rights

The emission rights granted or purchased are recognized as an intangible asset at their price on the transaction date. A government grant is recognized in liabilities for the same value as the emission rights granted. The cost and the related liability for actual emissions consumed and the income corresponding to the use of the government grant are accounted for using the price in force at the acquisition date. The balance of the rights granted at December 31, 2018 amounts to 2.5 million metric tons (2017: 1.9 million metric tons) representing a value of €25 million (2017: €11 million). The liability related to actual emissions in 2018 amounts to 0.8 million metric tons (2017: 0.9 million metric tons) representing a value of €9 million (2017: €5 million). It will be offset by the delivery of the allowances granted.

/ 13.3.4 Development costs

In 2018 and 2017, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfill six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment are as follows:

(in € million)	Lands and Buildings	Plant and Industrial Equipment	Other Equipment	Total
Gross carrying amounts at January 1, 2017	**6,691**	**18,851**	**1,535**	**27,077**
Translation adjustments	(351)	(1,065)	(80)	**(1,496)**
Additions (including finance leases: €135 million)	444	1,149	127	**1,720**
Disposals	(60)	(376)	(83)	**(519)**
Changes in scope of consolidation	33	47	2	**82**
Transfers and other	(26)	3	(5)	**(28)**
Gross carrying amounts at December 31, 2017	**6,731**	**18,609**	**1,496**	**26,836**
Translation adjustments	16	79	(1)	**94**
Additions (including finance leases: €65 million)	334	1,118	80	**1,532**
Disposals	(145)	(504)	(48)	**(697)**
Changes in scope of consolidation	119	97	6	**222**
Transfers and other	(220)	215	6	**1**
Gross carrying amounts at December 31, 2018	**6,835**	**19,614**	**1,539**	**27,988**
Depreciation and impairment at January 1, 2017	**(2,910)**	**(12,068)**	**(1,046)**	**(16,024)**
Translation adjustments	136	661	53	**850**
Depreciation	(175)	(928)	(88)	**(1,191)**
Net impairment	(3)	(8)	(1)	**(12)**
Disposals	39	346	67	**452**
Changes in scope of consolidation	(4)	(25)	(2)	**(31)**
Transfers and other	1	1	1	**3**
Depreciation and impairment at December 31, 2017	**(2,916)**	**(12,021)**	**(1,016)**	**(15,953)**
Translation adjustments	(4)	(53)	2	**(55)**
Depreciation	(180)	(947)	(81)	**(1,208)**
Net impairment	(7)	(9)	(4)	**(20)**
Disposals	106	454	43	**603**
Changes in scope of consolidation	-	18	4	**22**
Transfers and other	-	1	1	**2**
Depreciation and impairment at December 31, 2018	(3,001)	(12,557)	(1,051)	**(16,609)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2018	**3,834**	**7,057**	**488**	**11,379**
Net carrying amounts at December 31, 2017	**3,815**	**6,588**	**480**	**10,883**

PP&E under construction amounted to €2,121 million (2017: €2,186 million).

Accumulated impairment losses amounted to €309 million (2017: €332 million).

The borrowing costs capitalized in 2018 in PP&E amounted to €15 million (2017: €17 million).

PP&E held under finance leases amounted to €317 million (2017: €263 million). The gross carrying amounts of these assets totaled €388 million (2017: €325 million).

The future minimum payments under finance leases by maturity are shown in the following table:

(in € million)	December 31, 2018		December 31, 2017	
	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	31	38	20	24
Between one and five years	155	172	116	125
More than five years	117	121	112	120
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**303**	**331**	**248**	**269**

The minimum future payments increase between the two years is due mainly to the introduction in 2018 of new finance leases for the construction of a logistics center in the United States.

NOTE 15 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

The carrying amount of the non-current financial assets and other assets is analyzed in the table below:

(in € million)	December 31, 2018	December 31, 2017
Equity investments (note 15.1)	233	285
Loans and deposits (note 15.2)	260	71
Derivative instruments (note 16.1)	90	119
Other	108	4
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**691**	**479**

15.1 Unconsolidated equity investments

Unconsolidated equity investments consist essentially of a portfolio of shares of non-listed companies (note 33.4 "Financial assets classification").

Movements in the portfolio during the year are broken down in the table below:

(in € million)	2018	2017
At January 1	**285**	**208**
Translation adjustments	4	(11)
Additions	18	118[1]
Exit	(82)[1]	(41)
Impairment reversal	-	1
Fair value changes	8	10
AT DECEMBER 31	**233**	**285**

(1) At December 31, 2017, the available for sale assets were including €55 million related to acquisitions performed in 2017 which were consolidated in 2018 (note 13.1.2).

15.2 Loans and deposits

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2018	December 31, 2017
Gross loans and deposits	303	111
Impairments	(43)	(40)
TOTAL	**260**	**71**

The balance includes loans to employees and customers, as well as loans to equity accounted entities.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note 3.5 "Hedging", some derivatives, while complying with the Group financial risk management policies, do not qualify or have not been designated as hedging instruments for hedge accounting purposes.

16.1 Derivatives recognized in assets

	December 31, 2018	December 31, 2017
(in € million)	Fair values	Fair values
Interest-rate derivatives qualifying as fair value hedging instruments	-	14
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	33	5
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	43	45
▶ Interest-rate derivatives	1	-
▶ Other derivatives[1]	13	55
Non-current derivative instruments (note 15)	**90**	**119**
Interest-rate derivatives qualifying as fair value hedging instruments	6	-
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	1	2
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	24	27
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Current derivative instruments (note 21)	**31**	**29**
TOTAL ASSETS	**121**	**148**

(1) Corresponds to the financial instruments acquired to hedge the optional component of convertible bonds (note 26.1).

The Group grants cash collaterals to mitigate its credit risk associated with its derivative assets. The amount of collaterals transferred is €34 million as of December 31, 2018 (December 31, 2017: €42 million).

16.2 Derivatives recognized in liabilities

(in € million)	December 31, 2018 Fair values	December 31, 2017 Fair values
Interest-rate derivatives qualifying as fair value hedging instruments	-	-
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	25	59
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	42	37
▶ Interest-rate derivatives	-	-
▶ Other derivatives[1]	13	55
Non-current derivative instruments (note 26)	**80**	**151**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-
Derivatives qualifying as cash flow hedging instrument		
▶ Currency derivatives	2	2
▶ Interest-rate derivatives	-	-
▶ Other derivatives	6	1
Derivatives not qualifying for hedge accounting		
▶ Currency derivatives	58	26
▶ Interest-rate derivatives	-	-
▶ Other derivatives	-	-
Current derivative instruments (note 26)	**66**	**29**
TOTAL LIABILITIES	**146**	**180**

(1) Corresponds to the optional components of convertible bonds (note 26.1).

The Group holds cash collaterals to guarantee its own credit risk associated with its derivatives liabilities. The amount of collaterals received is €21 million as of December 31, 2018 (2017: €15 million).

16.3 Derivative contractual amounts

The contractual amounts of derivatives financial instruments are presented in the table below:

	December 31, 2018			December 31, 2017		
(in € million)	Current	Non current	Total	Current	Non current	Total
Currency derivatives	5,096	1,472	**6,568**	3,582	981	**4,563**
Interest rate derivatives	200	106	**306**	209	220	**429**
Other	-	2,094	**2,094**	-	1,006	**1,006**
Derivatives not qualifying for hedge accounting	**5,296**	**3,672**	**8,968**	**3,791**	**2,207**	**5,998**
Interest rate derivatives	383	-	**383**	-	383	**383**
Interest-rate derivatives qualifying as fair value hedging instruments	**383**	**-**	**383**	**-**	**383**	**383**
Currency derivatives	73	1,001	**1,074**	73	611	**684**
Interest rate derivatives	-	-	**-**	-	-	**-**
Other	15	1	**16**	7	1	**8**
Derivatives qualifying as cash flow hedging instrument	**88**	**1,002**	**1,090**	**80**	**612**	**692**
TOTAL	**5,767**	**4,674**	**10,441**	**3,871**	**3,202**	**7,073**

At December 31, 2018, the Group has outstanding short term futures contracts on natural rubber with a liability market value of €1 million (2017: liability of €1 million) which has been fully cashed in through the daily margin calls. The contractual values of these futures are €27 million (2017: €15 million).

The increase in nominal foreign exchange derivatives not qualifying for hedge accounting is mainly due to the short-term management of foreign exchange exposures, mainly influenced by the acquisition of Camso (note 4.3 "Acquisition of Camso Inc.") at the balance sheet date.

16.4 Hedge accounting

(in € million)	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument (asset)	Carrying amount of the hedging instrument (liability)	Hedge reserve/ Translation reserve	Amount recognized to profit or loss	Line item affected in profit or loss
Derivatives qualifying as fair value hedging instruments						
Intrest rate swaps	383	6	-	-	(8)	Cost of net debt
Derivatives qualifying as cash flow hedging instrument						
Non-convertible bonds exchange rate forward contracts	941	29	(25)	(13)	62	Cost of net debt/ Other financial income and expense
Commodity price risk – forward purchase contracts	15	-	(6)	(6)	(2)	Operating income
Interest rate swaps	-	-	-	(23)	-	Cost of net debt
Interest component of cross currency swaps	104	4	(2)	(1)	(4)	Cost of net debt
Forecast sales exchange rate forward contracts	13	-	-	-	(1)	Operating income
Foreign exchange risk on commodity price risk – forward exchange rate contracts	16	1	-	-	-	Operating income
Financial debt qualifying as net investment hedge instrument						
Private placement	140	-	(140)	(7)	-	None
Current and non-current hedging instruments	1,612	40	(173)	(50)	47	-

Equity includes, in other reserves (note 25 "Reserves"), gains or losses related to cash flow hedge transactions. These reserves are used to recognize the effective portion of derivatives that have been designated as hedge accounting (note 3.5.2 cash flow hedges). The amounts are then transferred to the initial cost of a non-financial asset or to the income statement. The largest amount recognized in "Other reserves" during the period is €26 million and refers to interest rate pre-hedging transactions on bond issues that took place in August 2018 (note 26.1 "Bonds and commercial paper"). The amounts are transferred to the income statement when the interest on the covered bonds affects the profit and loss until 2025 and 2030 respectively.

NOTE 17 EQUITY METHOD INVESTMENTS

Joint ventures and associates are listed in note 36 "List of consolidated companies" to the Group consolidated financial statements.

17.1 Joint venture with Sumitomo Corporation of Americas (TBC)

The allocation of the fair value of the consideration paid to the identifiable assets and to the liabilities assumed is not completed at closing date.

Summarized financial data in respect of TBC joint-venture are set out in the table below:

(in € million)	November 30, 2018(*)
Dividends received	-
Current assets	1,308
thereof cash and cash equivalents	56
Non-current assets (including goodwill)	1,177
Total assets	**2,485**
Current liabilities	762
thereof other short-term financial liabilities	64
Non-current liabilities	608
thereof long-term financial liabilities	411
Total liabilities	**1,370**
Sales	2,869
Interest income	-
Interest expense	(16)
Depreciation and amortization	(47)
Income tax expense	(4)
Net earnings (loss) from continuing operations	20
Other comprehensive income	(6)
Total comprehensive income (a)	14
Elimination of profit from downstream transactions (net of tax) (b)	(34)
Share of comprehensive income 50% x (a) + (b)	**(27)**
Net assets (excluding goodwill)	942
Goodwill	173
Net assets (including goodwill)	**1,115**
Share of net assets (including goodwill) = 50%	558
Elimination of profit from downstream transaction (net of tax)[1]	(34)
Carrying amount of net interest in the joint venture	**524**

(*) The recognition of Michelin's share in net earnings of TBC is based on TBC's financial statements for the prior month (November 30, 2018 for the year end closing, note 4.2).
(1) The profit resulting from "downstream" transactions with TBC was deducted from the share in TBC net earnings by the percentage representing the Group's equity interest in the joint venture for an amount of €34 million.

17.2 Investment in equity accounted entities

Changes in investments in equity-accounted entities are as follows:

(in € million)	Investments in associates	Investments in joint ventures	Total investment in equity accounted entities
At January 1, 2017	**202**	**107**	**309**
Share in net earnings of the period	9	5	14
Dividend payments	(3)	(7)	(10)
Change in scope of consolidation	34	-	34
Translation adjustments	(9)	(8)	(17)
Other	-	26	26
At December 31, 2017	**233**	**123**	**356**
Share in net earnings of the period	(2)	(36)	(38)
Impairment	(8)	-	(8)
Dividend payments	(5)	(5)	(10)
Change in scope of consolidation/capital increases	75	542	617
Translation adjustments	1	20	21
Other	-	-	-
AT DECEMBER 31, 2018	**294**	**644**	**938**

17.3 Financial information on other equity accounted companies

The financial statements of equity accounted companies which are not material taken individually include the following amounts (this information is presented based on a 100% holding):

(in € million)	2018	2017
Assets	1,810	1,440
Liabilities	1,047	734
Net sales	2,357	1,530
Net income	(30)	32

17.4 Transactions with equity accounted entities

Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2018	2017
Income statement		
Income for the sale of goods or supply of services	334	78
Expenses for the purchase of products or supply of services	(175)	(224)
Balance sheet		
Financial liabilities	(6)	(7)
Accounts payable	(7)	(5)
Financial assets	237	20
Accounts receivable	174	11

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the consolidated statement of financial position are as follows:

(in € million)	December 31, 2018	December 31, 2017
Deferred tax assets	740	890
Deferred tax liabilities	(326)	(113)
NET DEFERRED TAX ASSET	**414**	**777**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2018	December 31, 2017
Employee benefits	673	783
Inventories	97	115
Financial instruments	76	62
Provisions	51	70
Unused tax losses	103	90
Unused tax credits	2	7
Goodwill & Intangible assets	(258)	4
Property, plant and equipment	(463)	(450)
Other	133	96
NET DEFERRED TAX ASSET	**414**	**777**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2018	2017
At January 1	**777**	**1,074**
Translation adjustments	5	(38)
Deferred tax income/(expense) (note 11)	-	(102)
Tax recognized in other comprehensive income	(101)	(132)
Changes in scope of consolidation	(266)	(26)
Other	(1)	1
AT DECEMBER 31	**414**	**777**

In 2018, excluding the impact of tax recognized in other comprehensive income and translation adjustment, the decrease in net deferred taxes is mainly due to the recognition of the deferred tax liability resulting from the purchase price allocation of Fenner (note 13.1.1 "Fenner Plc").

In 2017, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset was due essentially to variations of temporary differences on fixed assets and the impact of the US tax reform.

The deferred income tax recognized in other items of comprehensive income is as follows:

(in € million)	December 31, 2018	December 31, 2017
Post-employment benefits	330	431
Equity investments	(20)	(21)
Financial instruments	1	1
TOTAL DEFERRED TAX INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**311**	**411**

In 2018, the change in deferred tax recognized in other comprehensive income is mainly due to lower applicable tax rates and to the review of the recoverability of some deferred tax assets.

The tax reform that came into force in the United States at the end of December 2017 resulted in a deferred tax adjustment recognized in other comprehensive income. The decrease in the tax rate, from 38.0% (including local taxes) to 24.8%, is taken into account to value the outstanding deferred taxes of the Group's US subsidiaries at December 31, 2017. In 2017 the tax rate change generated a decrease of €78 million other comprehensive income.

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2018	December 31, 2017
Deductible temporary difference	**126**	**106**
Tax losses		
▶ of which expiring in less than one year	27	16
▶ of which expiring between one to five years	92	112
▶ of which expiring in more than five years	34	30
▶ of which no expiration	288	274
Total tax losses	**441**	**432**
Tax credits	**4**	**2**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**571**	**540**

18.2 Current taxes

Current taxes in the consolidated statement of financial position are as follows:

(in € million)	2018	2017
Taxes receivables (note 22)	426	438
Taxes payables (note 30)	(186)	(188)
Net total at January 1	**240**	**250**
Current tax expense (note 11)	(570)	(559)
Income tax paid	497	563
Translation adjustments and other	(9)	(14)
Total changes	**(82)**	**(10)**
Taxes receivables (note 22)	317	426
Taxes payables (note 30)	(159)	(186)
NET TOTAL AT DECEMBER 31	**158**	**240**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2018	December 31, 2017
Raw materials and supplies	1,221	1,158
Work in progress	543	512
Finished goods	2,767	2,923
Total gross inventory	**4,531**	**4,593**
Write-downs on raw materials and supplies	(35)	(42)
Write-downs on work in progress	(3)	(1)
Write-downs on finished goods	(46)	(42)
Total write-downs	**(84)**	**(85)**
NET INVENTORY	**4,447**	**4,508**

Movements in inventory write-downs were as follows:

(in € million)	2018	2017
At January 1	**(85)**	**(100)**
Translation adjustments and other	1	6
Write-downs of inventories recognized as an expense in the period	(22)	(28)
Reversals of write-downs	22	37
AT DECEMBER 31	**(84)**	**(85)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2018	December 31, 2017
Gross trade receivables	3,407	3,188
Impairment	(100)	(104)
TRADE RECEIVABLES	**3,307**	**3,084**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2018:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,960**	**(15)**	**2,945**
Overdue			
▸ from less than three months	296	(4)	292
▸ between three and six months	49	(3)	46
▸ from more than six months	102	(78)	24
Overdue trade receivables	**447**	**(85)**	**362**
TRADE RECEIVABLES	**3,407**	**(100)**	**3,307**

Movements in impairment are broken down in the table below:

(in € million)	2018	2017
At January 1	**(104)**	**(114)**
Translation adjustments	1	6
Impairment charges	(65)	(39)
Impairment reversals	69	45
Changes in scope of consolidation	(1)	(2)
AT DECEMBER 31	**(100)**	**(104)**

Impairment reversals in 2018 include write-offs of €28 million (2017: €19 million).

NOTE 21 CURRENT FINANCIAL ASSETS

The carrying amount of the current financial assets is broken down in the table below:

(in € million)	December 31, 2018	December 31, 2017
Loans and deposits	103	76
Cash management financial assets (note 26)	180	180
Derivative instruments (note 16.1)	31	29
CURRENT FINANCIAL ASSETS	**314**	**285**

The characteristics of the cash management financial assets, although being highly liquid, little affected by the interest rate risk and by the foreign currency risk (mainly invested in Euros or hedged), do not strictly meet those of cash and cash equivalent (note 3.21 "Cash and cash equivalents"). They are accounted for at amortized cost (note 3.18 "Non derivative financial assets").

Loans and deposits include collaterals with financial institutions of €34 million (2017: €42 million) that are not freely available.

NOTE 22 OTHER CURRENT ASSETS

The carrying amount of other current assets is broken down in the table below:

(in € million)	December 31, 2018	December 31, 2017
Suppliers – advances	129	137
Current tax – advance payments	317	426
Other taxes receivable	327	296
Other	269	278
Less impairment	(5)	(5)
OTHER CURRENT ASSETS	**1,037**	**1,132**

Other tax receivables mainly relate to VAT.

NOTE 23 CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents is broken down in the table below:

(in € million)	December 31, 2018	December 31, 2017
Cash at bank and in hand	255	250
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)	1,845	1,523
CASH AND CASH EQUIVALENTS	**2,100**	**1,773**

The average effective interest rate on short-term bank deposits was 0.09% in 2018 (2017: 0.28%).

Cash and cash equivalents are essentially held in Euros (2018: 89%, 2017: 93%).

The less easily available amounts to meet the needs of the Group are mainly related to prudential rules in Ireland specific to captive insurance companies (2018: €81 million, 2017: €81 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2017	**360**	**3,024**	**3,384**
Issuance of shares from the exercise of share options and performance shares	1	16	17
Cancellation of shares	(2)	(99)	(101)
Other	-	1	1
At December 31, 2017	**359**	**2,942**	**3,301**
Issuance of shares from the exercise of share options and performance shares	2	56	58
Cancellation of shares	(1)	(74)	(75)
Other	-	(1)	(1)
AT DECEMBER 31, 2018	**360**	**2,923**	**3,283**

(number of shares)	Share issued	Treasury shares	Shares outstanding
At January 1, 2017	**180,066,121**	**-**	**180,066,121**
Issuance of shares from the exercise of share options and performance shares	348,063	-	348,063
Purchase of shares	-	(893,197)	(893,197)
Disposal of shares	-	-	-
Reduction in capital	(893,197)	893,197	-
Other	-	-	-
At December 31, 2017	**179,520,987**	**-**	**179,520,987**
Issuance of shares from the exercise of share options and performance shares	974,876	-	974,876
Purchase of shares	-	(648,231)	(648,231)
Disposal of shares	-	-	-
Reduction in capital	(648,231)	648,231	-
Other	-	-	-
AT DECEMBER 31, 2018	**179,847,632**	**-**	**179,847,632**

The par value per share amounts to €2 (unchanged from 2017). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2018, the dividend payable for the year 2017 to the shareholders was €3.55 per share (2017: €3.25 per share). It has been fully settled in cash for a net amount of €637 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €3.70 per share in 2019 for the year 2018.

NOTE 25 RESERVES

(in € million)	Translation reserve	Treasury shares	Other reserves	Retained earnings	Total
At January 1, 2017	**9**	**-**	**172**	**7,034**	**7,215**
Dividends and other allocations	-	-	-	(612)	**(612)**
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	-	7	**7**
Purchase of shares	-	(101)	-	-	**(101)**
Cancellation of shares	-	101	-	-	**101**
Other	-	-	-	-	**-**
Transactions with the shareholders of the Company	**-**	**-**	**-**	**(605)**	**(605)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,700	**1,700**
Post-employment benefits	-	-	-	*266*	**266**
Tax effect – Post-employment benefits	-	-	-	*(135)*	**(135)**
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	131	**131**
Unconsolidated equity investments – change in fair values	-	-	*10*	-	**10**
Tax effect – unconsolidated equity investments – change in fair values	-	-	*3*	-	**3**
Unconsolidated equity investments – (gain)/loss recognized in income statement	-	-	-	-	**-**
Currency translation differences	*(528)*	-	-	-	**(528)**
Other	*23*	-	*(86)*	*62*	**(1)**
Other items of comprehensive income that may be reclassified to income statement	(505)	-	(73)	62	**(516)**
Comprehensive income	**(505)**	**-**	**(73)**	**1,893**	**1,315**
At December 31, 2017	**(496)**	**-**	**99**	**8,322**	**7,925**
Dividends and other allocations	-	-	-	(647)	**(647)**
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	-	7	**7**
Purchase of shares	-	(75)	-	-	**(75)**
Cancellation of shares	-	75	-	-	**75**
Other	-	-	-	-	**-**
Transactions with the shareholders of the Company	**-**	**-**	**-**	**(640)**	**(640)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,677	**1,677**
Post-employment benefits	-	-	-	*71*	**71**
Tax effect – Post-employment benefits	-	-	-	*(101)*	**(101)**
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(30)	**(30)**
Unconsolidated equity investments – change in fair values	-	-	-	-	**-**
Tax effect – unconsolidated equity investments – change in fair values	-	-	-	-	**-**
Unconsolidated equity investments – (gain)/loss recognized in income statement	-	-	-	-	**-**
Currency translation differences	*(57)*	-	*(1)*	-	**(58)**
Other	*26*	-	*(43)*	5	**(12)**
Other items of comprehensive income that may be reclassified to income statement	(31)	-	(44)	5	**(70)**
Comprehensive income	**(31)**	**-**	**(44)**	**1,652**	**1,577**
AT DECEMBER 31, 2018	**(527)**	**-**	**55**	**9,334**	**8,862**

Following the repayment of the convertible bond on January 2, 2017 (note 26.1 "Financial liabilities"), the equity part of the zero coupon convertible bond for €65 million after tax was reclassified from other reserves to retained earnings.

Under the share buyback program authorized at the May 19, 2017 Annual Shareholders Meeting, an agreement was signed in February 2018 by which the Group undertook to buy back from an investment services provider a variable number of shares before November 22, 2018, for a maximum amount of €75 million. The investment service provider applied the contractual provision by which he was entitled to accelerate the purchase of the shares, consequently all of the shares have been effectively bought back and were cancelled at June 30, 2018. The average unit price of the 648,231 shares acquired during the first half-year 2018 was €115.70.

Under the share buyback program authorized at the May 13, 2016 Annual Shareholders Meeting, an agreement was signed in February 2017 by which the Group undertook to buy back from an investment services provider a variable number of shares before November 24, 2017, for a maximum amount of €100 million. The average unit price of the 891,476 shares acquired during the year 2017 was €112.17. All the shares were cancelled during the year.

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2018	December 31, 2017
Bonds	4,484	1,770
Loans from financial institutions and other	184	217
Finance lease liabilities	272	228
Derivative instruments	80	151
Non-current financial liabilities	**5,020**	**2,366**
Bonds and commercial paper	580	172
Loans from financial institutions and other	457	272
Finance lease liabilities	31	20
Derivative instruments	66	29
Current financial liabilities	**1,134**	**493**
FINANCIAL LIABILITIES	**6,154**	**2,859**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2018	December 31, 2017
Financial liabilities	6,154	2,859
Derivatives recognized as assets (note 16.1)	(121)	(148)
Borrowing collaterals (note 32.3.2)	(34)	(42)
Cash management financial assets (note 21)	(180)	(180)
Cash and cash equivalents (note 23)	(2,100)	(1,773)
NET DEBT	**3,719**	**716**

The fair value of non-current financial liabilities, calculated in accordance with note 3.6 "Fair value of financial instruments", is presented in the table below:

(in € million)	December 31, 2018	December 31, 2017
Bonds	4,463	1,848
Loans from financial institutions and other	184	217
Finance lease liabilities	272	228
Derivative instruments	80	151
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**4,999**	**2,444**

Changes in financial liabilities and derivatives are detailed by flow in the table below:

			Non-cash variations		
(in € million)	At January 1, 2018	Cash Flows from financial liabilities	Translation adjustments	Other	At December 31, 2018
Bonds, loans from financial institutions and other	1,987	2,894	-	(213)	4,668
Finance lease liabilities	228	-	7	37	272
Derivative instruments	151	(73)	-	2	80
Non-current financial liabilities	**2,366**	**2,821**	**7**	**(174)**	**5,020**
Bonds, loans from financial institutions and other	444	191	(11)	413	1,037
Finance lease liabilities	20	(19)	1	29	31
Derivative instruments	29	3	-	34	66
Current financial liabilities	**493**	**175**	**(10)**	**476**	**1,134**
FINANCIAL LIABILITIES	**2,859**	**2,996**	**(3)**	**302**	**6,154**
Derivatives recognized as assets	(148)	24	4	(1)	(121)
Net impact in the consolidated cash flow statement		**3,020**			

26.1 Bonds and commercial paper

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

	December 31, 2018		December 31, 2017	
(in € million)	Current	Non-current	Current	Non-current
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €302 million (2017: €302 million) ▶ issued in September 2015 and September 2016 and due in September 2045 ▶ nominal interest rate of 3.25% ▶ effective interest rate of 3.02%	-	315	-	316
Bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of €750 million ▶ issued in August 2018 and due in September 2038 ▶ nominal interest rate of 2.50% ▶ effective interest rate of 2.56%	-	743	-	-
Bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of €1,000 million ▶ issued in August 2018 and due in September 2030 ▶ nominal interest rate of 1.75% ▶ effective interest rate of 1.84% (2.00% after hedging)	-	990	-	-
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €300 million ▶ issued in May 2015 and due in May 2027 ▶ nominal interest rate of 1.75% (1.68% after hedging) ▶ effective interest rate of 1.86% (1.80% after hedging)	-	297	-	297
Bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of €750 million ▶ issued in August 2018 and due in September 2025 ▶ nominal interest rate of 0.875% ▶ effective interest rate of 1.045% (1.169% after hedging)	-	742	-	-
Liability component of zero-coupon convertible bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of $600 million ▶ issued in January 2018 and due in January 2023 ▶ nominal interest rate of 0% ▶ effective interest rate of 2.50% (0.16% after hedging) ▶ conversion price at December 31, 2018 of €166.98	-	464	-	-
Private placement issued by Fenner Plc ▶ nominal value of $160 million ▶ issued in 2011 and due in 2021 ($95 million) and 2023 ($65 million) ▶ nominal and effective interest rate of 5.144% (2021) and 5.420% (2023)	-	140	-	-
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €300 million (2017: €300 million) ▶ issued in May 2015 and due in May 2022 ▶ nominal interest rate of 1.125% ▶ effective interest rate of 1.17%	-	300	-	299

(in € million)	December 31, 2018		December 31, 2017	
	Current	Non-current	Current	Non-current
Liability component of zero-coupon convertible bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of $600 million ▶ issued in January 2017 ($500 million) and April 2017 ($100 million) and due in January 2022 ▶ nominal interest rate of 0% ▶ effective interest rate of 1.98% (-0.38% after hedging) ▶ conversion price at December 31, 2018 of €132.70	-	493	-	464
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €383 million (2017: €383 million) ▶ issued in June 2012 and due in June 2019 ▶ nominal interest rate of 2.75% (1.105% after hedging) ▶ hedged through a €383 million interest rate swaps (2017: €383 million) expiring in June 2019 (fair value hedge) (note 16)	386	-	-	394
Commercial paper issued by Compagnie Générale des Établissements Michelin ▶ nominal value in € equivalent: €181 million, £13 million (2017: €110 million, £28 million, $34 million) ▶ effective interest rate of -0.23% at December 31, 2018	194	-	172	-
TOTAL	**580**	**4,484**	**172**	**1,770**

At December 31, 2018, the weighted average nominal interest rate for bonds and commercial paper is 1.97% (1.46% after hedging).

/ 26.1.1 Convertible bonds issue

The Group issued in January 2018 exclusively cash-settled convertible bonds with a total face value of US$ 600 million. The bonds were issued at 95.5% of their face value. Those bonds do not bear interest and are redeemable at on November 10, 2023.

In addition to that bond issuance, the Group subscribed to call options settled in cash only, enabling it to fully cover its exposure to the exercise of the conversion rights embedded in the bonds.

This set of transactions, which were covered by euro-denominated swaps, provides the Group with the equivalent of classic euro-denominated bond financing at an advantageous cost.

In January 2017, the Group issued exclusively cash-settled five year convertible bonds with a total face value of US$ 500 million. These bonds were issued at par.

In April 2017, the Group issued additional convertible bonds with a total face value of 100 million US dollars. These bonds were issued at 103.50% of their face value.

These operations have been accounted for in accordance with the accounting policies described in sections 3.4 to 3.6.

The optional components of convertible bonds and the financial instruments subscribed for hedging purposes are recorded under "Non-current financial assets and other assets" and "Non-current financial liabilities".

/ 26.1.2 Maturing convertible bonds

The zero coupon convertible bonds (OCEANES) issued on March 21, 2007 became due on January 1, 2017.

5,396,099 outstanding OCEANES for which the option of conversion into shares was not exercised were reimbursed on January 2, 2017, first working day after the due date, at €139.57 per OCEANE. The total amount reimbursed was €753 million, including €193 million of interests paid.

/ 26.1.3 Bonds issue

At the end of August 2018, the Group, through CGEM, issued three new bonds, totaling €2.5 billion in three tranches, maturing in 7 years, 12 years and 20 years respectively.

The 7-year tranche amounts to €750 million and has a coupon of 0.875% *per annum* and was issued at 99.099% of the nominal amount.

The 12-year tranche of €1 billion has a coupon of 1.75% *per annum* and has been issued at 99.262% of the nominal amount.

The 20-year tranche amounts to €750 million and has a coupon of 2.50% *per annum* and has been issued at 99.363% of the nominal amount.

/ 26.1.4 Private placement

Fenner principal committed loan facilities consist of USD private placement loan notes totaling USD160 million. The three loans mature between 2021 and 2023 and bear fixed interest rates averaging 5.26%.

26.2 Loans from financial institutions and other

Loans from financial institutions and other include mainly amounts drawn on credit lines, borrowings secured by trade receivables as mentioned in note 32.3.3 "Trade receivables".

At December 31, 2018, loans from financial institutions amount to €640 million; they are principally denominated in Euros and at floating rates.

The contractual re-pricing of the interest rates of these loans is generally less than six months.

NOTE 27 EMPLOYEE BENEFIT OBLIGATIONS

According to the laws and regulations applicable in each country, as well as in application of its social responsibility policy, the Group takes part mainly in pension, healthcare, death and disability and end of service benefits, for which the amount of benefits paid varies based on a number of factors including the employee's years of service, salary, accumulated funds with an independent manager or contributions paid to insurers.

Such plans can be either defined benefit plans or defined contribution plans. In the case of defined benefit plans, Group commitments are measured using the Projected Credit Unit method. These commitments are calculated with the help of independent actuaries. In the case of defined contribution plans, liabilities correspond to the contributions due.

Since 2003 the Group has been closing its defined benefit plans to new entrants and also, in some cases, to future accruals in order to reduce the risk on the Group's consolidated statement of financial position and has put in place new defined contribution plans or has improved the existing ones.

Since 2005 the Group has a governance body, the Global Employee Benefit Board, that monitors benefits. This board defines Group policies in term of benefits and ensures that local benefit programs comply with them (validation of the changes, introduction of new benefits, etc.), monitors asset returns and benchmarks, as well as the de-risking policies put in place by local boards or Trustees, and proposes an audit plan. The board is assisted by two teams, the Global Benefit Policy Team composed of members from the accounting, finance and human resources departments and the Global Benefit Investment Team composed of the chairmen of the investment committees or Chief Investment officers of the main funded pension plans and Group experts. In countries with substantial benefit obligations similar organization exists.

27.1 Defined Benefit Plans

These plans are retirement plans and retiree healthcare plans, the vast majority of which are now closed to new entrants, even to future accruals, as well as some minor plans such as long service awards or end-of-service benefits.

In Europe, the discount rates are determined using the actuary's yield curve models. These rates are based on the yield of high quality corporate bonds and have the same durations as the liabilities. The discount rate in the USA is based on the actuary's AA Only Bond yield curve rates. The discount rate in Canada is based on the Canadian Institute of Actuaries Canadian Corporate Aa Bond yield curve rates. For countries having several plans (but only one material plan) the assumption of the main plan is used for all plans. For countries having several plans of comparable size but quite different durations, several rates are used.

The inflation assumptions are set using different methods. For the Euro zone, the actuary tool is used with reference to different sources of information as the target inflation set by the Central Banks, the forecasts from the Consensus Economics organization and inflation swap curves. In the UK, the market implied inflation rate is also considered (differential between gilts and indexed linked gilts less a spread). In the USA and Canada, the cost of living increases for some pensions is set using historical averages, central banks targets as well as implied inflation (differential between indexed and non-indexed bonds).

The salary increase assumptions can be either spreads above inflation (either RPI or CPI) or absolute values. These assumptions take into account expected long-term yearly average salary increases as well as the effects of promotions. In some cases, assumptions by category of personnel can be used.

The post-employment mortality assumptions used for the pension plans which are funded through insured contracts are the insurers' tables. For the other main post-employment plans the following tables have been used: (i) USA: *RP-2014 Aggregate table using Scale* MP-2017*;* (ii) Canada: 105% of CPM 2014 Private – MI-2017*;* (iii) UK: Generational S2PA CMI_2016 with a 1.5% p.a. long term rate of improvement with a weighting of 115% for males and 101% for females and (iv) Germany: Heubeck RT 2018 G.

	December 31, 2018				December 31, 2017			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	18.7	21.6	21.1	20.2	19.2	22.1	21.1	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	19.8	22.7	22.3	22.3	20.3	22.9	22.3	20.7
Life expectancy for females at 65 at the end of the reporting period	21.0	24.1	24.0	23.7	21.1	24.5	24.0	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.1	25.1	25.4	25.4	22.2	25.2	25.4	24.8

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2018	December 31, 2017
Present value of fully or partly funded obligations	7,311	-	7,311	7,444
Fair value of plan assets	(6,294)	-	(6,294)	(6,367)
Funded status deficit/(surplus)	**1,017**	**-**	**1,017**	**1,077**
Present value of unfunded obligations	993	1,752	2,745	2,819
Unrecognized asset due to application of asset ceiling	88	-	88	73
NET DEFINED BENEFIT OBLIGATION	**2,098**	**1,752**	**3,850**	**3,969**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			3,850	3,969
NET LIABILITY	**2,098**	**1,752**	**3,850**	**3,969**

At December 31, 2018, the present value of the defined benefit obligation is made up of €3,840 million relating to active employees, €1,132 million relating to deferred members and €5,084 million relating to members in retirement (2017: respectively €4,098 million, €1,210 million and €4,955 million).

At December 31, 2018, the present value of the defined benefit obligation is made up of €7,921 million relating to vested benefits and €2,135 million relating to non-vested benefits (2017: respectively €8,050 million and €2,213 million).

Actuarial gains and losses on post-employment defined benefit plans are recognized in other comprehensive income when they occur.

The Group does not recognize as an asset any surplus in excess of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group immediately recognizes a liability for any surplus resulting from the contributions paid under the MFR which would not be fully recoverable through economic benefits available to the Group.

Any reduction in assets or increase in liabilities resulting from the asset ceiling application is recognized in other comprehensive income.

The movements in net defined benefit obligations recognized in the consolidated statement of financial position are shown below:

(in € million)	Pension plans	Other plans	2018	2017
At January 1	**2,149**	**1,820**	**3,969**	**4,763**
Contributions paid to the funds	(189)	-	(189)	(190)
Benefits paid directly to the beneficiaries	(33)	(107)	(140)	(154)
Other movements	27	(6)	21	-
Items recognized in operating income				
Current service cost	47	60	107	107
Actuarial (gains) or losses recognized on other long term benefit plans	-	(5)	(5)	-
Past service cost resulting from plan amendments	40	14	54	(56)
Effect of plan curtailments or settlements	-	-	-	-
Effect of plan curtailments recognized within reorganizations and adaptation of activities	(13)	(8)	(21)	(183)
Other items	13	-	13	13
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	43	46	89	115
Items recognized in other comprehensive income				
Translation adjustments	9	14	23	(180)
Actuarial (gains) or losses	(11)	(76)	(87)	(296)
Portion of unrecognized asset due to the application of the asset ceiling	16	-	16	30
AT DECEMBER 31	**2,098**	**1,752**	**3,850**	**3,969**

The amount of actuarial gains or losses presented in the statement of comprehensive income and recognized in equity is detailed in the table below:

(in € million)	Pension plans	Other plans	2018	2017
At January 1	**1,746**	**537**	**2,283**	**2,549**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	(14)	(8)	(22)	(243)
▶ Due to experience	7	(9)	(2)	(31)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	(267)	(57)	(324)	440
▶ Due to experience	262	(2)	260	(462)
Unrecognized asset due to application of asset ceiling	16	-	16	30
Change in the scope of consolidation	1	-	1	-
AT DECEMBER 31	**1,751**	**461**	**2,212**	**2,283**
Of which actuarial gains or (losses)	*1,663*	*461*	*2,124*	*2,210*
Of which asset ceiling effect	*88*	*-*	*88*	*73*

In 2018, the net amount recognized in the consolidated income statement was an expense of €237 million (2017: income of €4 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2018	Year ended December 31, 2017
Cost of services rendered during the year	47	60	107	107
Net interest on the defined benefit liability (asset)	43	46	89	115
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	(5)	(5)	-
Past service cost recognized during the year:				
▶ Due to the introduction of or modifications to defined benefit plans	40	14	54	(56)
▶ Due to curtailments of defined benefit plans	-	-	-	-
Effect of defined benefit plans settlements	-	-	-	-
Other items	13	-	13	13
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	(13)	(8)	(21)	(183)
TOTAL RECORDED IN THE INCOME STATEMENT	**130**	**107**	**237**	**(4)**

Annual charges are determined with the assistance of independent actuaries at the beginning of each financial year based on the following factors:

- charge corresponding to acquisition of an additional year of rights ("cost of services rendered during the year");
- charge/income corresponding to the discounting adjustment to reflect the impact of the passage of time ("net interest");
- income or charge from annual recognition of actuarial gains or losses on other long term defined benefit plans ("Actuarial (gains) or losses recognized during the year");
- gain/loss resulting from changes or introduction of benefit plans ("past service cost recognized during the year");
- gain/loss resulting from curtailments of any benefit plans ("past service cost recognized during the year");
- gain/loss resulting from settlements of any benefit plans.

/ 27.1.1 Pension plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary.

Under defined benefit plans, future level of benefits are defined by the plan regulations. The valuation of such defined benefit plans is carried out with the assistance of independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds or insurers specialized in managing these assets. In the case of unfunded plans such as the German pension plans, a provision is made in the consolidated statement of financial position.

The main pension plans provided within the Group are as follows:

USA

The defined benefit plan in USA is the Michelin Retirement Plan (MRP). The provisions applicable to the main population are described below.

The plan was closed to new entrants as of January 1, 2004. Accruals were frozen under the plan as of December 31, 2016. These participants have been enrolled in a defined benefit contribution plan.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 and have completed at least 10 years of vesting service are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental benefit may be granted for employees reaching age 55 and who have completed 30 years of service until the employee is eligible for social security benefit.

The plan provides a guaranteed monthly benefit at retirement based on a defined formula (with a lower accrual rate on the social security wage bases) that takes into consideration the years of plan membership and average pensionable recurring earnings. Only employees who have voluntarily joined the defined contribution plan (in 2004 or 2007) may receive a lump sum payment.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan's pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides a cost-of-living adjustment of the pension only for employees hired before January 1,1991.
The plan is funded solely by employer contributions.

Canada

There is one major defined benefit plan in Canada, the Pension Plan for the Employees of Michelin North America (Canada) Inc. and Participating Employers (MR Plan). Other minor defined benefit plans which are closed to new entrants are valued but not detailed further.

The MR Plan was closed to new entrants as from January 1, 2005. After this date new entrants are enrolled in a defined contribution plan. Accruals for most of the participants were frozen under the plan as of December 31, 2015. These participants are enrolled in a defined benefit contribution plan.

The plan sets the normal retirement age at 65. However, employees having 30 years of service or who have reached the age 55 are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental bridge is granted for employees having 30 years of service to partially compensate early retirement.

The plan provides a guaranteed monthly annuity at retirement based on a defined formula that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit or a beneficiary pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an annual increase of the pension based on a percentage inferior to Consumer Price Index.

The plan is currently funded solely by employer contributions.

United Kingdom

The defined benefit retirement plan in the UK is the Michelin Pension and Life Assurance Plan.

The plan was closed to new entrants as from March 31, 2005 and replaced by a defined contribution plan and as of January 1, 2009 it was closed for all future accruals.

Accruals up to December 31, 2008 are frozen but pensions are still linked to the average final salary at retirement.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 are eligible for early retirement with the Group's consent. In the case of early retirement, the accrued benefit is reduced by an actuarial reduction factor.

The plans provide for an annual pension based on the employee's pensionable earnings. Most employees take the maximum amount allowed by tax legislation in the form of a lump sum.

The plan includes provision for death in service benefits, provision for spouse reversion benefit as well as disability benefits.

The plan provides an indexation of the pension benefit based on a capped inflation rate for members who did not choose the pension increase exchange which was proposed in 2017.

The plan is funded solely by employer contributions.

Germany

There is one major defined benefit retirement plan in Germany, the "Versorgungsordnung 1979" (VO 1979).

The plan was closed to new entrants as from January 1, 2000. After this date new entrants are enrolled in defined contribution plans.

The plan sets the normal retirement age at 65.

The plans provide lifetime monthly annuity which are based on the employee pensionable compensation.

A flat rate applies to the compensation exceeding the social security ceiling and an additional rate takes into account the years of service on the total pensionable earnings.

The plan includes provision in case of death in service provisions as well as post-retirement spouse and orphan's pensions and disability provisions.

There is a legal obligation to adjust every three years the pension annuity by the inflation up to the average increase of the employees' salaries.

France

There is one major pension defined benefit plan in France, "Régime de retraite supplémentaire MFPM".

In order to be eligible, employees must reach 10 years of service and be present at the retirement date.

This plan had been set up in 1996 in order to grant an additional retirement benefit to all employees when the retirement replacement ratio of the mandatory state plans is below the certain trigger threshold. At this point an additional benefit is calculated based on service and pensionable earnings (capped additional plan).

If mandatory state pension plus additional benefit from this plan reaches this threshold, the annuity paid by the plan is capped at this level. Closure of the plan being not possible for new entrants, the historical threshold of 55% is decreasing progressively until 2046 where it will be nil. In return, employees must participate to a defined contribution plan (Article 83) and can also participate in another defined contribution plans (PERCO).

The plan includes provision in case of post-retirement spouse's pensions and disability provisions.

Plan is insured for the retirees and covered by two insurance companies.

Adjustments or increase of annuity are possible but not automatic and are based on the reserves available.

The following table analyzes changes in the financial position of the Group defined benefit pension plans:

	2018				2017			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	4,017	4,378	48	**8,443**	4,449	4,715	52	**9,216**
Translation adjustments	76	(46)	(6)	**24**	(479)	(116)	(5)	**(600)**
Changes in scope of consolidation	8	270	-	**278**	-	-	-	**-**
Current service cost	2	44	1	**47**	3	42	1	**46**
Interest cost on the defined benefit obligation	143	96	3	**242**	163	105	3	**271**
Administration costs	7	5	1	**13**	9	4	-	**13**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	-	40	-	**40**	4	(24)	-	**(20)**
▶ Past service cost due to curtailments of defined benefit plans	-	(13)	-	**(13)**	-	(88)	-	**(88)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Benefits paid	(256)	(216)	(3)	**(475)**	(255)	(220)	(4)	**(479)**
Other items	-	-	-	**-**	-	-	1	**1**
Actuarial (gains) or losses generated during the year	(233)	(65)	3	**(295)**	123	(40)	-	**83**
Present value of the obligations at the end of the year	**3,764**	**4,493**	**47**	**8,304**	**4,017**	**4,378**	**48**	**8,443**
Fair value of plan assets at the beginning of the year	3,739	2,585	43	**6,367**	3,974	2,509	37	**6,520**
Translation adjustments	60	(45)	(4)	**11**	(426)	(93)	(9)	**(528)**
Changes in scope of consolidation	9	242	-	**251**	-	-	-	**-**
Interest income on plan assets	132	66	4	**202**	144	64	5	**213**
Contributions paid to the plans	22	167	-	**189**	44	146	1	**191**
Benefits paid by the plans	(257)	(183)	(2)	**(442)**	(254)	(189)	(2)	**(445)**
Other items	-	-	-	**-**	-	-	1	**1**
Actual return on plan assets excluding interest income	(221)	(60)	(3)	**(284)**	257	148	10	**415**
Fair value of plan assets at the end of the year	**3,484**	**2,772**	**38**	**6,294**	**3,739**	**2,585**	**43**	**6,367**
DEFICIT/(SURPLUS) AT THE END OF THE YEAR	**280**	**1,721**	**9**	**2,010**	**278**	**1,793**	**5**	**2,076**
Deferred items at the beginning of the year	(66)	-	(7)	**(73)**	(46)	-	-	**(46)**
Translation adjustments	4	-	-	**4**	4	-	1	**5**
Unrecognized asset due to application of the asset ceiling generated during the year	(24)	-	5	**(19)**	(24)	-	(8)	**(32)**
DEFERRED ITEMS AT THE END OF THE YEAR	**(86)**	**-**	**(2)**	**(88)**	**(66)**	**-**	**(7)**	**(73)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**366**	**1,721**	**11**	**2,098**	**344**	**1,793**	**12**	**2,149**

France

The Group has announced in June 2017 a global reorganization project aimed to better serve the customers. A voluntary pre-retirement plan was offered to the salaried employees and managers based at the Clermont-Ferrand site, resulting in a curtailment of the pension plan by €88 million. In 2018, the Group has re-measured the impact of this voluntary pre-retirement plan in the light of the actual data and an additional curtailment for an amount of €8 million has been recognized accordingly.

United Kingdom

The Group announced in November 2018 its intention to progressively cease activities at its Dundee site, in the United Kingdom, by mid-2020. The impact of the production site phasing-out has been measured in 2018 and led the Group to recognize a curtailment of the pension plan amounting to €5 million.

A High Court judgment in the "Lloyds Bank" case has been published on October 26, 2018. This judgment aims to eliminate inequalities between males and females which may exist in pension schemes with a "Guaranteed Minimum Pensions (GMPs)". The conclusions of the judgment related to the GMPs equalization have been analyzed by the Group leading to recognize a positive past service cost for an amount of €37 million.

For Canadian pension plans, the Group does not have any rights to a refund of the plan surplus. The economic benefits available are measured as the present value of future service cost. These pension plans are subject to a minimum funding requirement.

The surplus recognized as an asset is the sum of:

- any prepaid amount that would reduce the future minimum funding requirement; and
- the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service.

Any amount exceeding this limit is immediately recognized within the other comprehensive income.

In 2018, the amount recognized resulting from the effect of the asset ceiling was €16 million (2017: €30 million).

In 2018, the present value of defined benefit pension obligations decreased by €139 million. This change was due to:

(in € million)	2018	2017
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(24)	600
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	296	(83)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	173	149
Changes in plan regulations	(27)	108
Changes in the scope of consolidation	(279)	-
Other items	-	(1)

The fair value of plan assets amounted to €6,294 million at December 31, 2018, showing a decrease of €73 million compared to December 31, 2017. The factors behind this variation were as follows:

(in € million)	2018	2017
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	11	(528)
Difference between the contributions paid to the funds and the benefits paid by the funds	(253)	(254)
Actual return on plan assets	(82)	628
Changes in the scope of consolidation	251	-
Other items	-	1

The present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan and the experience adjustments are as follows for 2018 and the previous four periods:

(in € million)	2018	2017	2016	2015	2014
Defined benefit obligation	(8,304)	(8,443)	(9,216)	(8,852)	(8,440)
Plan assets	6,294	6,367	6,520	6,448	6,142
SURPLUS/(DEFICIT)	**(2,010)**	**(2,076)**	**(2,696)**	**(2,404)**	**(2,298)**
Experience adjustment to:					
▸ plan liabilities	15	32	38	75	32
▸ plan assets	(284)	415	315	(107)	538

The experience adjustments in percentage of the present value of the obligation and the fair value of plan assets are presented in the table below:

Experience adjustment to:	2018	2017	2016	2015	2014
▸ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.18%	-0.38%	-0.41%	-0.85%	-0.38%
▸ to the plan assets in percentage of the fair value of the assets	-4.51%	6.52%	4.83%	-1.66%	8.76%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2018			December 31, 2017		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.12%	2.18%	9.20%	3.65%	2.11%	9.85%
Inflation rate	2.37%	2.60%	4.00%	2.37%	2.69%	4.50%
Rate of salary increases	2.82%	2.76%	4.84%	2.86%	2.81%	4.84%
Weighted average duration of the defined benefit obligation	11.6	15.4	12.1	12.1	15.9	12.4

The discount rates, salary increase and inflation are the main financial assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported.

All actuaries provide, for each plan, sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

For the sensitivity of the fair market value of plan assets due to the interest rates movement it is considered that all the yield curve is moving up or down by 0.5 point and only the value of the bonds are impacted, all other assets keeping their value. The sensitivity indicated is the overall change of the value of the total portfolio due to the change in the interest rates.

A 0.5-point shift in these rates, while holding all other assumptions constant, compared to those used for 2018 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.37%	7.07%
Discount rate on the aggregate of current service cost and interest cost on the obligation	6.45%	-7.67%
Inflation rate on the defined benefit obligation (DBO)	3.94%	-3.83%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	4.17%	-4.01%
Salary increase rate on the defined benefit obligation (DBO)	1.32%	-1.11%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	2.24%	-1.91%
Interest rates on the fair market value of plan assets	-5.53%	6.20%

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

	Year ended December 31, 2018				Year ended December 31, 2017			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	2	44	1	**47**	12	44	2	**58**
Interest cost on the defined benefit obligation	143	96	3	**242**	163	105	3	**271**
Interest income on plan assets	(130)	(66)	(3)	**(199)**	(143)	(64)	(4)	**(211)**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	**-**	-	-	-	**-**
Past service cost recognized during the year:								
▶ due to the introduction of or modifications to defined benefit plans	-	40	-	**40**	4	(24)	-	**(20)**
▶ due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	-	-	**-**
Other items	7	5	1	**13**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(13)	-	**(13)**	-	(88)	-	**(88)**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**22**	**106**	**2**	**130**	**36**	**(27)**	**1**	**10**
Actual return on plan assets	**(89)**	**6**	**1**	**(82)**	**401**	**212**	**15**	**628**

The asset allocation of fully and partly funded pension plans is as follows:

	December 31, 2018					December 31, 2017				
	Canada	USA	UK	Other	Total	Canada	USA	UK	Other	Total
Quoted securities										
Local equities	2.0%	6.7%	0.0%	0.0%	**2.9%**	3.2%	10.4%	2.4%	0.0%	**5.7%**
Foreign and global equities	5.7%	6.2%	3.7%	0.0%	**4.8%**	9.3%	9.4%	11.0%	0.0%	**9.6%**
Alternative investments	3.4%	10.9%	8.1%	0.0%	**8.0%**	3.9%	11.2%	18.3%	0.0%	**12.1%**
Real estate	0.1%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
Indexed linked bonds	0.1%	0.2%	11.7%	11.5%	**5.3%**	0.1%	0.1%	10.3%	13.8%	**4.5%**
Fixed income government and agencies	35.3%	19.5%	12.6%	0.0%	**18.4%**	24.1%	9.4%	9.6%	0.0%	**11.7%**
Corporate bonds	11.8%	26.8%	13.9%	0.0%	**17.8%**	11.5%	27.2%	7.4%	0.0%	**16.0%**
Other fixed income, multi-asset credit, emerging market bonds	33.6%	18.2%	24.3%	0.0%	**22.2%**	39.8%	19.4%	22.4%	0.0%	**23.4%**
Cash & cash equivalent	1.3%	1.7%	10.1%	0.7%	**4.9%**	1.9%	2.9%	4.2%	2.9%	**3.2%**
Total quoted securities	**93.4%**	**90.0%**	**84.5%**	**12.3%**	**84.4%**	**93.8%**	**90.1%**	**85.7%**	**16.7%**	**86.1%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	87.7%	**4.5%**	0.0%	0.0%	0.0%	83.3%	**3.4%**
Private placements[1]	2.9%	1.6%	8.2%	0.0%	**4.3%**	3.2%	2.0%	7.0%	0.0%	**4.0%**
Real estate	3.7%	8.4%	7.4%	0.0%	**6.8%**	3.0%	7.9%	7.3%	0.0%	**6.5%**
Total non-quoted securities	**6.6%**	**10.0%**	**15.5%**	**87.7%**	**15.6%**	**6.2%**	**9.9%**	**14.3%**	**83.3%**	**13.9%**
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Duration in years of the bond portfolio, excluding cash & cash equivalents and funds managed by insurance companies	**16.9**	**13.1**	**29.2**	**9.2**	**20.1**	**16.9**	**16.4**	**33.6**	**N/A**	**22.1**

(1) Private equity and private debt.

In the above allocation, assets reported under "Quoted Securities" are assets which have a regular market value at which such assets can be sold and the ones under "Non-Quoted Securities" are assets managed by insurance companies and less liquid assets which could be sold on short notice or in case of difficult markets at a discounted price.

An internal group of experts, composed by the chairmen or Chief Investment Officers of the main investment committees and Group specialists, has issued investment guidelines for the use of the local investment committees giving the investment best practices. Among other issues, these guidelines state not to invest directly in any Michelin securities or in any properties used by the Group. Fund managers do not have such restrictions. The Group has no significant amount invested in its own securities. Michelin does not occupy or use any of the real estate assets included in the various portfolios. Detailed information is not available about the underlying assets held in insurance funds or alternative investments.

Alternative investments are composed of hedge funds and multi asset products such as diversified growth funds in the United Kingdom. These kinds of investment are expected to deliver absolute returns with a lower volatility than equities.

Other fixed income are composed of emerging market bonds, commingled funds, liability hedging portfolios for which the managers invest in government and corporate bonds or in derivatives, as well as, in the UK, in multi asset credit for which the managers can switch between main credit products depending on market conditions. This kind of investment is expected to have a return similar to corporate bonds with a lower volatility due to its diversification to asset backed securities, loans, high yield bonds as well as cash, government and corporate bonds.

For the UK portfolio the real estate investment is an investment into a Limited Price Index Property Fund with long term leases which is expected to hedge inflation risk.

In most countries assets are managed by local independent boards which are required under local pension laws. The boards are required by their articles of association as well as by law to act in the best interest of the fund and of all relevant stakeholders in the plan, i.e. current and future beneficiaries as well as employers.

Asset allocation studies are performed periodically, generally every three to five years, by an independent fiduciary body (Investment Board, Board of Trustees) based on recommendations made by independent advisors (actuaries, consultants, investment management firms). The asset allocation takes into account the structure of employee-related liabilities and their terms. In case of a large rise in funding ratio, an asset allocation study should be performed to ensure the target allocation is still appropriate.

The largest pension plans have implemented a dynamic asset allocation, where the target asset allocations are based on plan funded status. An improvement in funding status results in the de-risking of the portfolios, allocating more funds to liability hedging assets (LHA) and less to return seeking assets (RSA). In case of a decrease of the funding ratio the target allocation remains unchanged, as re-risking of the portfolios is not permitted. These pension plans have also implemented an interest rate hedging policy as well as an Inflation hedge policy for the UK. The hedging ratio increases as the funding level improves.

The RSA are diversified with the objective to target efficient portfolios where the level of volatility is minimized for the targeted return. These portfolios combine domestic and global equities with real estate and alternative assets such as hedge funds and private placements. Special attention is given to less liquid asset classes that may complicate the de-risking process by creating concentrated positions or requiring transactions at discounted prices.

The LHA are hedging the duration risk as well as in some cases the credit spread and inflation risk. The LHA portfolios are primarily composed of government and corporate bonds. The larger plans also use completion managers to implement custom solutions in order to hedge key rates according to the policy set by each pension fund.

Foreign exchange risks might be hedged when the exposure to foreign currency is considered as non-negligible. For instance the UK fund has numerous currencies and has a policy to hedge 75% of its exposure. Also in Canada 50% of the American dollar exposure is hedged. In other cases, investment managers are given discretion to hedge currency exposure as they deem necessary.

Group contributions to pension plans and benefit payments made by these plans in 2018 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Contributions paid and benefits paid directly by the Group				
2018	23	198	1	**222**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2019	2	225	-	**227**
2020	2	105	-	**107**
2021	2	101	-	**103**
2022	2	81	-	**83**
2023	16	79	-	**95**
2024-2028	355	498	-	**853**

The Group makes contributions to fully and partly funded plans in order to meet its future benefit payment obligations to the beneficiaries. The level of contributions is periodically determined by the Group based on factors such as current funding levels, legal and tax considerations and local practice, in consultation, as the case may be, with local boards and actuaries.

In the US the following year contribution is determined annually using IRS rules including temporary funding relief provided by BBA15 (Bipartisan Budget Act of 2015). In Canada the contributions are determined on a tri-annual base and the funding plan is spread over 15 years as required under local regulations.

In the UK the contributions are determined based on tri-annual actuarial valuations as required by the Pension Act. In case of deficit the employer must agree a recovery plan with the Trustees. The current Recovery Plan matures in 2027.

In 2018, in addition to the ordinary contributions, it was decided to make contributions in the UK for an amount of €113 million and in the United States for an amount of €21 million.

In the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly *via* the relevant administrators.

The estimates of future payments for unfunded plans are based on data included in the calculation of the projected defined benefit obligation based on expected leaving dates each year. The same method is used for the constitutive funds for partially funded plans paid to insurance companies.

/ 27.1.2 Other Defined Benefit Plans

In many countries, Group employees receive other post-employment benefits and long-term benefits throughout their term of employment. The "other post-employment benefits" mainly include health insurance and end of service benefit. The "Other defined benefit plans" are mainly found in the United States, Canada and France. "Other long-term benefits" include mainly long service awards plans provided under local company-specific agreements. Such defined benefit plans generally concern the Group European companies.

As in the case of the above-described defined benefit plans, "other defined benefit plans" are valued with the assistance of independent actuaries using actuarial techniques. The obligations under these plans are not covered by assets and are recognized as liabilities.

The main plans provided within the Group are:

USA

The Group offers retiree medical benefits that provide healthcare coverage for Pre-Medicare and Medicare eligible retirees and their dependents.

Eligible retirees are mainly those who were active prior to January 1, 2004 and will have at least reached age 55 with 10 years of service at the date of retirement.

For Medicare eligible retirees, the health care coverage comes as an addition to Medicare.

Medical and prescription drug expenses are covered by the plan. The retirees contribute to the cost of the pre-Medicare post-retirement medical plan.

In 2016, the plan was amended to move non-union Medicare eligible retirees from a company-sponsored retirement offering to private Medicare exchanges. For this population, the plan will provide the following benefit improvements:

- Retiree Reimbursement Account (RRA) will be funded in a fixed annual amount per retiree and eligible dependents through a Retiree Health Exchange program to either reimburse Medicare, Medicare supplement and/or prescription drug premiums;
- Catastrophic Retiree Reimbursement Account: if the retiree or dependent reaches the eligibility threshold for catastrophic drug coverage, he or she can receive reimbursement for the 5% of out-of-pocket cost not covered by Medicare Part D.

The Group pays a premium for the administrative services. This plan is not funded.

Canada

The Group offers retiree medical benefits that provide healthcare coverage for certain retirees and their dependents. Medical and prescription drug expenses are covered by the plan.

This plan was closed to new entrants as from January 1, 2005.

The Group pays a premium for the administrative services. This plan is not pre-funded.

France

The main plan is a mandatory rubber branch end-of-service benefit plan.

The plan provides that a lump sum payment is made upon retirement for employees being present at the retirement date. The normal age of retirement is 65. The calculation of the lump sum corresponds to a number of months of salary based on years of service at the time of retirement.

This plan is not pre-funded.

Changes in the financial position of "other defined benefit plans" are as follows:

(in € million)	December 31, 2018				December 31, 2017			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	790	990	40	**1,820**	958	1,025	38	**2,021**
Translation adjustments	14	-	-	**14**	(98)	1	(4)	**(101)**
Changes in scope of consolidation	-	(6)	-	**(6)**	-	-	-	**-**
Current service cost	10	46	4	**60**	10	48	4	**62**
Interest cost on the defined benefit obligation	28	16	2	**46**	34	19	2	**55**
Administration costs	-	-	-	**-**	-	-	-	**-**
Plan reorganization costs generated during the year:								
▶ past service cost due to the introduction of or modifications to defined benefit plans	11	3	-	**14**	(39)	3	-	**(36)**
▶ past service cost due to curtailments of defined benefit plans	-	(8)	-	**(8)**	-	(95)	-	**(95)**
▶ (gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Benefits paid	(46)	(59)	(2)	**(107)**	(51)	(69)	(2)	**(122)**
Other items	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	(83)	1	1	**(81)**	(24)	58	2	**36**
Present value of the obligations at the end of the year	**724**	**983**	**45**	**1,752**	**790**	**990**	**40**	**1,820**
Fair value of plan assets at the beginning of the year	-	-	-	**-**	-	-	-	**-**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Contributions paid to the plans	-	-	-	**-**	-	-	-	**-**
Benefits paid by the plans	-	-	-	**-**	-	-	-	**-**
Other items	-	-	-	**-**	-	-	-	**-**
Actual return on plan assets excluding interest income	-	-	-	**-**	-	-	-	**-**
Fair value of plan assets at the end of the year	-	-	-	**-**	**-**	**-**	**-**	**-**
Deficit/(Surplus) at the end of the year	**724**	**983**	**45**	**1,752**	**790**	**990**	**40**	**1,820**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**724**	**983**	**45**	**1,752**	**790**	**990**	**40**	**1,820**

USA

A first valuation of a Long Term Disability plan has been carried out generating a positive past service cost for an amount of €11 million.

France

The Group has re-measured the impact of the voluntary pre-retirement plan put in place in 2017 in the light of the actual data. The initial measurement carried out in 2017 resulted in a curtailment of the other post-employment benefit plans amounting to €95 million. The re-measurement of the impact led the Group to recognize, in 2018, an additional curtailment for an amount of €8 million.

In 2018 the present value of "other defined benefit plans" decreased by €68 million, due to:

	2018	2017
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(14)	101
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	81	(36)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	1	5
Changes in plan regulations	(6)	131
Changes in the scope of consolidation	6	-
Other items	-	-

The present value of the defined benefit obligation and experience adjustments are as follows for 2018 and the previous four periods:

(in € million)	2018	2017	2016	2015	2014
Defined benefit obligation	(1,752)	(1,820)	(2,021)	(2,271)	(2,286)
Experience adjustments to plan liabilities	14	46	16	25	65
Experience adjustments to plan liabilities *(in % of present value of the obligation – DBO)*	-0.80%	-2.53%	-0.79%	-1.10%	-2.84%

The main actuarial weighted average assumptions used to measure obligations for "other defined benefit plans" are as follows:

	December 31, 2018			December 31, 2017		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.12%	1.76%	5.28%	3.57%	1.61%	5.47%
Weighted average duration of the defined benefit obligation	10.8	14.1	10.8	11.3	13.6	9.6

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2018		December 31, 2017	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.89%	6.10%	7.85%	6.30%
Minimum long-term rate of annual growth in healthcare costs	4.93%	4.25%	5.00%	4.25%
Year in which the minimum growth rate will be achieved	2026	2028	2026	2028

The discount rate is one of the main assumptions used in the measurement of the defined benefit obligation and changes in this rate may have a significant effect on the amounts reported. All actuaries provide for each plan sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and Cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

A 0.5-point shift in these rates, all else otherwise being equal, compared to those used for 2018 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-5.99%	6.56%
Discount rate on the aggregate of current service cost and interest cost on the obligation	-0.12%	-0.03%
Healthcare cost trend on the healthcare defined benefit obligation	1.75%	-1.67%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	1.62%	-1.52%

Net income and expenses recognized in the income statement are as follows:

(in € million)	Year ended December 31, 2018				Year ended December 31, 2017			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	10	46	4	**60**	10	48	4	**62**
Interest cost on the defined benefit obligation	28	16	2	**46**	34	19	2	**55**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	(1)	(3)	(1)	**(5)**	-	-	-	**-**
Past service cost recognized during the year:								
▶ due to the introduction of or modifications to defined benefit plans	11	3	-	**14**	(39)	3	-	**(36)**
▶ due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(8)	-	**(8)**	-	(95)	-	**(95)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**48**	**54**	**5**	**107**	**5**	**(25)**	**6**	**(14)**

Group payments made under "other defined benefit plans" in 2018 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2018	46	59	2	**107**
Estimates of benefit payments to be made				
2019	47	46	4	**97**
2020	48	50	1	**99**
2021	49	54	1	**104**
2022	49	52	2	**103**
2023	50	54	2	**106**
2024-2028	237	237	14	**488**

For unfunded plans, such payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators.

27.2 Defined contribution plans

In some Group companies, employees are covered by defined contribution plans. Such plans mainly provide benefits in addition to those of mandatory post-employment plans.

In 2018, the contributions paid to defined contribution plans and expensed amounted to €223 million (2017: €220 million).

These plans are mainly found in the United States of America, Canada, the United Kingdom and France.

USA

The defined contribution plans in the United States consist of the Michelin Retirement Account Plan (MRAP) and various 401(k) plans. The MRAP plan is fully funded by employer contributions. The contribution levels are based on age and years of service. The 401(k) plans are voluntary and are funded by employee contributions with employer matching contributions. In both the MRAP and 401(k) plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment committee under the authority of the US Pension Board.

Canada

The defined contribution plans in Canada consist of the Defined Contribution Plan for the Employees of Michelin North America (Canada) Inc. as well as a registered retirement savings plan (RRSP). The defined contribution plan is funded by core employer contributions and optional employee contributions with employer matching. The core contribution levels, modified at January 1, 2016, are based on years of service and age. The RRSP plan is voluntary and is funded by employee contributions with employer matching contributions. In both the DC and RRSP plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment Committee under the authority of the US Pension Board.

United Kingdom

The main defined contribution pension plan in UK is the Michelin Pension and Life Assurance plan DC section (for Michelin and ATS employees). It has been implemented as from December 1, 2004 for the new entrants and for January 1, 2009 for all employees who did not opt out.

For Michelin employees, there are employee and employer contributions to this Plan which are based on a percentage of the eligible pay and age of the employee. Employees may also make optional contributions to the plan and the Group will match some of these optional contributions.

For ATS employees, there are employee and employer contributions. The range of contribution is chosen by the employee and matched by the employer. Contributions are a flat rate whatever the age of the employee.

All contributions to the plan are held in a Pension Account in a Trust. The employees choose how to invest these contributions among the different options made available for the Plan. The asset allocation choices are determined and monitored by the Board of Trustees.

France

There are two defined contribution pension schemes in France: the "Article 83" scheme and the "PERCO".

The defined-contributions "Article 83" retirement savings plan has been implemented as from January 1, 2012 in order to replace the defined benefit plan which will be progressively terminated. It is a mandatory retirement plan for all employees of the French companies concerned by the applicable agreement. Contributions are paid by the employee and the employer on the gross annual salary capped. An individual account is opened on the name of each employee. The employee can claim his additional retirement benefit at the date he is entitled to his pension in a compulsory retirement scheme.

The PERCO has been implemented on June 1, 2007 and revised as from January 1, 2012. It is a voluntary pension saving plan. Each employee can contribute to this plan and the Group will match the voluntary contributions made by the employee up to a cap.

NOTE 28 SHARE-BASED PAYMENTS

28.1 Stock option plans

Changes in the number of options granted under stock option plans and their weighted average exercise price are as follows:

	2018		2017	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**53.81**	**360,951**	**54.35**	**672,028**
Granted	-	-	-	-
Forfeited	51.17	(47,596)	51.16	(2,098)
Exercised	52.73	(201,946)	55.00	(308,979)
AT DECEMBER 31	**56.87**	**111,409**	**53.81**	**360,951**

111,409 of the 111,409 options outstanding as at December 31, 2018 are exercisable (2017: 360,951 exercisable out of a total of 360,951).

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2018		December 31, 2017	
Grant dates	Vesting dates	Expiry dates	Exercise prices *(in € per option)*	Number of options outstanding	Exercise prices *(in € per option)*	Number of options outstanding
November 2009	November 2013	November 2018	51.16	-	51.16	177,748
May 2010	May 2014	May 2019	52.13	34,304	52.13	79,963
May 2011	May 2015	May 2020	66.00	40,637	66.00	59,127
June 2012	June 2016	June 2021	51.16	36,468	51.16	44,113
NUMBER OF STOCK OPTIONS OUTSTANDING				**111,409**		**360,951**

28.2 Performance share plans

Changes in the number of performance share rights are as follows:

	2018	2017
	Number of outstanding performance share rights	Number of outstanding performance share rights
At January 1	**883,512**	**668,936**
Granted	129,270	296,440
Forfeited	(195,252)	(42,780)
Shares delivered	(194,291)	(39,084)
AT DECEMBER 31	**623,239**	**883,512**

In November 2018, 129,270 rights to performance shares have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2022 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (share price on the market, industrial environmental performance, employee engagement level, increase in operating income) are met. The fair value of a right to a performance share is estimated at €47.91. This fair value is based on the share price at the grant date, less the present value of expected dividends that will not be received by grantees during the vesting period. The market performance has reduced the fair value of the performance share at grant date, according to the estimated probability that the condition is met. The total cost for the plans issued in 2018 is estimated at €4 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2018 Number of outstanding performance share rights	December 31, 2017 Number of outstanding performance share rights
	France	Other countries	France	Other countries	France	Other countries		
2014	2018	2018	None	None	63.05	63.05	-	276,168
2014	2018	2018	None	None	63.05	63.05	-	106,244
2015	2019	2019	None	None	82.24	82.24	83,464	84,140
2016	2020	2020	None	None	66.41	66.41	119,540	120,520
2017	2021	2021	None	None	66.84	66.84	290,965	296,440
2018	2022	2022	None	None	47.91	47.91	129,270	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**623,239**	**883,512**

The expense recognized in 2018 for the performance share plans amounts to €9 million (2017: €7 million) and is included in "Segment other income and expenses ".

28.3 Employee share purchase plans

In 2018, the Group launched a share offer for all its employees located in countries where the legal and fiscal requirements were met. This share purchase plan (Bib'Action), carried out under the Company savings plan *(Plan d'Épargne Groupe),* is a standard plan allowing employees to invest in Michelin shares at a discounted price. The shares acquired by the employees participating in the plan cannot be sold or transferred during a five-year period.

The share subscription price was set at €82.31, after a 20% discount on the reference price of €102.89, the latter being the average of the Michelin share's opening trading price of the last twenty trading days preceding the price fixing day. The employees were granted one free share for each share purchased capped to the first four.

578,639 shares were purchased during this share offer.

The global expense recognized in the income statement by the Group in 2018, in relation to this plan, amounted to €13 million after deduction of the effect of the five-year restriction.

The main features of the plan and the assumptions used for the valuation of the cost linked to the shares acquired by Group employees were as follows:

Maturity of the plan	5 years
Number of shares subscribed	578,639
Reference price *(in €)*	102.89
Subscription price *(in €)*	82.31
Five-year risk-free rate[1]	0.20%
Five-year market participant rate[2]	5.85%
Dividend yield	3.45%
Cost of the lock-up period *(in % of the reference price)*	23.99%
Cost recognized *(in € per share)*	22.68

(1) The risk-free interest rate is based on the yield of French government bonds with the equivalent maturity.
(2) The five-year market participant rate is an average of non-dedicated 5-year individual loan rates.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions and other long-term liabilities amount to €1,315 million (2017: €1,676 million) and include provisions for reorganizations and adaptation of activities, provisions for litigation and for warranties, contracts liabilities as described in note 3.8 "Revenue recognition", as well as other provisions and long-term liabilities.

Movements in provisions during the year:

(in € million)	Reorganizations and adaptation of activities	Litigation, Warranties and other provisions	Total
At January 1, 2018	**410**	**454**	**864**
Additional provisions	150	89	**239**
Provisions utilized during the year	(165)	(94)	**(259)**
Unused provisions reversed during the year	(23)	(12)	**(35)**
Translation adjustments	(3)	1	**(2)**
Other effects[1]	(163)	(6)	**(169)**
AT DECEMBER 31, 2018	**206**	**432**	**638**

(1) Mainly long-term to short-term reclassification.

The €445 million balance for litigation, warranties and other provision includes mainly amounts arising from social security disputes (URSSAF in France), as well as civil liability claims in North America and obligations arising from warranties given to customers, in particular in the United States.

29.1 Reorganizations and adaptation of activities

At December 31, 2018, the remaining provisions for reorganizations and adaptation of activities relate to following countries:

(in € million)	December 31, 2018	December 31, 2017
France[1]	94	269
United Kingdom	67	62
Italy	21	40
Germany	18	26
Other countries	6	13
TOTAL	**206**	**410**

(1) The balance includes mainly the provision made in relation to the implementation of the new worldwide organization of the Group.

NOTE 30 OTHER CURRENT LIABILITIES

The carrying amount of other current liabilities is presented in the table below:

(in € million)	December 31, 2018	December 31, 2017
Customers – Deferred rebates	843	847
Employee benefits	575	573
Social security liabilities	325	221
Reorganizations and adaptation of activities liabilities	170	3
Current income tax payable	159	186
Other taxes	230	279
Other	388	276
OTHER CURRENT LIABILITIES	**2,690**	**2,385**

NOTE 31 DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flows are presented in the table below:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Investment grants	(12)	(13)
Change in employee benefit obligations	(218)	(235)
Change in litigation and other provisions	(24)	(5)
Costs related to reorganizations and adaptation of activities	(172)	(100)
Other	13	7
Other operating income and expenses (cash) and change in provisions	**(413)**	**(346)**
Interest and other financial expenses paid	(216)	(422)
Interest and other financial income received	21	23
Dividends received	13	26
Cost of net debt and other financial income and expenses paid	**(182)**	**(373)**
Change in inventories	4	(311)
Change in trade receivables and advances	(52)	(317)
Change in trade payables and advances	(47)	205
Change in trade payables under factoring contracts	(77)	199
Change in other receivables and payables	(24)	160
Change in working capital, net of impairments	**(196)**	**(64)**
Purchases of intangible assets (note 13)	(201)	(186)
Purchases of PP&E (note 14)	(1,467)	(1,585)
Government grants received	20	25
Change in capital expenditure payables	(68)	78
Purchases of intangible assets and PP&E	**(1,716)**	**(1,668)**
Increase in other non-current financial assets	(209)	(21)
Decrease in other non-current financial assets	9	10
Net cash flows from cash management financial assets	-	(18)
Net cash flows from borrowing collaterals	7	36
Net cash flows from other current financial assets	(31)	(10)
Cash flows from other financial assets	**(224)**	**(3)**
Increase in non-current financial liabilities	2,974	494
Decrease in non-current financial liabilities	(80)	(28)
Repayment of finance lease liabilities	(19)	(24)
Net cash flows from current financial liabilities	191	(424)
Derivatives	(46)	(86)
Cash flows from financial liabilities	**3,020**	**(68)**
Details of non-cash transactions:		
▶ New finance leases (note 14)	65	135
▶ Increase/(Decrease) of liabilities to minority shareholders	-	-
▶ New emission rights	7	4

NOTE 32 COMMITMENTS AND CONTINGENCIES

32.1 Commitments

/ 32.1.1 Operating lease commitments

Future minimum payments under non-cancellable operating leases by maturity are as follows (not discounted):

(in € million)	December 31, 2018	December 31, 2017
Within one year	264	234
Between one and five years	435	415
More than five years	180	134
TOTAL FUTURE MINIMUM PAYMENTS	**879**	**783**

Total operating lease rents recognized in the income statement in 2018 amounted to €367 million (2017: €379 million).

/ 32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2018, amounts to €310 million (of which €105 million is likely to be delivered from 2020).

/ 32.1.3 Other commitments

The Group has various purchase commitments for goods and services. These commitments are in line with the level of activity expected in the first half of 2019. They are established under normal market conditions and arise in the course of the Group ordinary activities.

32.2 Contingencies

/ 32.2.1 Michelin Pension Trust Ltd UK

Following the introduction of the "Pension Act 2004" in the United Kingdom, a multi-annual plan of contributions to the UK pension funds, "Recovery Plan", was established between Michelin Pension Trust Ltd U.K. and Michelin U.K. In order to limit the amount of the contributions and to stagger them over more than ten years, the Group has given a guarantee to the pension fund to cover the stream of contributions which its subsidiary will have to make.

The calculation of the Recovery Plan is done every three years. The last one was carried out as of March 31, 2017. The actuarial assumptions used to evaluate the liability for the Recovery Plan are globally more conservative than the ones used to evaluate the defined benefit obligations under IAS 19.

The amount of the guarantee given is equal to the difference, if positive, between the present value of future contributions and the amount of the provision booked in the accounts. As of December 31, 2018, the present value of the future contributions exceeding the provision booked in the Group accounts amounts to €65 million.

/ 32.2.2 Tax audit in Germany

Following a tax audit covering the periods 2005 to 2009, which gave rise in 2015 to notifications of intended tax adjustment in respect thereof, a German subsidiary has received in 2018 the relating final tax audit report and the amended tax assessment notices.

The final tax audit report includes an adjustment of the subsidiary's taxable income of €382 million through an estimation of the overall profit of the subsidiary using the Group average margin as an appropriate margin for the subsidiary. This adjustment includes notably for €298 million the challenge by the tax authorities of the effects, on the subsidiary, of the transfer price policy applied by the Group. The items relating to transfer pricing were pointed out in the 2015 notifications of intended tax adjustment. Furthermore, the tax administration considers in its final report that the subsidiary did not provide all the requested information in order to justify the applied transfer price policy.

The maximum financial risk relating to this litigation amounts to €227 million (€146 million for the additional tax and the balance for late interests).

The Group does not accept any of the positions taken by the German tax authorities.

On July 17th, the Group filed towards the German tax authorities:

- a proceeding that resulted in suspending the enforcement of the payments, which consequently were not significant;
- an appeal against the methodology used by the tax authorities and based on the Group average margin.

Furthermore, the Group is preparing to apply for a Mutual Agreement Procedure (MAP) according to the EU Arbitration Convention or the respective Double Tax Treaties, for the total reassessment amounting to €382 million.

The Group considers that it has strong arguments to make its point of view prevail and it is more likely than not it will be successful in each of the actions already filed or about to be filed.

On that basis, the Group assesses that the maximum financial risk it may suffer is not significant.

In 2016 a new tax audit covering the periods 2010 to 2014 was initiated; but no conclusion can be made at the date these financial statements are published. At 31 December 2018, the Group considers that there is no evidence of a risk of reassessment under this tax audit.

/ 32.2.3 Legal claims in Brazil

In relation to an investment project at its Resende plant (State of Rio de Janeiro), a Brazilian subsidiary of the Group benefitted in 2010, by means of a decree issued by the State governor, from tax advantages taking the form of deferred tax payments on the importation of machines and raw materials, as well as access to a BRL 1,029 million (around €232 million at 2018 closing exchange rate) credit line.

In 2013, a lawsuit was instigated against the subsidiary, the plaintiff pleading the unconstitutional nature of the decree by which the advantages had been given.

After having received a favorable ruling in 2015, the subsidiary was condemned on appeal in October 2016. The judgment only concerned the deferred tax payments relating to the importation of industrial machines for the Resende plant. In June 2017, the Group filed two appeals to bring the case before the Superior Court of Justice and the Supreme Court, which will have to decide beforehand whether these appeals are admissible before the case is decided on the merits. The Group estimates that the amount of financial risk related to this litigation to be in the region of BRL 32 million.

In November 2016, the Prosecutor of the State of Rio de Janeiro, based on the appeal ruling, started a new lawsuit against the subsidiary and demanded that it restitutes all of the advantages received following the decree.

The subsidiary opened legal proceedings to suspend the lawsuit, but its request was rejected by the judge who ordered the sequestration of the subsidiary's assets for an amount up to the level of the credit line granted.

The subsidiary, which has never made use of the credit line, entered an appeal for an immediate suspension and annulation of the decision. The request for a suspension was rejected but as of December 31, 2017, the preliminary decision concerning the sequestration of the company's assets had not been put into effect. On June 4, 2018, the Judge hearing the case instigated in November 2016 by the Prosecutor of the State of Rio de Janeiro, decided to dismiss the lawsuit, as the accusation is not admissible anymore on the basis of a new law enacted in 2017. In rendering his decision, the judge revoked the legal order to freeze the subsidiary's assets. The Prosecutor appealed this decision but, as of 31 December 2018, this appeal has not yet been brought to trial.

The Group contests all of the positions expressed by the Brazilian legal authorities in the different lawsuits and considers that it is more likely than unlikely that it will make its points of view prevail.

/ 32.2.4 Other contingencies

In the course of their ordinary activities, the Group companies may be involved in administrative proceedings, litigation and claims. Although provisions have been recognized when the risks are established and the cash outflows probable, there exist uncertainties concerning some of these administrative proceedings, litigation and claims.

In the opinion of the Group management, there is no other governmental, judicial or arbitration proceedings likely to have significant impacts on its net assets or cash flows.

32.3 Assets pledged as collateral

/ 32.3.1 PP&E

PP&E pledged as collateral amounted to €33 million (2017: €33 million).

/ 32.3.2 Financial assets

Loans and deposits amounting to €34 million (2017: €42 million) are pledged as collateral for financial borrowings (note 16 "Derivative Financial Instruments").

/ 32.3.3 Trade receivables

The Group runs two separate programs whereby certain European and North American subsidiaries have transferred ownership interests in their eligible trade receivable portfolios. The maximum financing that can be raised from these programs amounts to €474 million (2017: €468 million). Since the Group has substantially retained all the risks and rewards of ownership, the ownership interests in the trade receivable portfolios sold by the European and North American subsidiaries have not been derecognized and the financing received from the financial institutions, amounting to €15 million as at December 31, 2018 (2017: €15 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 FINANCIAL RISK MANAGEMENT

33.1 Financial risk management policy

/ 33.1.1 Organization of financial risk management

Financial risk control, measurement and supervision are carried out under the responsibility of the Corporate Financing Department, at the subsidiary, geographic zone level as well as at the Group level. It reports directly to the Group Financial Department.

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

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

A Financial Risks Committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The Financial Risks Committee meets on a monthly basis and includes members of the Group Financial Department and of the Corporate Financing Department.

/ 33.1.2 Liquidity risk

33.1.2.1 Risk factors

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

33.1.2.2 Risk management processes

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

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

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

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

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

As a matter of prudent financial policy, the Group guards against the inclusion in its financial contracts of covenants providing for ratios or "material adverse change" clauses that could affect its ability to mobilize credit lines or affect their term. At closing date no such clause featured in Group loan agreements. With regard to clauses in financial contracts relating to default or acceleration, the probability of such circumstances arising is low and their possible impact on the financial situation of the Group is not significant.

/ 33.1.3 Currency risk

33.1.3.1 Risk factors

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

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

Foreign currency translation risk arises from the Group's net investment in foreign subsidiaries. It corresponds to the risk of a change in the exchange rate used to translate the net investment in the foreign subsidiary into Euros during the consolidation process.

33.1.3.2 Risk management processes

Currency transaction risk

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

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

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

Currency translation risk

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

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

/ 33.1.4 Interest rate risk

33.1.4.1 Risk factors

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

33.1.4.2 Risk management processes

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

Interest rate exposure is analyzed and monitored by the financial risks committee using monthly performance indicators and management reports.

The interest rate position is centralized by currency by the Corporate Financing Department that is the only department permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies. The Financial Risk Committee determines the limits for hedging by currency, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

/ 33.1.5 Equity risk

33.1.5.1 Risk factors

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

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

33.1.5.2 Risk management processes

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

/ 33.1.6 Counterparty risk

33.1.6.1 Risk factors

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

33.1.6.2 Risk management processes

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

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

In order to mitigate the counterparty risk on its derivatives instruments, the Group realizes exchange of collaterals with its main banks.

/ 33.1.7 Credit risk

33.1.7.1 Risk factors

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

33.1.7.2 Risk management processes

The Credit Department, which is part of the Group Financial Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for credit and collection. The main policies and procedures are defined at Group level and are monitored and controlled at both the geographical zone and Group level. A monthly credit reporting system operates within the Group.

33.2 Financial risk data

/ 33.2.1 Liquidity risk

At December 31, 2018, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2019	2020	2021	2022	2023	2024	2025 and beyond
Bonds	656	72	154	860	586	62	3,676
Loans from financial institutions and other	474	1	1	15	65	23	76
Obligation under finance lease	31	39	39	39	39	39	78
Derivative instruments	35	(10)	(20)	28	(8)	-	-
REPAYMENT SCHEDULE OF FINANCIAL DEBTS	**1,196**	**102**	**174**	**942**	**682**	**124**	**3,830**
LONG-TERM UNDRAWN CONFIRMED CREDIT LINES	**-**	**-**	**1,500**	**-**	**-**	**-**	**-**

This table shows debt principals plus interests according to their payment date, as projected with available market data at closing date (interests are computed in each currency on the basis of the market rates, and converted in Euros at closing rates). Thus displayed amounts are not discounted.

The refinancing risk of the Group short term debt is covered by the amount of the undrawn confirmed credit lines (€1,500 million), cash available (€2,100 million) as well the cash management financial assets (€180 million).

In 2014, the Group renewed its syndicated credit line with a maturity of five years. In 2015 and 2016 the Group exercised its two extension options, extending the maturity from 2019 to 2021.

/ 33.2.2 Currency risk

Transactional currency risk

The following table set forth the Group transactional foreign currency accounting exposures (when a monetary asset or liability is denominated in a currency other than the functional currency), before and after hedging:

	December 31, 2018				December 31, 2017			
(in € million)	EUR	CNY	USD	Other	EUR	CNY	USD	Other
Monetary assets	577	605	5,349	2,467	659	774	4,679	1,961
Monetary liabilities	(1,477)	(85)	(4,111)	(1,440)	(1,681)	(113)	(4,192)	(1,415)
Net position before hedging	**(900)**	**520**	**1,238**	**1,027**	**(1,022)**	**661**	**487**	**546**
Hedges	907	(521)	(1,293)	(1,040)	1,032	(679)	(491)	(582)
NET POSITION AFTER HEDGING	**7**	**(1)**	**(55)**	**(13)**	**10**	**(18)**	**(4)**	**(36)**

An unfavorable change in each of the foreign currencies mentioned in the table above against the functional currencies of the companies which have the currency transaction exposure would have a negative aggregate impact, after hedging, of less than €1 million (2017: €1 million) in the consolidated income statement for every cent change. A favorable change would have a totally symmetrical impact. This relatively low sensitivity to the transaction currency risk is due to the objective described in paragraph 33.1.3 "Currency risk".

Because of the low volume of cash flow hedge derivatives (note 16 "Derivative financial instruments"), the equity sensitivity to currency risk is not significant.

Most of the open positions at December 31, 2018 were hedged in early January 2019.

Currency translation risk

A breakdown of equity by currency is provided in the following table:

(in € million)	December 31, 2018	December 31, 2017
EUR	5,115	6,400
USD	2,862	1,962
BRL	1,081	979
THB	525	526
CNY	562	407
CAD	450	333
INR	211	236
GBP	1,133	121
Other	228	297
TOTAL	**12,167**	**11,261**

/ 33.2.3 Interest rate risk

Net debt at December 31, 2018 by type of hedges and currencies can be detailed as follows:

	Net debt before hedging			Currency hedging	Net debt after currency hedging but before interest rate hedging			Interest rate hedging		Net debt after hedging		
(in € million)	Fixed	Variable	Total		Fixed	Variable	Total	Fixed	Variable	Fixed	Variable	Total
USD	1,097	153	**1,250**	(293)	50	907	**957**	714	(714)	764	193	**957**
CNY	-	12	**12**	668	-	680	**680**	270	(270)	270	410	**680**
THB	-	164	**164**	320	-	484	**484**	200	(200)	200	284	**484**
MXN	-	-	**-**	358	-	358	**358**	87	(87)	87	271	**358**
GBP	5	7	**12**	306	5	313	**318**	-	-	5	313	**318**
EUR	3,599	(1,363)	**2,236**	(1,942)	4,646	(4,352)	**294**	(401)	401	4,245	(3,951)	**294**
Other currencies	6	14	**20**	583	6	597	**603**	295	(295)	301	302	**603**
Total before derivatives	**4,707**	**(1,013)**	**3,694**	**-**	**4,707**	**(1,013)**	**3,694**	**1,165**	**(1,165)**	**5,872**	**(2,178)**	**3,694**
Fair value of derivatives included in net debt			**25**				**25**					**25**
NET DEBT (NOTE 26)			**3,719**				**3,719**					**3,719**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2018:

		Fair value impact			
(in € million)	Annualized cash impact booked in income statement	Booked in income statement[(1)]	Booked in other comprehensive income[(2)]	Not booked[(3)]	Total
1-point downward shift	**(22)**	(40)	(1)	402	**361**
1-point upward shift	**22**	38	1	(402)	**(363)**

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.
(2) For derivatives qualifying for hedge accounting (cash flow hedges).
(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

/ 33.2.4 Equity risk

Equity risk is the risk of a 10% unfavorable change in the price of the Group investment portfolio.

(in € million)	December 31, 2018	December 31, 2017
Carrying amount (note 15.1)	233	285
IMPACT ON EQUITY OF A 10% UNFAVORABLE CHANGE IN THE PRICE OF THE GROUP INVESTMENT PORTFOLIO	**(18)**	**(20)**

/ 33.2.5 Counterparty risk

At December 31, 2018, 61% of cash and cash equivalents (including cash management financial assets) is invested in money market or short term bond funds to allow for a maximum diversification of the counterparty risk. The balance is invested directly in international bank institutions which meet the counterparty risk management criteria defined by the Group.

Furthermore, most of the derivatives are contracted with the same banking groups.

/ 33.2.6 Credit risk

At December 31, 2018, net receivable balances from the ten largest customers amounted to €449 million (2017: €543 million). Seven of these customers are located in Europe and three in North America. At the same date, 72 customers (2017: 67) have been granted credit limits in excess of €10 million. Out of these, 36 are located in Europe, 25 in North America, four in Asia, seven in Africa, India or Middle-East. There was no significant collateral received to limit credit risk. In 2017, credit losses represented 0.13% of sales (2017: 0.09%).

/ 33.2.7 Commodities derivatives

In 2018, the Group did not have any significant hedges of commodities purchases (note 16.3 "Derivative contractual amounts").

33.3 Capital risk management

The Group's objectives when managing its capital is to safeguard its ability to continue as a going concern and to ensure its development, so that it can provide returns for shareholders and benefits for other stakeholders.

The Group monitors its capital on the basis of the gearing ratio, corresponding to the ratio of net debt to total equity.

(in € million)	December 31, 2018	December 31, 2017
Net debt (note 26)	3,719	716
Total equity	12,167	11,261
GEARING RATIO	**0.31**	**0.06**

33.4 Financial assets classification

Group financial assets have been classified to the categories "fair value through income statement", "fair value through other comprehensive income" and "amortized cost" in the following manner at December 31, 2018:

(in € million)	FV through P&L	FV through OCI	Amortised cost	Total 2018
Trade receivables	-	-	3,307	**3,307**
Current financial assets	65	-	249	**314**
Cash and cash equivalents	1,667	-	433	**2,100**
Non-current financial assets	101	208	382	**691**
TOTAL FINANCIAL ASSETS	**1,833**	**208**	**4,371**	**6,412**

At January 1, 2018, the classification taking into account the adjustments accounted for with as a result of the adoption of IFRS 9 was as follows:

(in € million)	FV through P&L	FV through OCI	Amortised cost	January 1, 2018 restated
Trade receivables	-	-	3,080	3,080
Current financial assets	71	-	214	285
Cash and cash equivalents	1,323	-	450	1,773
Non-current financial assets	137	272	75	484
TOTAL FINANCIAL ASSETS	**1,531**	**272**	**3,819**	**5,622**

33.5 Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2018 and 2017 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total 2018
Cash and cash equivalents	1,667	-	-	**1,667**
Deposits borrowing collaterals	34	-	-	**34**
Derivatives (note 16.1)	-	121	-	**121**
Unconsolidated equity investments (note 15.1)	38	-	195	**233**
TOTAL ASSETS	**1,739**	**121**	**195**	**2,055**
Derivatives (note 16.2)	-	146	-	**146**
TOTAL LIABILITIES	**-**	**146**	**-**	**146**

(in € million)	Level 1	Level 2	Level 3	Total 2017
Cash and cash equivalents	1,323	-	-	**1,323**
Deposits borrowing collaterals	42	-	-	**42**
Derivatives (note 16.1)	-	148	-	**148**
Unconsolidated equity investments (note 15.1)	32	-	253	**285**
TOTAL ASSETS	**1,397**	**148**	**253**	**1,798**
Derivatives (note 16.2)	-	180	-	**180**
TOTAL LIABILITIES	**-**	**180**	**-**	**180**

There has been no significant transfer during these two years between level 1 and level 2.

The following table presents the changes in level 3 instruments for the year ended December 31, 2017:

(in € million)	
At January 1, 2018	**253**
Additions	15
Disposals*	(82)
Transfers from other level to level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in net income	-
Gains or losses for the year included in other comprehensive income	-
Others	9
AT DECEMBER 31, 2018	**195**

* *Of which €55 million correspond to acquisitions performed in 2017 and consolidated in 2018 (note 13.1.2).*

NOTE 34 RELATED PARTY TRANSACTIONS

34.1 Senior Management and Supervisory Board

In 2018, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2017 net income and amounting to €2.7 million (2017 based on 2016 net income: €2.2 million).

He was entitled to a compensation of €1.5 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin (2017: €1.5 million). The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.6 million (2017: €0.6 million). He was entitled to a gross amount (social charges and tax included) of €0.9 million according to the terms of a long term incentive bonus program representing the outstanding value of the vested rights in that program (2017: €1.2 million).

The Annual Shareholders Meeting of May 18, 2018 approved to elect Florent Menegaux as General Managing Partner of Compagnie Générale des Établissements Michelin. Therefore, Florent Menegaux has not received any statutory distribution based on 2017 net income.

He was entitled to a compensation of €0.8 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin. The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.7 million.

The Annual Shareholders Meeting of May 18, 2018 approved to elect Yves Chapot as non-general Managing Partner of Compagnie Générale des Établissements Michelin.

He was entitled to a compensation of €0.5 million (social charges included) as non-general Managing Partner of Compagnie Générale des Établissements Michelin. The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.3 million. A provision of €0.5 million (social charges included) is recognized as at December 31, 2018 based on the present value of the vested rights in a long term incentive bonus program and a variable compensation program.

The global compensation granted in 2018 to the 10 members[(1)] members of the Group Executive Committee (2017: 11 members[(1)]) was €20 million (2017: €24 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2018	Year ended December 31, 2017
Short term benefits	14.6	17.1
Post-employment benefits	3.0	3.8
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	2.5	3.4
COMPENSATION GRANTED TO MEMBERS OF THE GROUP EXECUTIVE COMMITTEE	**20.1**	**24.3**

The attendance fees paid in 2018 to the Supervisory Board members for 2017 meetings were €0.5 million (2017: €0.5 million).

NOTE 35 EVENTS AFTER THE REPORTING DATE

The reported amounts of assets and liabilities at the date of the consolidated statement of financial position were adjusted, if needed, up to the date when the Managing Chairman authorized for issue the 2018 consolidated financial statements.

(1) *Members of the Group Executive Committee as at December 31.*

35.1 Acquisition of PT Multistrada Arah Sarana TBK

On January 22, 2019, The Group announced it has signed an agreement to acquire 80% of PT Multistrada Arah Sarana TBK ("Multistrada"), a tire manufacturer based in Indonesia. Upon closing, Michelin will pay US$ 439 million for 80% of the Multistrada shares subject to certain closing adjustments. As Multistrada is a publicly listed company, and pursuant to Indonesian regulations, Michelin will subsequently launch a public offer for the remaining outstanding shares, at the same price per share as that offered to the 80% shareholder group.

NOTE 36 LIST OF CONSOLIDATED COMPANIES

Countries are presented based on the Michelin geographical regions and within each regions are listed according to the alphabetical order of the French names.

Companies	Consolidation method	Registered office	Nature	% of interest
EUROPE				
Germany				
Michelin Reifenwerke AG & Co. Kommanditgesellschaft auf Aktien	Full consolidation method	Karlsruhe	Manufacturing & commercial	100.00
EUROMASTER GmbH	Full consolidation method	Mannheim	Commercial	100.00
EUROMASTER Reifenservice Deutschland GmbH	Full consolidation method	Mannheim	Commercial	100.00
EUROMASTER Immobilien GmbH	Full consolidation method	Mannheim	Commercial	100.00
Advantico GmbH	Full consolidation method	Mannheim	Commercial	60.00
Michelin Deutschland GmbH	Full consolidation method	Kaiserslautern	Financial	100.00
PTG Reifendruckregelsysteme GmbH	Full consolidation method	Neuss	Commercial	100.00
Bookatable GmbH & Co KG	Full consolidation method	Hamburg	Commercial	100.00
Bookatable Verwaltungs GmbH	Full consolidation method	Hamburg	Commercial	100.00
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Full consolidation method	Karlsruhe	Financial	100.00
IHLE tires GmbH	Full consolidation method	Muggensturm	Commercial	100.00
Tirecorp GmbH	Full consolidation method	Muggensturm	Commercial	100.00
Ihle International GmbH	Full consolidation method	Muggensturm	Commercial	100.00
ProServ Produktionsservice und Personaldienste GmbH	Equity method	Karlsruhe	Miscellaneous	49.00
Dichtelemente Hallite GmbH	Full consolidation method	Hamburg	Manufacturing & commercial	100.00
Austria				
Michelin Reifenverkaufsgesellschaft m.b.H.	Full consolidation method	Vienna	Miscellaneous	100.00
Euromaster Reifenservice GmbH	Full consolidation method	Vienna	Commercial	100.00
Belgium				
Michelin Belux S.A.	Full consolidation method	Zellik	Commercial	100.00
Michelin Travel Partner Belgium BVBA	Full consolidation method	Zellik	Commercial	100.00
Bulgaria				
Michelin Bulgaria EOOD	Full consolidation method	Sofia	Miscellaneous	100.00
Croatia				
Michelin Hrvatska d.o.o.	Full consolidation method	Zagreb	Commercial	100.00
Denmark				
Euromaster Danmark A/S	Full consolidation method	Skanderborg	Commercial	100.00
Bookatable ApS	Full consolidation method	Copenhagen	Commercial	100.00
Michelin Gummi Compagni A/S	Full consolidation method	Frederiksberg	Miscellaneous	100.00
Euromaster Ejendomme A/S	Full consolidation method	Skanderborg	Commercial	100.00
Viborg Direct A/S	Full consolidation method	Skanderborg	Commercial	100.00
Ihle Skandinavien ApS	Full consolidation method	Copenhagen	Commercial	100.00
Spain				
Michelin España Portugal, S.A.	Full consolidation method	Tres Cantos	Manufacturing & commercial	99.81
Reservas de Restaurantes, S.L.	Full consolidation method	Madrid	Miscellaneous	99.81
Euromaster Automoción y Servicios, S.A.	Full consolidation method	Madrid	Commercial	100.00
Nex Tyres, S.L.	Full consolidation method	Lleida	Commercial	50.00

Companies	Consolidation method	Registered office	Nature	% of interest
Livebookings SL	Full consolidation method	Madrid	Commercial	100.00
Michelin Travel Partner España Portugal SrL	Full consolidation method	Tres Cantos	Commercial	99.81
LEHIGH SPAIN SL	Full consolidation method	Barcelona	Miscellaneous	79.90
Servicios y Asistencia OK24, S.L.	Full consolidation method	Madrid	Commercial	60.80
Fundación Michelin Desarrollo	Full consolidation method	Valladolid	Miscellaneous	99.81
RODI METRO, S.L.	Equity method	Lleida	Miscellaneous	20.00
Fenner Dunlop SL	Full consolidation method	Esparreguera	Manufacturing & commercial	100.00
Estonia				
Michelin Rehvide OÜ	Full consolidation method	Tallinn	Miscellaneous	100.00
Finland				
Oy Suomen Michelin Ab	Full consolidation method	Espoo	Miscellaneous	100.00
Suomen Euromaster Oy	Full consolidation method	Pori	Commercial	100.00
France				
Compagnie Générale des Établissements Michelin	Full consolidation method	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Full consolidation method	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Full consolidation method	Avallon	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Full consolidation method	Bassens	Manufacturing	100.00
Euromaster France	Full consolidation method	Montbonnot-Saint-Martin	Commercial	98.61
Michelin Aircraft Tyre	Full consolidation method	Clermont-Ferrand	Commercial	100.00
Transityre France	Full consolidation method	Clermont-Ferrand	Commercial	100.00
Alliance Réseaux	Full consolidation method	Saint-Jean-de-Maurienne	Commercial	100.00
One Shot Pay SAS	Full consolidation method	Saint-Jean-de-Maurienne	Commercial	60.00
Michelin Travel Partner	Full consolidation method	Boulogne-Billancourt	Commercial	100.00
Spika	Full consolidation method	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Full consolidation method	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Full consolidation method	Montbonnot-Saint-Martin	Commercial	96.81
Tyredating	Full consolidation method	Lyon	Commercial	100.00
Ihle France	Full consolidation method	Schiltigheim	Commercial	100.00
Euromaster Services et Management	Full consolidation method	Clermont-Ferrand	Commercial	100.00
GIE MICHELIN PLACEMENTS	Full consolidation method	Clermont-Ferrand	Financial	100.00
SIMP	Full consolidation method	Clermont-Ferrand	Financial	51.00
Société d'Investissements et de Mécanique	Full consolidation method	Montagny	Miscellaneous	100.00
Michelin Ventures SAS	Full consolidation method	Clermont-Ferrand	Financial	100.00
Mon Tour en France	Full consolidation method	Saint-Jean-de-Maurienne	Commercial	59.85
Oxymore	Full consolidation method	Montbonnot-Saint-Martin	Commercial	96.15
Jean Estager et Cie	Full consolidation method	Montbonnot-Saint-Martin	Commercial	96.81
Teleflow SAS	Full consolidation method	Mably	Miscellaneous	100.00
V DATA SERVICES	Full consolidation method	Nantes	Miscellaneous	100.00
Adaran	Full consolidation method	Montbonnot-Saint-Martin	Commercial	100.00
Michelin Middle East	Full consolidation method	Clermont-Ferrand	Financial	100.00
AddUp	Equity method	Cébazat	Manufacturing	50.00
MMM !	Equity method	Paris	Miscellaneous	42.11
ALLOPNEUS	Equity method	Aix-en-Provence	Commercial	39.99

Companies	Consolidation method	Registered office	Nature	% of interest
Société Internationale de Plantations d'Hévéas	Equity method	Courbevoie	Miscellaneous	36.00
SYMBIOFCELL	Equity method	Grenoble	Miscellaneous	46.64
TAQUIPNEU	Equity method	Montauban	Miscellaneous	22.92
Fenner Dunlop SARL	Full consolidation method	Elancourt	Manufacturing & commercial	100.00
Greece				
Elastika Michelin A.E.	Full consolidation method	Halandri	Commercial	100.00
Hungary				
Michelin Hungaria Tyre Manufacture Ltd.	Full consolidation method	Nyíregyháza	Manufacturing & commercial	100.00
IHLE MAGYARORSZÁG Kft.	Full consolidation method	Komárom	Commercial	100.00
Ireland				
Miripro Insurance Company Designated Activity Company / Miripro Insurance Company DAC	Full consolidation method	Dublin	Miscellaneous	100.00
ASYNC TECHNOLOGIES LIMITED	Equity method	Ennis	Miscellaneous	25.00
Italy				
Società per Azioni Michelin Italiana	Full consolidation method	Turin	Manufacturing & commercial	100.00
Fondazione Michelin Sviluppo	Full consolidation method	Turin	Miscellaneous	100.00
Euromaster Italia S.r.l.	Full consolidation method	Milan	Commercial	100.00
Michelin Travel Partner Italia S.r.l.	Full consolidation method	Milan	Commercial	100.00
Hallite Italia S.r.l.	Full consolidation method	Collesalvetti	Manufacturing & commercial	100.00
Fenner Dunlop Italia S.r.l.	Full consolidation method	Milan	Manufacturing & commercial	100.00
Latvia				
Michelin Riepas SIA	Full consolidation method	Riga	Miscellaneous	100.00
Lithuania				
UAB Michelin Padangos	Full consolidation method	Vilnius	Miscellaneous	100.00
Luxembourg				
Michelin Luxembourg SCS	Full consolidation method	Luxembourg	Financial	100.00
Michelin Finance (Luxembourg) S.à r.l.	Full consolidation method	Luxembourg	Financial	100.00
Norway				
Norsk Michelin Gummi AS	Full consolidation method	Oslo	Miscellaneous	100.00
Fenner Mandals AS	Full consolidation method	Mandal	Manufacturing & commercial	100.00
The Netherlands				
Euromaster Bandenservice B.V.	Full consolidation method	Deventer	Commercial	100.00
Michelin Nederland N.V.	Full consolidation method	Drunen	Commercial	100.00
Transityre B.V.	Full consolidation method	Breda	Commercial	100.00
Michelin Distribution B.V.	Full consolidation method	Breda	Commercial	100.00
Actor B.V.	Full consolidation method	Deventer	Commercial	100.00
Euromaster Vastgoed B.V.	Full consolidation method	Deventer	Commercial	100.00
MC Projects B.V.	Equity method	Maastricht	Miscellaneous	50.00
Dunlop Service B.V.	Full consolidation method	Klazienaveen	Manufacturing & commercial	100.00
Fenner Dunlop B.V.	Full consolidation method	Drachten	Manufacturing & commercial	100.00
De Bruin & Berends B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Assets B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Dunlop Enerka Netherlands B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Enerka Netherlands Holding B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Dunlop Manufacturing Holdings B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Dunlop Service International B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Conveyor Belting International B.V.	Full consolidation method	Drachten	Financial	100.00
Dunlop Sales & Marketing B.V.	Full consolidation method	Klazienaveen	Financial	100.00
Fenner Dunlop Steelcord B.V.	Full consolidation method	Drachten	Financial	100.00
Fenner Cooperatief W.A.	Full consolidation method	Drachten	Financial	100.00
Fenner US Financing B.V.	Full consolidation method	Drachten	Financial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
Portugal				
Michelin-Companhia Luso-Pneu, Limitada	Full consolidation method	Lisbon	Miscellaneous	100.00
EUROMASTER PORTUGAL – SOCIEDADE UNIPESSOAL, LDA	Full consolidation method	Lisbon	Commercial	100.00
Poland				
Michelin Polska S.A.	Full consolidation method	Olsztyn	Manufacturing & commercial	100.00
Euromaster Polska sp. z.o.o.	Full consolidation method	Olsztyn	Commercial	100.00
Michelin Development Foundation (Fundacja Rozwoju Michelin)	Full consolidation method	Olsztyn	Miscellaneous	100.00
Dunlop Conveyor Belting Polska sp.zo.o	Full consolidation method	Mikołów	Manufacturing & commercial	100.00
Czech republic				
Euromaster Česká republika s.r.o. (Euromaster Ceska republika s.r.o.)	Full consolidation method	Prague	Commercial	100.00
Michelin Česká republika s.r.o. (Michelin Ceska republika s.r.o.)	Full consolidation method	Prague	Miscellaneous	100.00
IHLE Czech, s.r.o.	Full consolidation method	Plzen	Commercial	100.00
Romania				
Michelin Romania S.A.	Full consolidation method	Voluntari	Manufacturing & commercial	99.86
Euromaster Tyre & Services Romania S.A.	Full consolidation method	Voluntari	Commercial	100.00
IHLE ANVELOPE SRL	Full consolidation method	Pitesti	Commercial	100.00
United Kingdom				
Michelin Tyre Public Limited Company	Full consolidation method	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Full consolidation method	Birmingham	Commercial	100.00
Associated Tyre Specialists (Investment) Limited	Full consolidation method	Birmingham	Commercial	100.00
Blackcircles.com Limited	Full consolidation method	Edinburg	Commercial	100.00
Black Circles Holdings Limited	Full consolidation method	Edinburg	Miscellaneous	100.00
Livebookings Holdings Limited	Full consolidation method	London	Commercial	100.00
LB Central Limited	Full consolidation method	London	Commercial	100.00
BookaTable Limited	Full consolidation method	London	Commercial	100.00
Loghos Limited	Full consolidation method	London	Commercial	100.00
Michelin Europe (EEIG)	Full consolidation method	Stoke-on-Trent	Miscellaneous	99.96
Michelin Finance (U.K.) Limited	Full consolidation method	London	Financial	100.00
Michelin Lifestyle Limited	Full consolidation method	Stoke-on-Trent	Commercial	100.00
Michelin Development Limited	Full consolidation method	Stoke-on-Trent	Miscellaneous	100.00
TFM Holdings Limited	Full consolidation method	Eastleigh	Commercial	100.00
Michelin Travel Partner UK Limited	Full consolidation method	Stoke-on-Trent	Commercial	100.00
FENNER GROUP HOLDINGS LIMITED	Full consolidation method	Hessle	Parent	100.00
Fenner International Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
Hallite Seals International Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
James Dawson & Son Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
Dunlop Conveyor Belting Investments Limited	Full consolidation method	Hessle	Financial	100.00
Fenner N.A. Limited	Full consolidation method	Hessle	Financial	100.00
Hall & Hall Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (Advanced Engineering Products) Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (India) Limited	Full consolidation method	Hessle	Financial	100.00
James Dawson (China) Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Pension Scheme Trustee Limited	Full consolidation method	Hessle	Miscellaneous	100.00
Fenner International Australia Limited	Full consolidation method	Hessle	Financial	100.00
CDI Energy Products UK Limited	Full consolidation method	Hessle	Manufacturing & commercial	100.00
BTL Limited	Full consolidation method	Hessle	Financial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
Fenner Advanced Sealing Investments Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Advanced Sealing Technologies Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Drives Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Dunlop Limited	Full consolidation method	Hessle	Financial	100.00
Fenner Dynamics Limited	Full consolidation method	Hessle	Financial	100.00
Hallite (France) Limited	Full consolidation method	Hessle	Financial	100.00
Hallite Limited	Full consolidation method	Hessle	Financial	100.00
Hallite Polytek Limited	Full consolidation method	Hessle	Financial	100.00
Indico (Europe) Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (Fenaplast) Limited	Full consolidation method	Hessle	Financial	100.00
J.H. Fenner & Co. (Special Belting) Limited	Full consolidation method	Hessle	Financial	100.00
Norwegian Seals UK Limited	Full consolidation method	Hessle	Financial	100.00
Turner Belting Limited	Full consolidation method	Hessle	Financial	100.00
Vulcanisers International Limited	Full consolidation method	Hessle	Financial	100.00
Serbia				
Tigar Tyres d.o.o.	Full consolidation method	Pirot	Manufacturing & commercial	100.00
Slovakia				
Michelin Slovensko, s.r.o.	Full consolidation method	Bratislava	Miscellaneous	100.00
IHLE SLOVAKIA s.r.o.	Full consolidation method	Bratislava	Commercial	100.00
IHLE SLOVAKIA LOGISTIC A SERVIS s.r.o.	Full consolidation method	Bratislava	Commercial	100.00
Slovenia				
Michelin Slovenija, pnevmatike, d.o.o.	Full consolidation method	Ljubljana	Miscellaneous	100.00
IHLE pnevmatike, d.o.o.	Full consolidation method	Maribor	Commercial	100.00
Sweden				
Euromaster AB	Full consolidation method	Varberg	Commercial	100.00
Michelin Nordic AB	Full consolidation method	Stockholm	Commercial	100.00
BookaTable AB	Full consolidation method	Stockholm	Commercial	100.00
2Book AB	Full consolidation method	Stockholm	Commercial	100.00
Switzerland				
Euromaster (Suisse) S.A.	Full consolidation method	Givisiez	Commercial	100.00
Nitor S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Full consolidation method	Givisiez	Commercial	100.00
Compagnie Financial Michelin SCmA	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Full consolidation method	Granges-Paccot	Miscellaneous	100.00
Michelin Mexico Properties Sàrl	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Inter Assistance S.A.	Full consolidation method	Granges-Paccot	Miscellaneous	100.00
Michelin Finanz Gesellschaft fuer Beteiligungen S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Invest S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Livebookings AG	Full consolidation method	Zürich	Commercial	100.00
Michelin Trésorerie Europe de l'Est S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
Michelin Trésorerie Europe S.A.	Full consolidation method	Granges-Paccot	Financial	100.00
IHLE Service & Logistik Schweiz AG	Full consolidation method	Bülach	Commercial	100.00
SWISSCO PROJECT S.A.	Equity method	Neuchâtel	Miscellaneous	20.00
Turkey				
Michelin Lastikleri Ticaret A.S.	Full consolidation method	Istanbul	Commercial	100.00
Euromaster Lastik Ve Servis Limited Sirketi	Full consolidation method	Istanbul	Commercial	100.00
AFRICA/INDIA/MIDDLE EAST				
South Africa				
Michelin Tyre Company South Africa Proprietary Limited	Full consolidation method	Boksburg	Commercial	100.00
Fenner (South Africa) (Pty) Limited	Full consolidation method	Isando	Financial	100.00
Fenner Conveyor Belting (South Africa) (Pty) Limited	Full consolidation method	Isando	Manufacturing & commercial	71.00

Companies	Consolidation method	Registered office	Nature	% of interest
Algeria				
Michelin Algérie SPA	Full consolidation method	Algiers	Commercial	100.00
Société d'Applications Techniques Manufacturings	Full consolidation method	Algiers	Commercial	100.00
Cameroon				
Société Moderne du Pneumatique Camerounais	Full consolidation method	Douala	Commercial	100.00
Ghana				
Dunlop Conveyor Belting Ghana Limited	Full consolidation method	Accra	Manufacturing & commercial	100.00
Morocco				
Fenner Dunlop Maroc SARL	Full consolidation method	Casablanca	Manufacturing & commercial	100.00
Nigeria				
Michelin Tyre Services Company Ltd.	Full consolidation method	Lagos	Commercial	95.48
India				
Michelin India Private Limited	Full consolidation method	Chennai	Manufacturing	100.00
Michelin India Technology Center LLP	Full consolidation method	Gurgaon	Miscellaneous	100.00
Fenner Conveyor Belting Private Limited	Full consolidation method	Madurai	Manufacturing & commercial	100.00
Hallite Sealing Solutions India Private Limited	Full consolidation method	Bangalore	Manufacturing & commercial	100.00
Saudi Arabia				
E.A. Juffali & Brothers for Tyres	Equity method	Jeddah	Commercial	50.00
United Arab Emirates				
Michelin AIM FZE	Full consolidation method	Jafza (Dubai)	Miscellaneous	100.00
Dunlop Conveyor Belting Distribution FZE	Full consolidation method	Dubai	Manufacturing & commercial	100.00
Dunlop Service Middle East, LLC	Full consolidation method	Dubai	Manufacturing & commercial	49.00
NORTH AMERICA				
Canada				
Michelin North America (Canada) Inc.	Full consolidation method	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	Full consolidation method	New Glasgow	Commercial	100.00
Michelin Development (Canada) Inc.	Full consolidation method	New Glasgow	Miscellaneous	100.00
Oliver Rubber Canada Limited	Full consolidation method	Granton, Nova Scotia	Commercial	100.00
Fenner Dunlop (Bracebridge), Inc.	Full consolidation method	Bracebridge	Manufacturing & commercial	100.00
Hallite Seals (Canada) Ltd	Full consolidation method	Mississauga	Manufacturing & commercial	100.00
United States of America				
Michelin North America, Inc.	Full consolidation method	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Full consolidation method	Wilmington	Commercial	100.00
CR Funding Corporation	Full consolidation method	Wilmington	Financial	100.00
Michelin Corporation	Full consolidation method	New York	Financial	100.00
Oliver Rubber Company, LLC	Full consolidation method	Wilmington	Manufacturing	100.00
NexTraq LLC	Full consolidation method	Wilmington	Commercial	100.00
Tire Centers West, LLC	Full consolidation method	Wilmington	Commercial	100.00
Pelham 2 Corp.	Full consolidation method	Wilmington	Financial	100.00
Lehigh Technologies, Inc.	Full consolidation method	Wilmington	Commercial	100.00
BookaTable Inc.	Full consolidation method	New York	Commercial	100.00
ViaMichelin North America LLC	Full consolidation method	Greenville	Commercial	100.00
TBC CORPORATION	Equity method	Palm Beach Gardens	Commercial	50.00
Padfield Inc.	Equity method	Salt Lake City	Commercial	20.47
T & W TIRE, L.L.C.	Equity method	Oklahoma City	Commercial	25.00
Snider Tire, Inc.	Equity method	Greensboro	Commercial	31.03
Fenner Inc.	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner America, Inc.	Full consolidation method	Wilmington	Financial	100.00
Fenner Advanced Sealing Technologies, LLC	Full consolidation method	Wilmington	Financial	100.00
Fenner U.S., Inc.	Full consolidation method	Wilmington	Financial	100.00
American Industrial Plastics, LLC	Full consolidation method	Plantation	Manufacturing & commercial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
CDI Energy Products, LLC	Full consolidation method	Dallas	Manufacturing & commercial	100.00
Hallite Seals Americas, LLC	Full consolidation method	Plymouth	Manufacturing & commercial	100.00
Solesis Medical Technologies, Inc.	Full consolidation method	Harrisburg	Financial	100.00
Charter Medical, Limited	Full consolidation method	Raleigh	Manufacturing & commercial	100.00
SanaVita Medical, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
The Secant Group, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner Dunlop Conveyor Systems and Services, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner Dunlop Americas, LLC	Full consolidation method	Harrisburg	Manufacturing & commercial	100.00
Fenner Dunlop (Port Clinton), LLC	Full consolidation method	Columbus	Manufacturing & commercial	100.00
Fenner Dunlop (Toledo), LLC	Full consolidation method	Columbus	Manufacturing & commercial	100.00
Mexico				
Michelin Mexico Holding, S.A. de C.V.	Full consolidation method	Queretaro	Financial	100.00
Industrias Michelin, S.A. de C.V.	Full consolidation method	Queretaro	Manufacturing & commercial	100.00
AUTOPARTES INTERNACIONALES DE GUANAJUATO LEÓN, S.A. de C.V.	Full consolidation method	Ciudad de León	Miscellaneous	100.00
Michelin Sascar Mexico S.A. de C.V.	Full consolidation method	Queretaro	Commercial	100.00
Michelin Mexico Services, S.A. de C.V.	Full consolidation method	Queretaro	Miscellaneous	100.00
Autopartes Internacionales de Queretaro, S.A. de C.V.	Full consolidation method	Queretaro	Manufacturing & commercial	100.00
Panama				
Michelin Panama Corp.	Full consolidation method	Panama	Miscellaneous	100.00
SOUTH AMERICA				
Argentina				
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Full consolidation method	Buenos Aires	Commercial	100.00
Brazil				
Sociedade Michelin de Participações, Indústria e Comércio Ltda.	Full consolidation method	Rio de Janeiro	Manufacturing & commercial	100.00
Sociedade Tyreplus Brasil Ltda.	Full consolidation method	Rio de Janeiro	Commercial	100.00
Plantações Michelin da Bahia Ltda.	Full consolidation method	Rio de Janeiro	Miscellaneous	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda.	Full consolidation method	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda.	Full consolidation method	Rio de Janeiro	Miscellaneous	100.00
Sascar Tecnologia e Segurança Automotiva S.A.	Full consolidation method	Barueri	Miscellaneous	100.00
Industrial Levorin S.A.	Full consolidation method	Guarulhos	Manufacturing & commercial	100.00
Neotec Indústria e Comércio de Pneus Ltda.	Full consolidation method	Manaus	Manufacturing & commercial	100.00
LevNeo Participações Ltda.	Full consolidation method	Guarulhos	Miscellaneous	100.00
FAST APARELHOS ELETROELETRÔNICOS S.A.	Full consolidation method	Campinas	Miscellaneous	100.00
SEVA Engenharia Eletrônica S.A.	Full consolidation method	Contagem	Miscellaneous	100.00
Chile				
Michelin Chile Ltda.	Full consolidation method	Santiago	Commercial	100.00
Conveyor Services S.A.	Full consolidation method	Antofagasta	Manufacturing & commercial	66.00
Fenner International Chile Limitada	Full consolidation method	Las Condes	Financial	100.00
Fenner Dunlop Chile SpA	Full consolidation method	Las Condes	Financial	100.00
Colombia				
Industria Colombiana de Llantas S.A.	Full consolidation method	Bogotá	Commercial	99.96
Ecuador				
Michelin del Ecuador S.A.	Full consolidation method	Quito	Commercial	100.00
Peru				
Michelin del Perú S.A.	Full consolidation method	Lima	Commercial	100.00
Venezuela				
Michelin Venezuela, S.A.	Equity method	Valencia	Commercial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
SOUTHEAST ASIA/AUSTRALIA				
Australia				
Michelin Australia Pty Ltd	Full consolidation method	Melbourne	Commercial	100.00
Hallite Seals Australia Pty Limited	Full consolidation method	Blacktown	Manufacturing & commercial	100.00
Transeals Pty Limited	Full consolidation method	Welshpool	Financial	100.00
Fenner Dunlop Australia Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Fenner (Pacific) Pty Limited	Full consolidation method	West Footscray	Financial	100.00
Fenner Australia Financing Pty Limited	Full consolidation method	West Footscray	Financial	100.00
Australian Conveyor Engineering Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Fenner Dunlop Conveyor Services Pty Limited	Full consolidation method	West Footscray	Financial	100.00
Fenner Investments Australia Limited Partnership	Full consolidation method	West Footscray	Financial	100.00
BBV partnership	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Apex MasterBlast Trust	Full consolidation method	West Footscray	Financial	100.00
Australian Conveyor Technologies	Full consolidation method	Somersby	Financial	100.00
Control X Engineering	Full consolidation method	West Footscray	Financial	100.00
Belle Banne Conveyor Services Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Leading Edge Conveyor Services Pty Limited	Full consolidation method	West Footscray	Manufacturing & commercial	100.00
Indonesia				
PT Michelin Indonesia	Full consolidation method	Jakarta	Commercial	100.00
PT Synthetic Rubber Indonesia	Full consolidation method	Jakarta	Manufacturing	55.00
PT ROYAL LESTARI UTAMA	Equity method	Jakarta	Miscellaneous	49.07
Malaysia				
Michelin Malaysia Sdn. Bhd.	Full consolidation method	Petaling Jaya	Commercial	100.00
Michelin Services (S.E.A.) Sdn. Bhd.	Full consolidation method	Petaling Jaya	Miscellaneous	100.00
New Zealand				
Tyreline Distributors Limited	Equity method	Hamilton	Commercial	25.00
Beau Ideal Limited	Equity method	Te Awamutu	Commercial	25.01
Singapore				
Michelin Asia (Singapore) Co. Pte. Ltd.	Full consolidation method	Singapore	Commercial	100.00
Michelin Asia-Pacific Pte Ltd	Full consolidation method	Singapore	Miscellaneous	100.00
Michelin Asia-Pacific Import (SG) Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Michelin Asia-Pacific Export (SG) Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Michelin Asia-Pacific Import-Export (SG) Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Société des Matières Premières Tropicales Pte. Ltd.	Full consolidation method	Singapore	Miscellaneous	100.00
Wine Advocate Pte. Ltd.	Equity method	Singapore	Miscellaneous	40.00
Fenner Singapore Pte. Ltd	Full consolidation method	Singapore	Financial	100.00
CDI Multiseals Pte. Ltd	Full consolidation method	Singapore	Manufacturing & commercial	100.00
Thailand				
Michelin Siam Company Limited	Full consolidation method	Bangkok	Manufacturing & commercial	100.00
Michelin Experience (E2A) Co., Ltd.	Full consolidation method	Bangkok	Commercial	49.00
Michelin ROH Co., Ltd.	Full consolidation method	Bangkok	Miscellaneous	100.00
NTeq Polymer Co., Ltd.	Equity method	Surat Thani	Miscellaneous	45.00
Vietnam				
Michelin Vietnam Company Limited	Full consolidation method	Ho Chi Minh City	Commercial	100.00
CHINA				
China				
Michelin Shenyang Tire Co., Ltd.	Full consolidation method	Shenyang	Manufacturing	100.00
Shanghai Michelin Tire Co., Ltd.	Full consolidation method	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Full consolidation method	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00
Shanghai Suisheng Information Technology Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00

Companies	Consolidation method	Registered office	Nature	% of interest
Michelin Tire Research and Development Center (Shanghai) Co., Ltd.	Full consolidation method	Shanghai	Miscellaneous	100.00
Tyre Plus (Shanghai) Auto Accessories Trading Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00
Michelin (Shanghai) Aircraft Tires Trading Co., Ltd.	Full consolidation method	Shanghai	Commercial	100.00
DT Asia Holding Co., Limited	Equity method	Hong Kong	Commercial	40.00
Dawson Polymer Products (Shanghai) Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Hallite Shanghai Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Dunlop Conveyor Belting (Shanghai) Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Shanghai Fenner Conveyor Belting Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	85.00
Fenner Management (Shanghai) Company Limited	Full consolidation method	Shanghai	Manufacturing & commercial	100.00
Taiwan				
Michelin Tire Taiwan Co., Ltd.	Full consolidation method	Taipei	Commercial	100.00
EASTERN EUROPE				
Russia				
Michelin Russian Tyre Manufacturing Company LLC	Full consolidation method	Davydovo	Manufacturing & commercial	100.00
Ukraine				
Michelin Ukraine LLC	Full consolidation method	Kiev	Commercial	100.00
JAPAN/KOREA				
Japan				
Nihon Michelin Tire Co., Ltd.	Full consolidation method	Tokyo	Commercial	100.00
South Korea				
Michelin Korea Co., Ltd.	Full consolidation method	Seoul	Commercial	100.00

NOTE 37 STATUTORY AUDITORS' FEES

	Deloitte				PricewaterhouseCoopers			
	Issuer's auditor (Deloitte & Associés)		Network		Issuer's auditor (PricewaterhouseCoopers Audit)		Network	
(in € thousand)	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit, certification and half-year limited review of the individual and consolidated financial statements								
▶ Issuer	620	48%	-	-	635	47%	-	-
▶ Fully consolidated subsidiaries	660	52%	2,552	100%	716	53%	3,542	100%
Sub-total	**1,280**	**100%**	**2,552**	**100%**	**1,351**	**100%**	**3,542**	**100%**
Other services than certification of accounts								
▶ Issuer[(1)]	37	100%	579	49%	108	69%	-	-
▶ Fully consolidated subsidiaries[(2)]	-	0%	588	51%	48	31%	1,522	100%
Sub-total	**37**	**100%**	**1,167**	**100%**	**156**	**100%**	**1,522**	**100%**
TOTAL	**1,317**		**3,719**		**1,507**		**5,064**	

(1) These services include the issuance of a comfort letter by the Statutory Auditors in relation to a bond issue and an independent third-party body mission by the audit firm PricewaterhouseCoopers Audit.
(2) These services relate mainly to certificates issued by the audit firm PricewaterhouseCoopers Audit.

Design and production: **côté**corp.
Tel.: +33 (0)1 55 32 29 74

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN
+ 33 (0) 4 73 32 20 00 – 23, place des Carmes
63000 Clermont-Ferrand – France
www.michelin.com

INVESTOR RELATIONS
EDOUARD DE PEUFEILHOUX,
MATTHIEU DEWAVRIN,
HUMBERT DE FEYDEAU
+33 (0)4 15 39 84 68 – 27, cours de l'Île Seguin
92100 Boulogne-Billancourt – France
23, place des Carmes – 63000 Clermont-Ferrand – France
investor-relations@michelin.com

INDIVIDUAL SHAREHOLDER RELATIONS
EDOUARD DE PEUFEILHOUX,
CLÉMENCE RODRIGUEZ,
ISABELLE MAIZAUD-AUCOUTURIER
+ 33 (0) 4 73 98 59 27 – 23, place des Carmes
63000 Clermont-Ferrand – France
Toll-free calls in France: 0 800 000 222
actionnaires-individuels@michelin.com

COMMUNICATION AND BRANDS DEPARTMENT
MEDIA RELATIONS: CORINNE MEUTEY
+ 33 (0) 1 45 66 22 22 – 27, cours de l'Île Seguin
92100 Boulogne-Billancourt – France