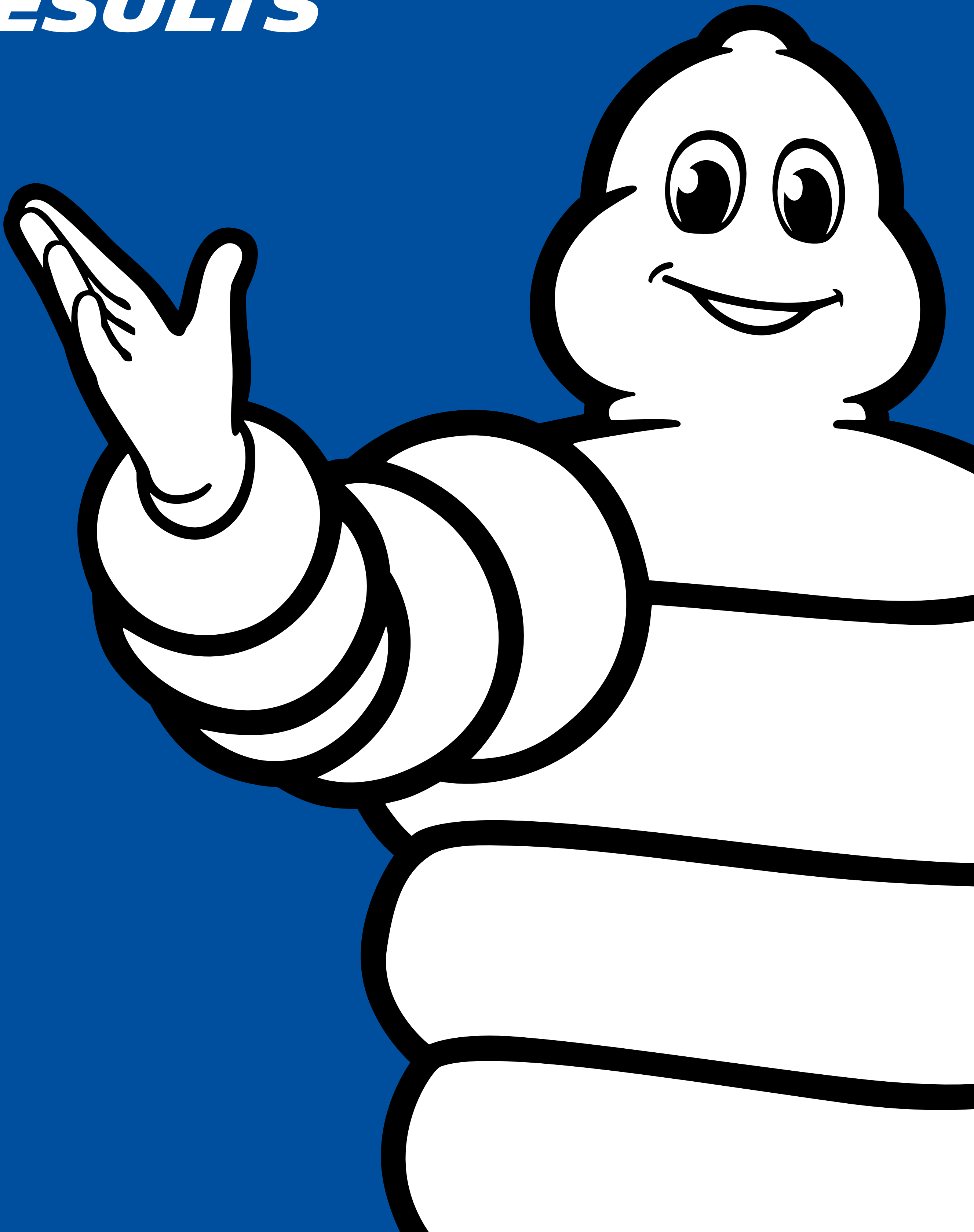
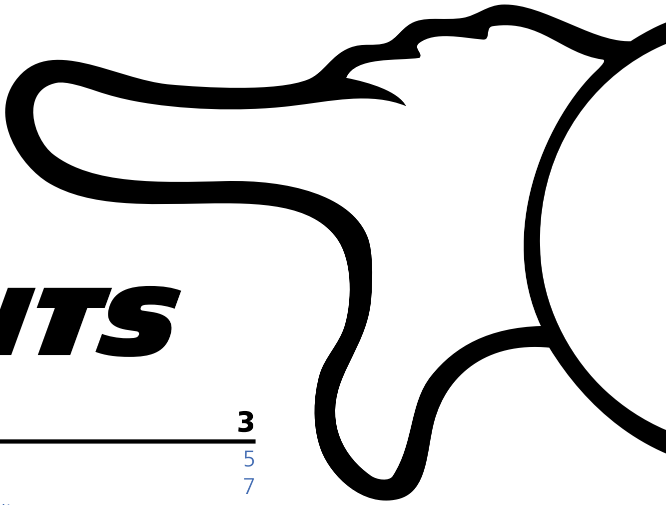
MICHELIN
A BETTER WAY FORWARD

2017 RESULTS





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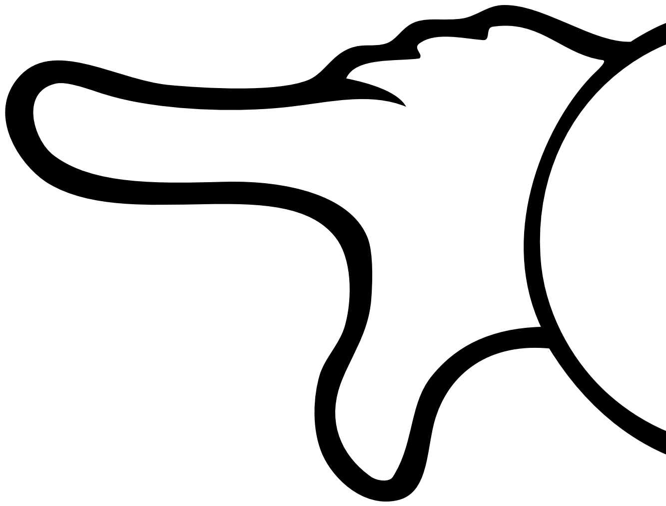

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PRESS RELEASE

Press release

Clermont-Ferrand – February 12, 2018

Financial information for the year ended December 31, 2017

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

2017: Another year of progress, in line with the 2020 objectives
Strong structural free cash flow, at €1.5 billion for the year
€2,742 million in operating income from recurring activities, up €145 million at constant exchange rates
Net income higher year on year, at €1,693 million
2018: Sustained progress, on track to achieve the ambitions set for 2020

- Strong structural free cash flow, at €1.5 billion for the year.
- Operating income from recurring activities of €2,742 million, or 12.5% of net sales, up €145 million at constant exchange rates.
  - Determined Group strategy to offset the more than €700 million increase in raw materials costs, resulting in a neutral impact versus raw materials headwind on the non-indexed businesses.
  - Sustained market share gains in 18-inch and larger tires (MICHELIN brand sales up 19% in a segment up 13%), with a price positioning in line with the brand reputation.
  - Competitiveness plan gains exceeded inflation by €36 million, in line with objectives.
  - Highly competitive markets, especially in Europe, which are weighing on the dealership operations.
- Specialty businesses: operating income from recurring activities up more than 30% and strong growth across every division.
- Proposed dividend of €3.55 per share, representing a payout of 36% of consolidated net income excluding non-recurring items in line with the Group's commitment to shareholders, to be submitted to shareholders at the Annual Meeting on May 18, 2018.

Jean-Dominique Senard, Chief Executive Officer, said: "In 2017, the Michelin Group performed in line with its 2020 roadmap. The strength of its brand and its technological leadership helped to drive 2.6% growth and deliver historically high net income of €1,693 million, demonstrating the Group's agility in a more challenging business environment. Michelin is pursuing the acquisitions that will support its ambitions for growth and value creation. The introduction of the new organization in early 2018 will deepen employee engagement to enhance customer service, while enabling us to meet our competitiveness objectives. In this way, the Group is confidently moving into another year of progress in 2018 while pursuing its strategy in tires, services, experiences and materials."

Outlook

In 2018, the Passenger car/Light truck and Truck tire markets are expected to experience modest growth over the year, while the mining tire, agricultural original equipment and earthmover original equipment markets should remain buoyant.

Given the market conditions, price management will make it possible to generate a net positive effect from changes in the price mix and raw materials costs, assuming an estimated €50 to €100 million increase in raw materials prices. Based on January 2018 exchange rates, the currency effect would reduce full-year operating income from recurring activities by around €300 million.

In this environment, Michelin's objectives for 2018 are volume growth in line with global market trends, operating income from recurring activities exceeding the 2017 figure at constant exchange rates, and structural free cash flow of more than €1.1 billion.

(in € millions)	2017	2016
Net sales	21,960	20,907
Operating income from recurring activities	2,742	2,692
Operating margin on recurring activities	12.5%	12.9%
Passenger car/Light truck tires & related distribution	12.4%	13.1%
Truck tires & related distribution	8.1%	9.7%
Specialty businesses	20.6%	18.6%
Operating income/(loss) from non-recurring activities	(111)	99
Operating income	2,631	2,791
Net income	1,693	1,667
EBITDA from recurring activities	4,087	4,084
Capital expenditure	1,771	1,811
Net debt	716	944
Gearing	6%	9%
Employee benefit obligations	3,969	4,763
Free cash flow(1)	+662	+1,024
Structural free cash flow(2)	+1,509	+961
ROCE	11.9%	12.1%
Employees on payroll(3)	114,069	111,708
Earnings per share	€9.39	€9.21
Dividend per share(4)	€3.55	€3.25

(1) Free cash flow: net cash from operating activities less net cash used in investing activities less net cash from other current financial assets, before distribution.
(2) Structural free cash flow: free cash flow before acquisitions, adjusted for i) the impact of changes in raw materials costs on trade payables, trade receivables and inventories; and ii) the payment of interest on the zero-coupon 2017 OCEANE convertible bonds at maturity.
(3) At period-end.
(4) 2017 dividend to be submitted to shareholder approval at the Annual Meeting on May 18, 2018.

MARKET REVIEW

PASSENGER CAR AND LIGHT TRUCK TIRES

2017/2016 *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	+2%	+1%	-4%	+2%	+20%	+7%	+2%
Replacement	+4%	+2%	0%	+4%	+9%	+2%	+3%

Fourth quarter 2017/2016 *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	+5%	+4%	-6%	-1%	15%	+2%	0%
Replacement	+2%	+2%	+1%	0%	+10%	+3%	+2%

* *Including Turkey.*

In 2017, the global original equipment and replacement Passenger car and Light truck tire market expanded by 3% in number of tires sold.

Original equipment

- Demand in Europe rose by 2% overall during the year, reflecting the combined impact of a 1% increase in Western Europe (lifted by a 4% gain in the final quarter) and a robust 14% upsurge in the Eastern European countries.
- The North American market ended the year down 4%, as demand tumbled 8% in the second half after holding firm in the first, in line with the decline in automobile production.
- Demand in Asia (excluding India) rose by 2% overall in 2017. Growth in China cooled to 2% as a result of both rising SUV and luxury car sales and declining demand for compact cars following a reduction in government incentives. Demand was up 5% in Japan and stable in South Korea.
- South American markets delivered a sharp 20% upturn, driven by both domestic and export sales.

Replacement

- The European market saw a 4% overall increase during the year. Demand in Western Europe edged back 1%, as gains in Spain (up 5%), France (up 3%) and Germany (up 1%) were offset by declines in the United Kingdom (down 8%) and, to a lesser extent, the Nordic countries (down 4%). Markets in Central Europe and Eastern Europe reported robust growth, ending the year up 12% and 16% respectively. Sales of all-season tires remained firm throughout the year, with strong growth in Europe. Winter tire demand was boosted by year-end weather conditions.
- The North American market was flat for the year, although after two straight quarters of decline, demand picked up 1% in the final three months. The 5% contraction in Mexico was offset by the 7% gain in Canada, while in the United States, the favorable economic environment failed to move the market off of last year's levels.
- Demand in Asia (excluding India) rose by 4%, as sustained growth in China (up 7%) made up for the tepid 1% increase in Japan.
- The South American market rebounded 9%, with a 15% gain in Brazil led by a significant, exchange rate-driven increase in Asian imports.

TRUCK TIRES (RADIAL AND BIAS)

2017/2016 *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	+8%	+7%	+10%	+26%	+18%	-3%	+17%
Replacement	+4%	+2%	+4%	0%	+8%	-3%	+1%

Fourth quarter 2017/2016 *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	+12%	+12%	+9%	+26%	+65%	+11%	+20%
Replacement	-3%	-3%	+2%	-3%	+12%	0%	-1%

* *Including Turkey.*

Supported by rising demand for overland transport in a favorable economic environment, the number of new radial and bias **Truck** tires sold worldwide rose by 4% in 2017. The year was shaped by a sharp 17% surge in original equipment sales and, in the replacement segment, by heavy buying in the first quarter ahead of the price increases announced across the industry and the subsequent easing of demand in the following quarters (for a 1% increase overall).

Original equipment

- The European market delivered an 8% increase for the year, benefiting from low interest rates and truck purchases in response to the sustained demand for overland transport. In the Eastern European countries, an improving economy helped to drive a 14% rebound in the market.
- In North America, the market enjoyed a rebound during the year, gaining 10% as the favorable economic environment encouraged trucking companies to upgrade their fleets.
- Demand for radial and bias tires in Asia (excluding India) jumped 26% overall, led by the very robust 32% growth in China, where legislation limiting truck size and weight drove higher demand over the first three quarters. Sustained growth in the Thai market offset softer demand in Japan.
- The South American market bounced back in the second half, surging 40% and ending the year up 18%, supported by the first signs of an economic recovery in Brazil and by export sales.

Replacement

- The European market rose by 4% over the year, led by demand from the freight and construction industries. The overall gain reflected growth in France (up 7%), Turkey (up 9%) and Russia (up 10%), flat demand in Germany and declines in Italy (down 2%) and Spain (down 3%).
- Demand in North America ended the year up 4%, as a slight decline in the first half was offset by a return to sustained growth in the second, led by the favorable economic environment. Growth slowed to 2% in the fourth quarter, due to comparison with year-earlier demand, which was boosted by early buying of Chinese tires ahead of proposed import duties.
- Replacement radial and bias tire markets in Asia (excluding India) leveled off during the year. Demand edged up just 1% in China, held back by the robust OE market and by the impact of emissions controls. It also improved by 3% in Japan, but declined by 3% in Thailand. Radial technology enjoyed another period of strong growth in the ASEAN markets.
- The South American radial and bias tire market rebounded by a strong 8% in 2017, thanks in particular to the improving economy in Brazil.

SPECIALTY TIRES

- **Earthmover tires:** after three straight years of decline, the mining tire markets rebounded by 15% in 2017, as inventory drawdowns bottomed out, production at both multinational and mid-sized mining companies recovered, and demand for outsourcing reappeared.

  Original equipment markets turned sharply upwards, by 25% excluding China, at a time of low inventory and rising demand for mining machines.

  Demand for infrastructure and quarry tires is improving, lifted by the favorable economic environment.
- **Agricultural tires:** original equipment markets ended 2017 up 10%, as the early-year slowdown gave way to a sharp, unexpected upturn in OEM demand in the second quarter.

  The replacement markets in mature countries are down over the year, the decline seen in the second half of the year exceeding the growth of the beginning of the year fueled by price increases.
- **Two-wheel tires:** motorcycle tire markets are expanding in the mature regions and are also trending upwards in the emerging economies.
- **Aircraft tires:** demand in the commercial aircraft segment continued to grow, led by the increase in passenger traffic.

2017 NET SALES AND RESULTS

NET SALES

Net sales stood at €21,960 million for the year, up 5.0% from 2016 due to the combined impact of the following factors:

- a €543 million increase from the 2.6% growth in volumes;
- a €668 million or 3.2% increase from the favorable price-mix effect. As announced, the positive price effect (2.5%) had a rapidly increasing impact over the year, from a negative 1.0% in the first quarter to a positive 2.1% in the second, a positive 4.4% in the third and a positive 4.4% in the fourth, reflecting both the price increases in the replacement segment and the contractual adjustments following application of raw materials indexation clauses in the indexed businesses. The mix effect added 0.7% to growth, thanks to the still highly positive product mix and the favorable impact of the rebound in the mining tire business, which were somewhat dampened by the unfavorable impact of the relative growth rates of OE and replacement tire sales;
- a €261 million decrease from the currency effect;
- a €103 million increase from changes in the scope of consolidation, particularly the first-time consolidation of Levorin, a Brazilian two-wheel tiremaker, and NexTraq, a US telematics solutions provider.

RESULTS

Consolidated operating income from recurring activities amounted to €2,742 million or 12.5% of net sales, compared with the €2,692 million and 12.9% reported in 2016. Operating income/(loss) from non-recurring activities represented a loss of €111 million, corresponding primarily to costs related to the reorganization and alignment of Group operations, which were partially offset by gains on changes to the health coverage plan in the United States and to the pension plan in the United Kingdom.

Operating income from recurring activities was first shaped by growth in volumes, which contributed €207 million. Higher raw materials prices had a €738 million negative impact, which was almost entirely covered by effective management of the price mix. The residual impact was limited to a negative €70 million for the year, stemming mainly from the delayed application of raw materials clauses in the indexed businesses. The €315 million in savings from the ongoing competitiveness plan amply absorbed the €279 million increase in production costs and overheads. Lastly, unfavorable movements in exchange rates reduced operating income from recurring activities by €95 million over the year.

Net income came in at a historically high **€1,693 million.**

NET FINANCIAL POSITION

Free cash flow ended the year at **€662 million,** a decrease of €362 million that reflected the €476 million in acquisition outlays.

Based primarily on this free cash flow, less the payment of €585 million in dividends and the €101 million in share buybacks, consolidated **gearing stood at 6%** at December 31, 2017, corresponding to net debt of €716 million, compared with gearing of 9% and net debt of €944 million at December 31, 2016.

When compared with the weighted average cost of capital for the year, the 11.9% after-tax return on capital employed attests that Michelin created value in 2017.

SEGMENT INFORMATION

	Net sales		Operating income from recurring activities		Operating margin on recurring activities	
(in € millions)	2017	2016	2017	2016	2017	2016
Passenger car/Light truck tires & related distribution	12,479	12,105	1,552	1,585	12.4%	13.1%
Truck tires & related distribution	6,123	5,966	497	580	8.1%	9.7%
Specialty businesses	3,358	2,836	693	527	20.6%	18.6%
GROUP	**21,960**	**20,907**	**2,742**	**2,692**	**12.5%**	**12.9%**

Passenger car/Light truck tires & related distribution

Net sales in the Passenger car/Light truck tires & related distribution segment rose by 3.1% in 2017, to €12,479 million from €12,105 million in 2016.

Operating income from recurring activities came to €1,552 million or 12.4% of net sales versus the €1,585 million and 13.1% reported in 2016.

In addition to the unfavorable currency effect, the change in operating margin on recurring activities was primarily attributable to the 2% growth in volumes and the impact of higher prices and the positive product mix, which offset the increase in raw materials costs. Part of the margin contraction was also caused by the dilutive impact of the price increases and unfavorable exchange rate movements.

Truck tires & related distribution

Net sales in the Truck tires & related distribution segment amounted to €6,123 million in 2017, versus €5,966 million a year earlier.

Operating income from recurring activities amounted to €497 million or 8.1% of net sales, compared with €580 million and 9.7% the year before.

In addition to the adverse currency effect, the margin erosion reflects the priority focus on preserving unit margins and the 2% decrease in volumes over the year, with the increase in raw materials costs being offset by the favorable impact of higher prices and the improved product mix. Part of the margin contraction was also caused by the dilutive impact of the price increases and unfavorable exchange rate movements.

Specialty businesses

In all, net sales by the Specialty Businesses increased by 18.4% year-on-year, to €3,358 million from €2,836 million in 2016.

Operating income from recurring activities amounted to €693 million, versus a reported €527 million in 2016, for a margin of 20.6% of net sales.

The improvement corresponded to the robust 16% growth in volumes, led by the sustained rebound in demand for the Group's mining tires and the sharp upturn in Earthmover and Agricultural original equipment sales. This factor and the price increases introduced in both the indexed and non-indexed businesses amply outweighed the impact of higher raw materials costs and the negative currency effect.

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Compagnie Générale des Établissements Michelin ended the year with net income of €1,029 million, compared with net income of €1,416 million in 2016.

The financial statements were presented to the Supervisory Board at its meeting on February 9, 2018. An audit was performed and the auditors' reports on the consolidated and company financial statements were issued on February 12, 2018.

The Chief Executive Officer will call an Annual Shareholders Meeting on Friday, May 18, 2018 at 9:00 am in Clermont-Ferrand.

He will ask shareholders to approve the payment of a dividend of €3.55 per share, compared with €3.25 in respect of the previous year.

2017 HIGHLIGHTS

- Michelin introduces the Pilot Sport 4S, the industry-leading sports sedan tire that outperforms all its rivals in track trials (January 19, 2017).
- Michelin Sascar expands its fleet services portfolio in Mexico by acquiring the business assets of Copiloto Satelital (March 2017).
- At the Movin'On summit, Michelin presents the Vision wheel, its concept for future tires designed using its latest innovations (metal 3D printing, bio-materials and smart solutions) (June 13, 2017).
- Michelin acquires NexTraq, a North American provider of commercial fleet telematics (June 14, 2017).
- With Porsche, Michelin notches up its 20th consecutive victory at the 24 Hours of Le Mans (June 19, 2017).
- Michelin and Safran develop the first connected aircraft tire (June 20, 2017).
- Michelin announces a global reorganization project to address the emerging expectations of its customers, improve their satisfaction, simplify its operating procedures and speed up its digitalization (June 22, 2017).
- Michelin acquires a 40% stake in restaurant guide Le Fooding, whose quirky approach to fine dining fits well with the Michelin Guide (September 1, 2017).
- In partnership with Maxion, Michelin presents its ACORUS technology that makes tires safer and more durable (September 27, 2017).
- Michelin signs agreement with Ashok Leyland to supply the new X Guard range of truck radials for the Captain line of long and medium-distance commercial vehicles (October 10, 2017).
- XPO Logistics awards pan-European tire management contract to MICHELIN solutions (October 10, 2017).
- Michelin, a brand denoting trust and progress, according to the Reputation Institute for the third year in a row (September 27, 2017).
- Acquisition of PTG and Téléflow, both industry leaders in tire pressure control and inflation systems for the agricultural market (November 13, 2017).
- Michelin sells its stake in Double Coin Warrior Tire Co., its joint-venture with Huayi Group (November 20, 2017).
- MICHELIN solutions launches four digital services revolutionizing fleet management (November 23, 2017).
- MICHELIN guide Bangkok released (December 6, 2017).
- Issued capital reduced by €100 million through the cancellation of shares acquired under the buyback program (December 14, 2017).
- Michelin and Sumitomo Corporation agree to form a 50-50 joint venture that will be the second largest wholesale tire dealer in the United States (January 3, 2018).
- Successful issue of $600 million in non-dilutive, cash-settled convertible bonds due 2023 (January 5, 2018).

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

PRESENTATION AND CONFERENCE CALL

Full-year 2017 results will be reviewed with analysts and investors during a presentation today, Monday, February 12, at 6:30 pm CET. The event will be in English, with simultaneous interpreting in French.

Webcast

The presentation will be webcast live on www.michelin.com/eng

Conference call

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

- In France 01 70 71 01 59 (French), access code: 161 690 67#
- In France 01 72 72 74 03 (English), access code: 150 572 81#
- In the United Kingdom (0) 207 194 3759 (English), access code: 150 572 81#
- In North America (844) 286 0643 (English), access code: 150 572 81#
- From anywhere else +44 (0)207 194 3759 (English), access code: 150 572 81#

The presentation of financial information for 2017 (press release, presentation, annual report, financial highlights and consolidated financial statements for the year) may be viewed at http://www.michelin.com/eng, along with practical information concerning the conference call.

INVESTOR CALENDAR

- **Quarterly information for the three months ending March 31, 2018:** Monday, April 23, 2018 after close of trading
- **First-half 2018 net sales and results:** Tuesday, July 23, 2018 after close of trading

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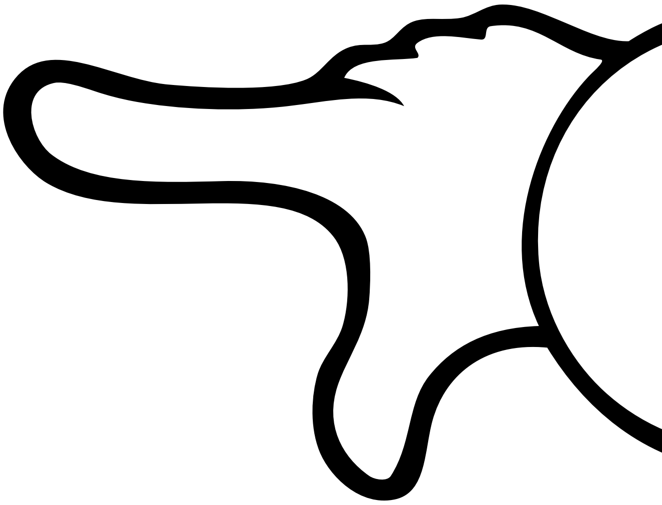

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SLIDESHOW


MICHELIN
A BETTER WAY FORWARD
FEBRUARY 12, 2018
2017
ANNUAL RESULTS

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

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

2 2017 ANNUAL RESULTS – February 12, 2018

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

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

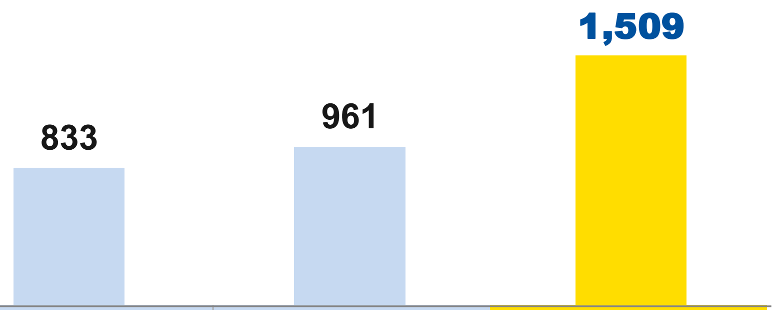
*from recurring activities

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

3 2017 ANNUAL RESULTS – February 12, 2018

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

Structural free cash flow
(in € millions)



	2015	2016	2017
Free cash flow[(1)]	**653**	**1,024**	**662**
Acquisitions[(2)]	(312)	(16)	(476)
WCR impact of raw materials costs[(3)]	132	79	(178)
Capitalized interest paid at maturity on OCEANE bonds[(4)]			(193)
Structural free cash flow (1) – (2) – (3) – (4)	**833**	**961**	**1,509**

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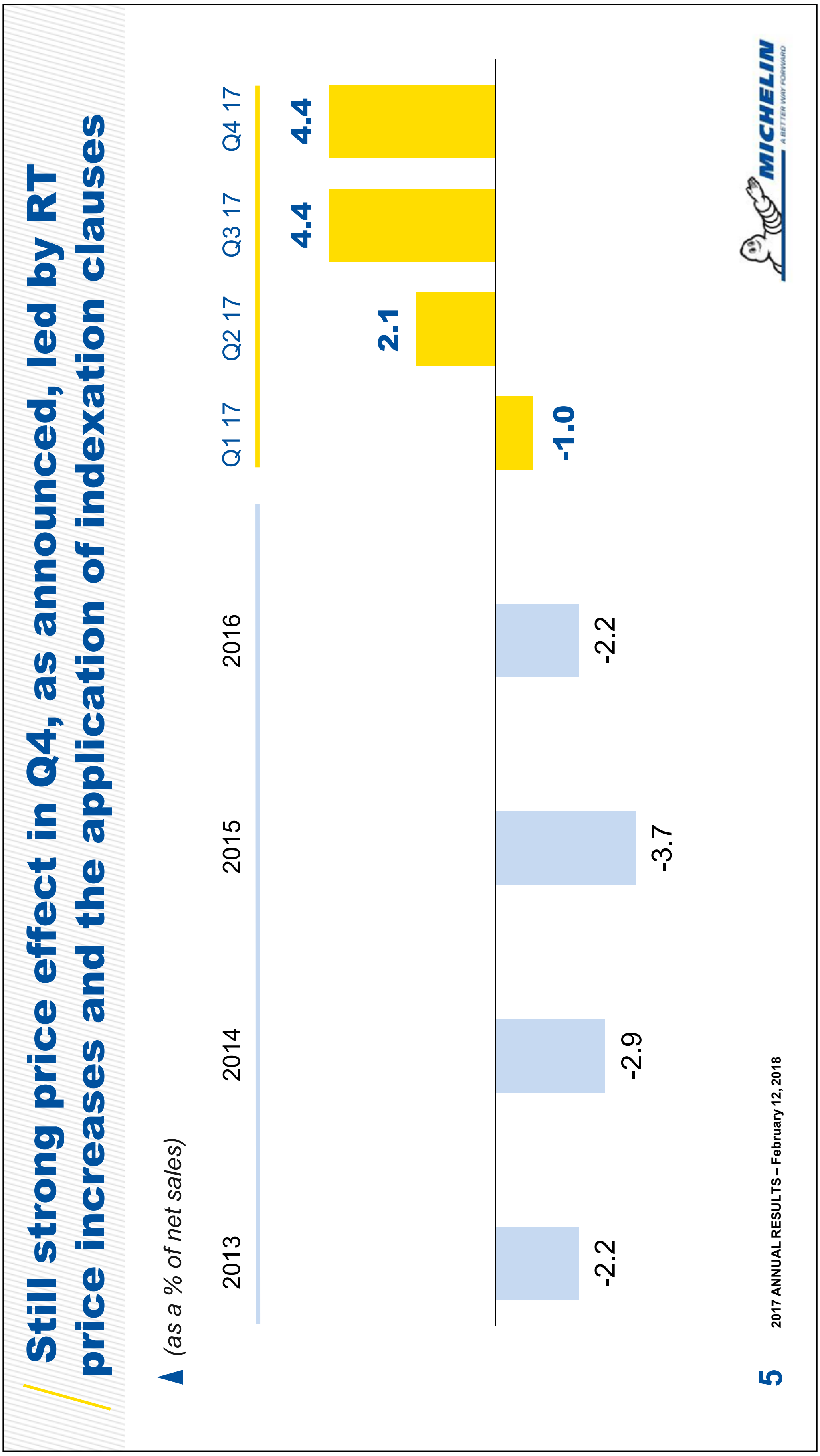
Still strong price effect in Q4, as announced, led by RT price increases and the application of indexation clauses
(as a % of net sales)
2013
2014
2015
2016
Q1 17
Q2 17
Q3 17
Q4 17
-2.2
-2.9
-3.7
-2.2
-1.0
2.1
4.4
4.4
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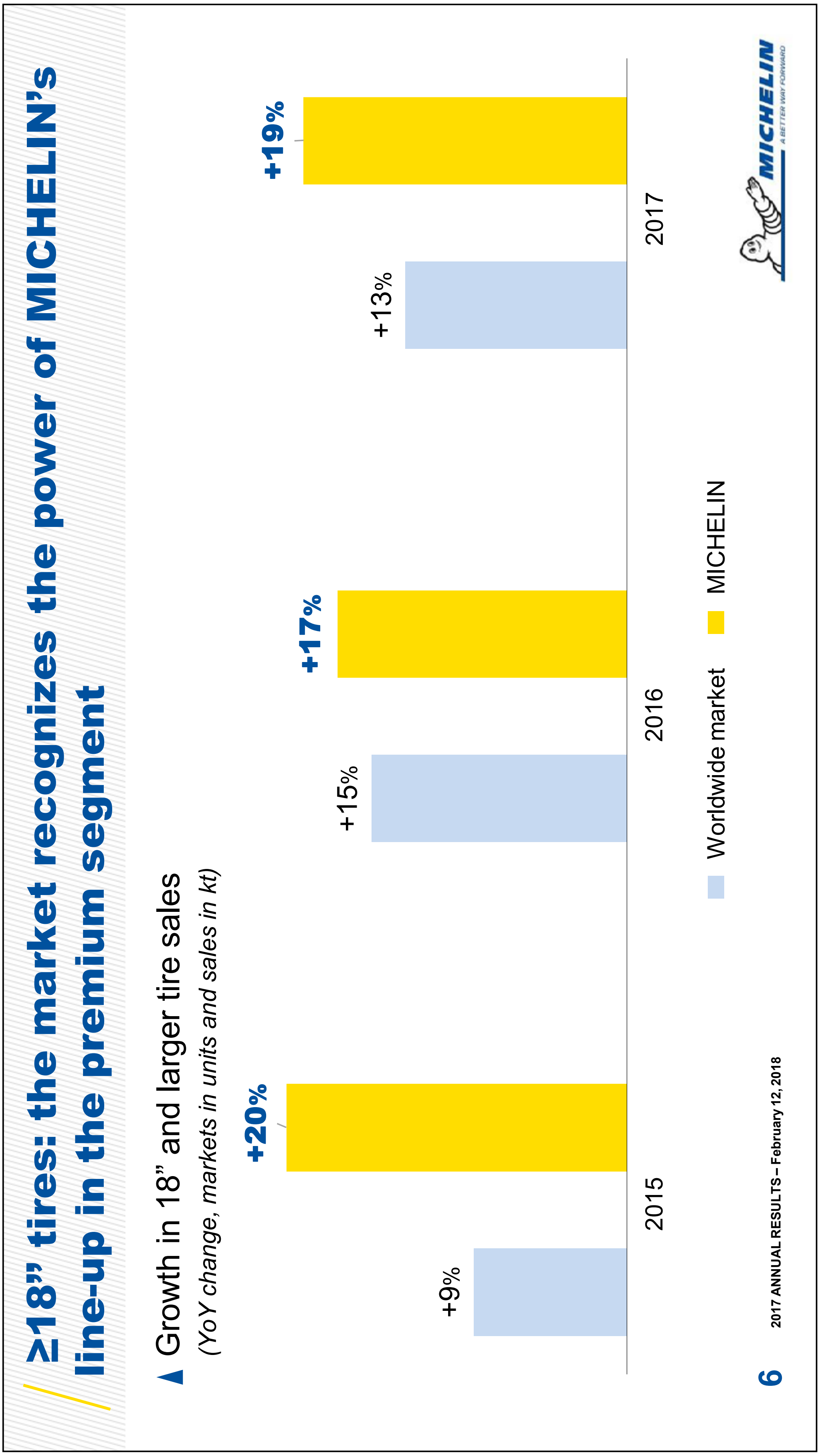
2017 ANNUAL RESULTS – February 12, 2018


≥18" tires: the market recognizes the power of MICHELIN's line-up in the premium segment
Growth in 18" and larger tire sales
(YoY change, markets in units and sales in kt)
+9%
+20%
2015
+15%
+17%
2016
+13%
+19%
2017
Worldwide market
MICHELIN
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2017 ANNUAL RESULTS – February 12, 2018
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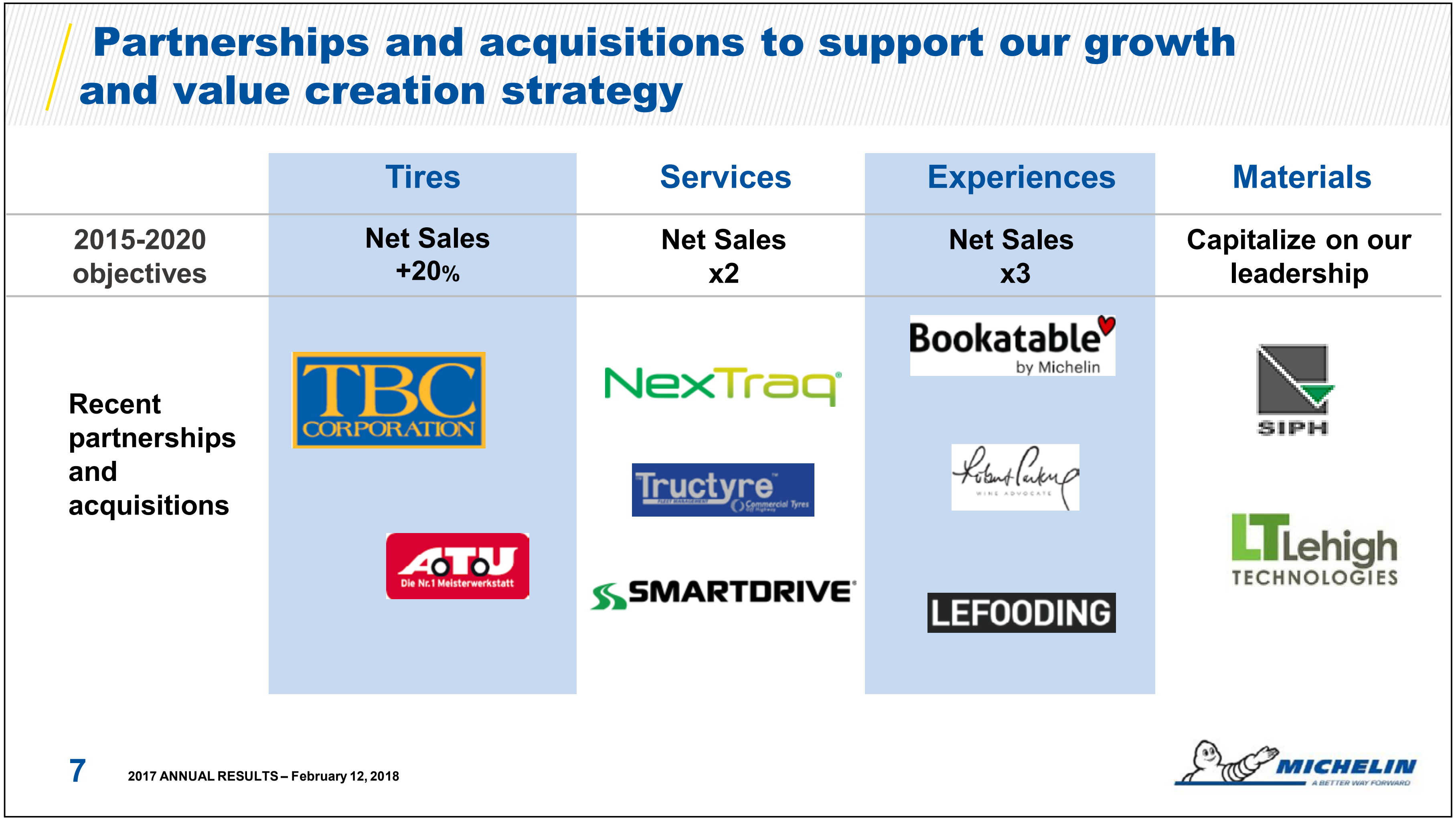
Partnerships and acquisitions to support our growth and value creation strategy
Tires
Services
Experiences
Materials
2015-2020 objectives
Net Sales +20%
Net Sales x2
Net Sales x3
Capitalize on our leadership
Recent partnerships and acquisitions
TBC CORPORATION
ATU Die Nr.1 Meisterwerkstatt
NexTraq
Tructyre Commercial Tyres
SMARTDRIVE
Bookatable by Michelin
Robert Parker Wine Advocate
LEFOODING
SIPH
Lehigh TECHNOLOGIES
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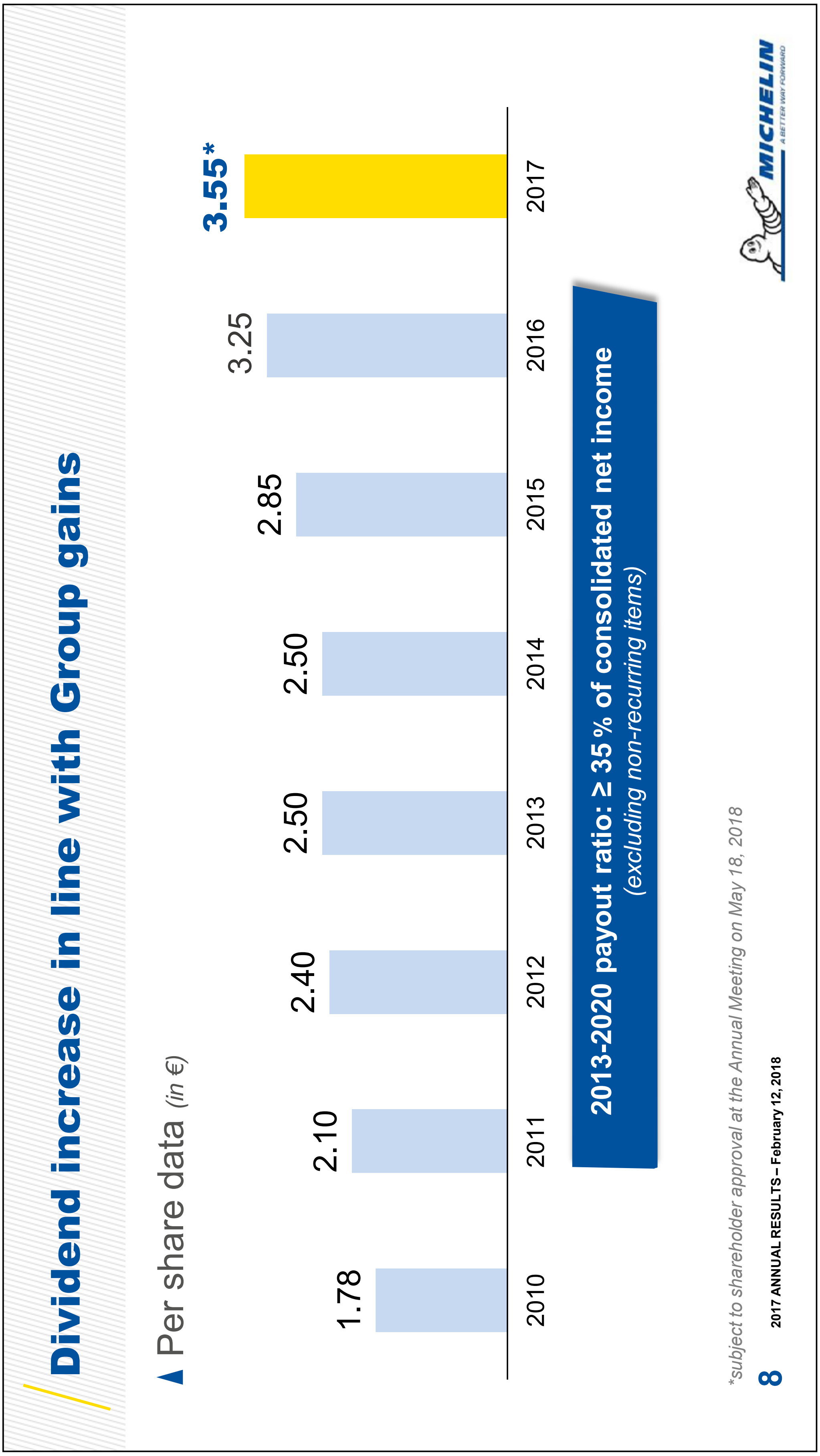
2017 ANNUAL RESULTS – February 12, 2018
MICHELIN A BETTER WAY FORWARD


Dividend increase in line with Group gains
Per share data (in €)
1.78
2.10
2.40
2.50
2.50
2.85
3.25
3.55*
2010
2011
2012
2013
2014
2015
2016
2017
2013-2020 payout ratio: ≥ 35 % of consolidated net income
(excluding non-recurring items)
*subject to shareholder approval at the Annual Meeting on May 18, 2018
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2017 ANNUAL RESULTS – February 12, 2018
MICHELIN
A BETTER WAY FORWARD

2018 guidance: on the road to our 2020 objectives

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

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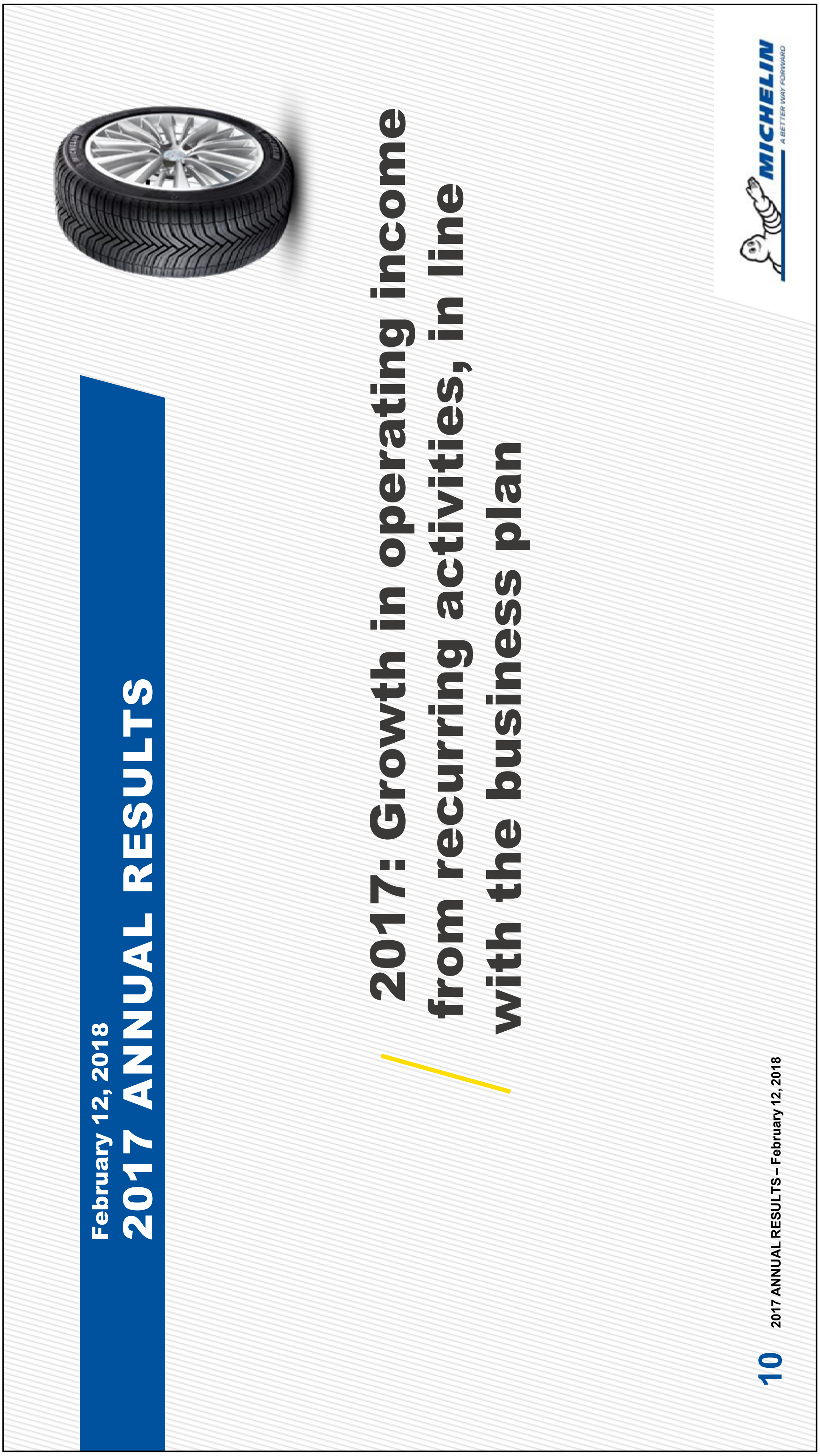
February 12, 2018
2017 ANNUAL RESULTS
2017: Growth in operating income from recurring activities, in line with the business plan
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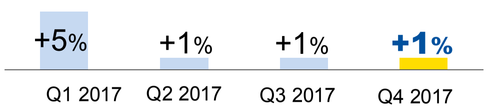
2017 ANNUAL RESULTS – February 12, 2018

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

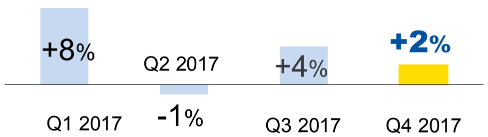
2017 PC tires: +3%



Fourth quarter:

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

2017 Truck tires: +4%



Fourth quarter:

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

2017 Specialty tires: +10%

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

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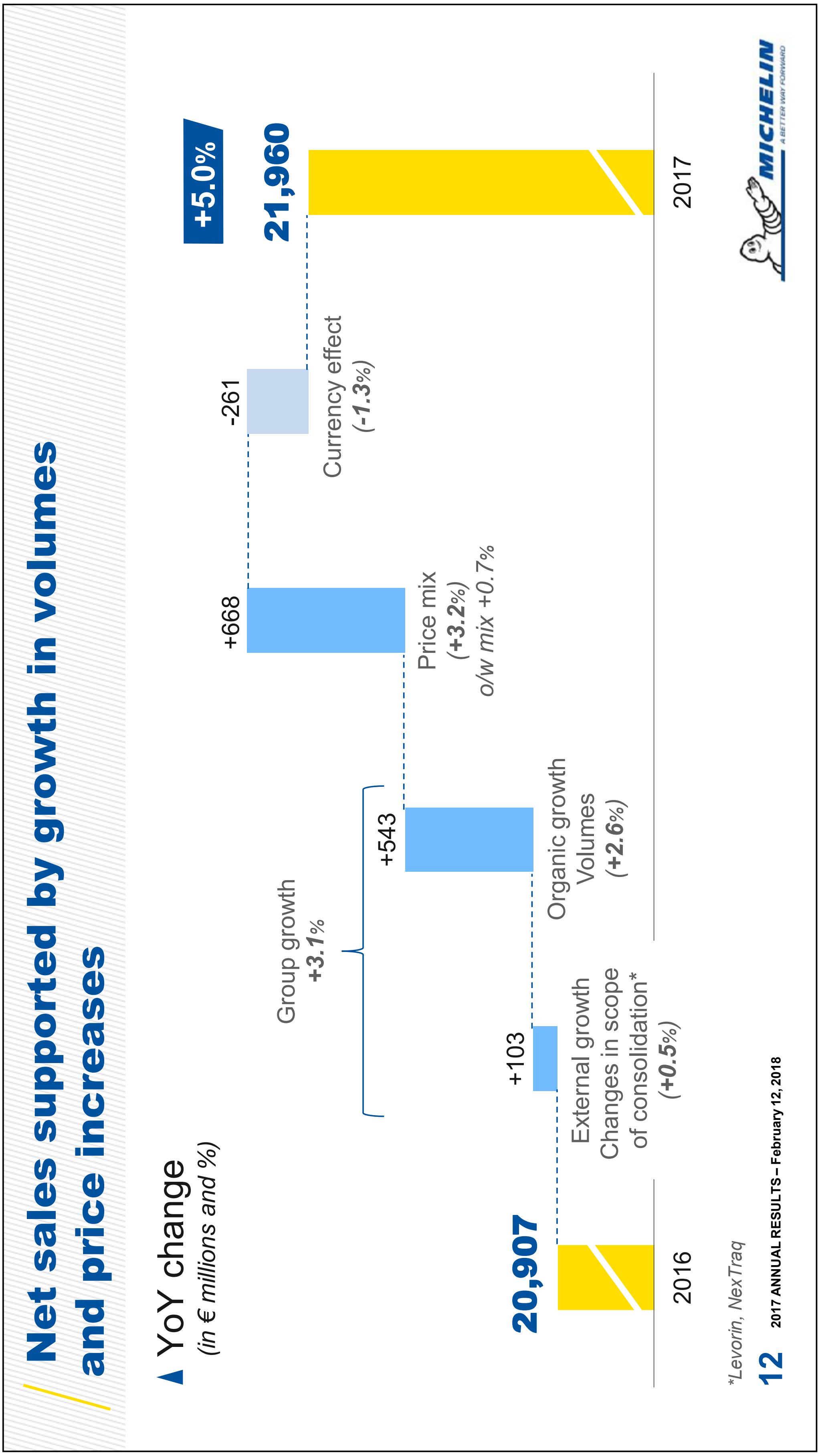
Net sales supported by growth in volumes and price increases
YoY change
(in € millions and %)
20,907
2016
+103
External growth
Changes in scope of consolidation*
(+0.5%)
Group growth
+3.1%
+543
Organic growth
Volumes
(+2.6%)
+668
Price mix
(+3.2%)
o/w mix +0.7%
-261
Currency effect
(-1.3%)
+5.0%
21,960
2017
*Levorin, NexTraq
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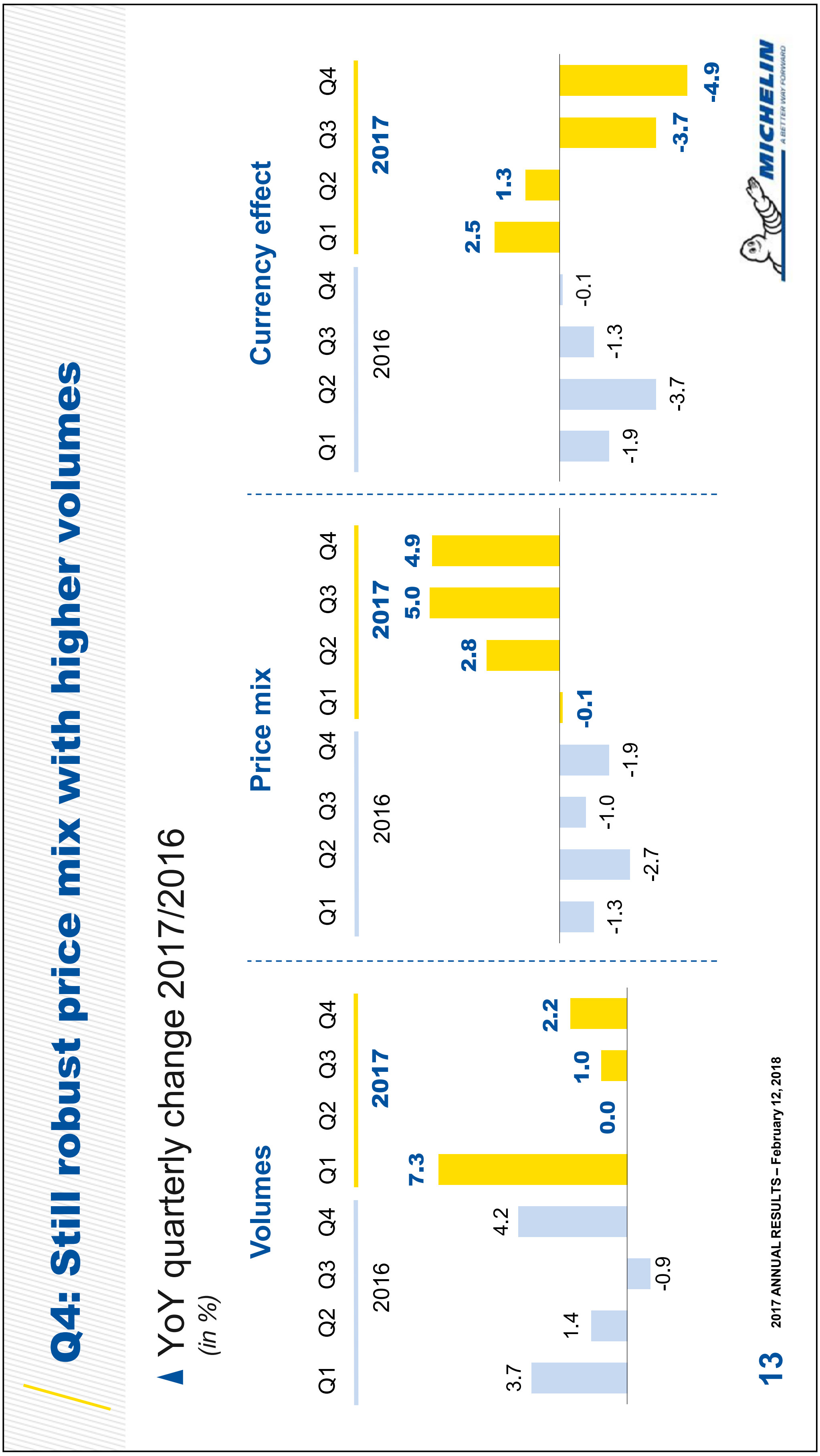
Q4: Still robust price mix with higher volumes
YoY quarterly change 2017/2016
(in %)
Volumes
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016
2017
3.7
1.4
-0.9
4.2
7.3
0.0
1.0
2.2
Price mix
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016
2017
-1.3
-2.7
-1.0
-1.9
-0.1
2.8
5.0
4.9
Currency effect
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016
2017
-1.9
-3.7
-1.3
-0.1
2.5
1.3
-3.7
-4.9
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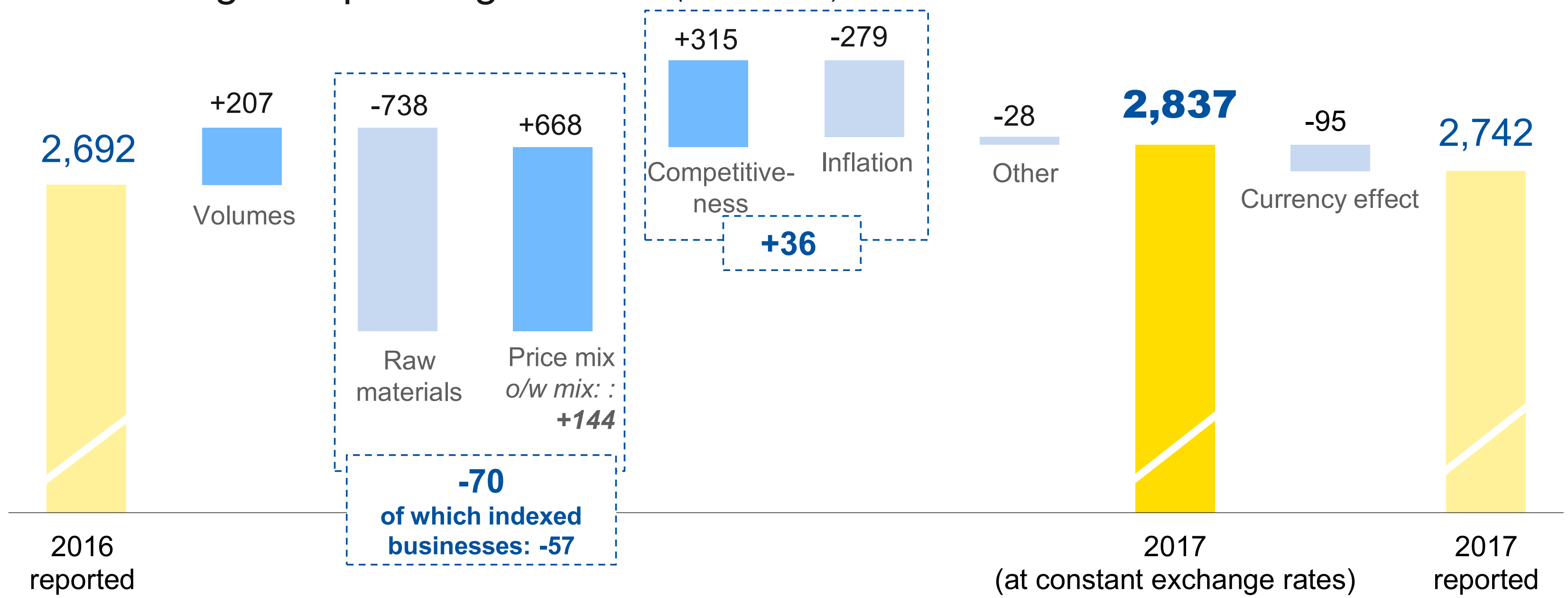
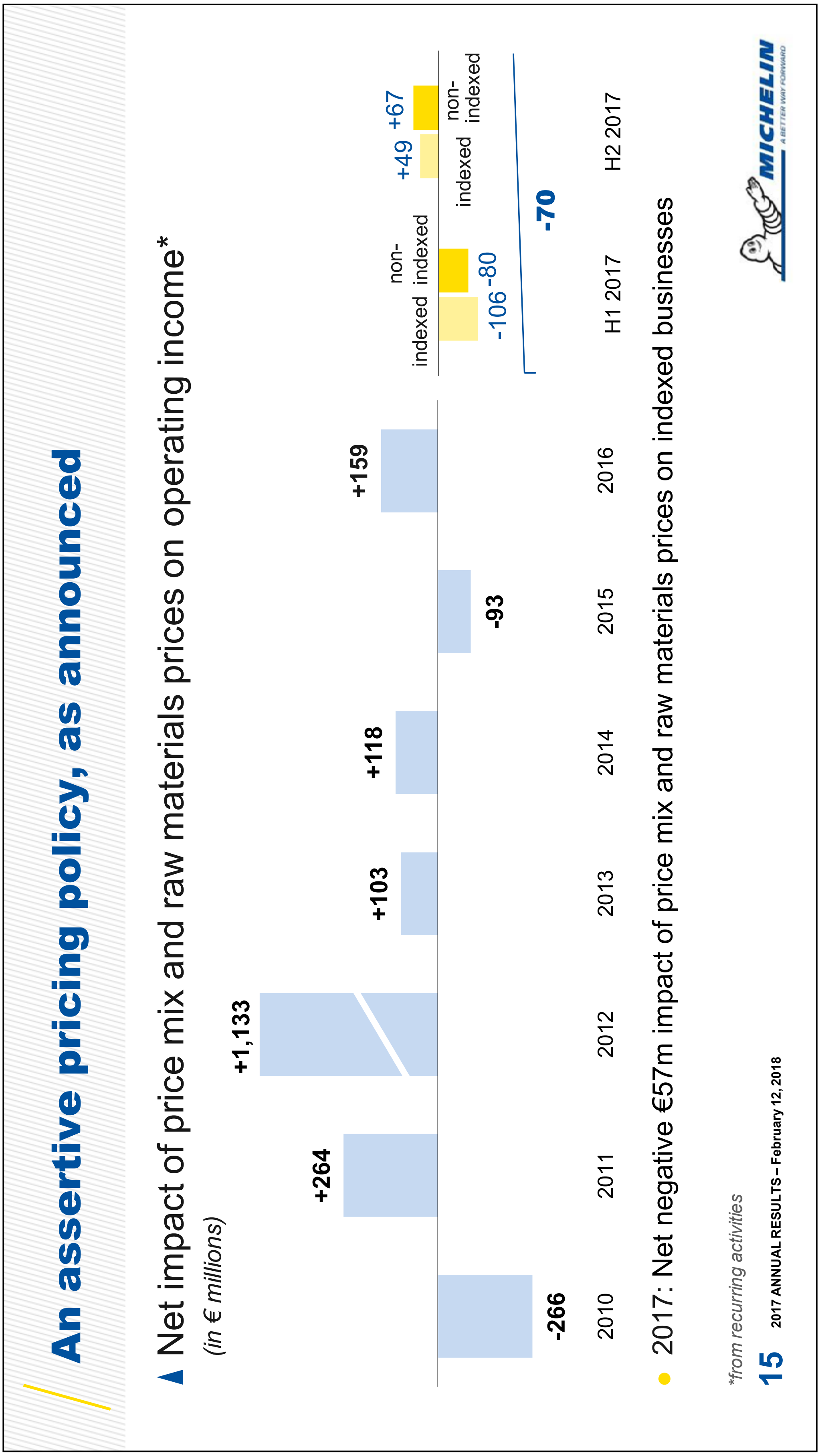
€2,837m in operating income* at constant exchange rates, led by volume gains, in line with the Group's roadmap

YoY change in operating income* *(in € millions)*



*from recurring activities


An assertive pricing policy, as announced
Net impact of price mix and raw materials prices on operating income*
(in € millions)
-266
+264
+1,133
+103
+118
-93
+159
indexed
non-indexed
-106
-80
-70
indexed
non-indexed
+49
+67
2010
2011
2012
2013
2014
2015
2016
H1 2017
H2 2017
2017: Net negative €57m impact of price mix and raw materials prices on indexed businesses
*from recurring activities
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2017 ANNUAL RESULTS – February 12, 2018

2017 saw a strong rebound in the Specialty businesses

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

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

*from recurring activities

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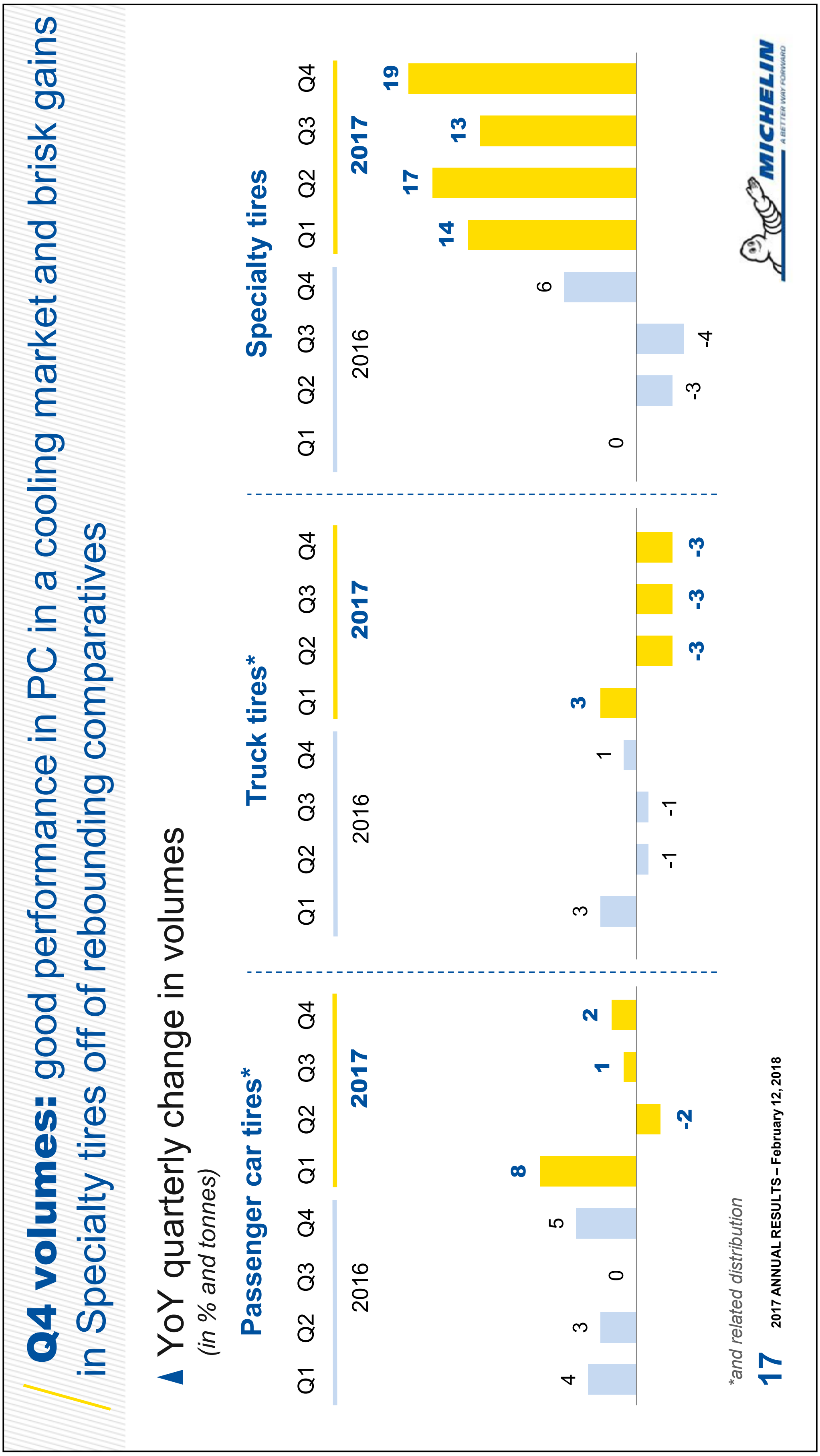
Q4 volumes: good performance in PC in a cooling market and brisk gains in Specialty tires off of rebounding comparatives
YoY quarterly change in volumes
(in % and tonnes)
Passenger car tires*
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016
2017
4
3
0
5
8
-2
1
2
Truck tires*
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016
2017
3
-1
-1
1
3
-3
-3
-3
Specialty tires
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016
2017
0
-3
-4
6
14
17
13
19
*and related distribution
17 2017 ANNUAL RESULTS – February 12, 2018
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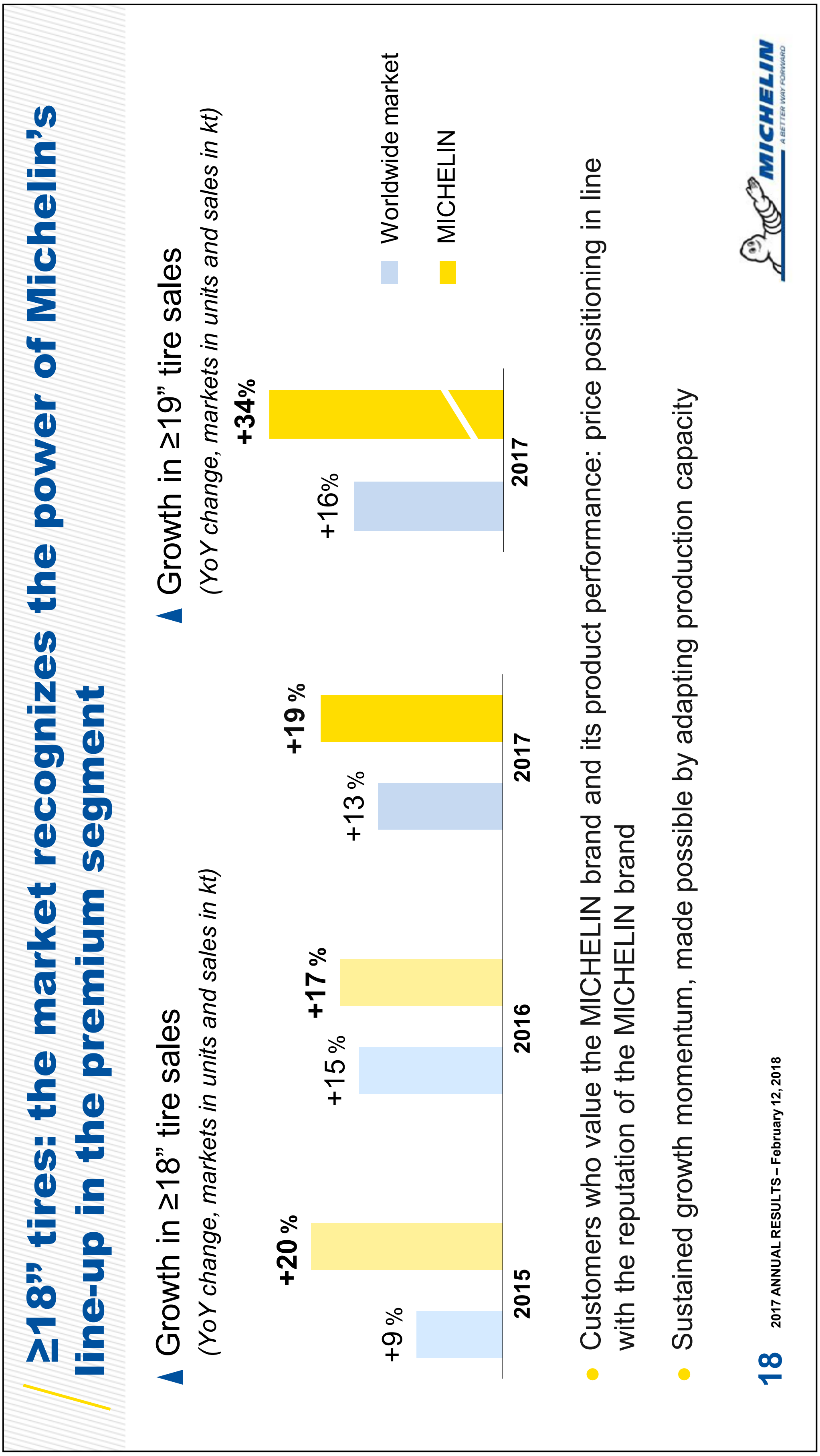
≥18" tires: the market recognizes the power of Michelin's line-up in the premium segment
Growth in ≥18" tire sales
(YoY change, markets in units and sales in kt)
+9 %
+20 %
+15 %
+17 %
+13 %
+19 %
2015
2016
2017
Growth in ≥19" tire sales
(YoY change, markets in units and sales in kt)
+16%
+34%
2017
Worldwide market
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Customers who value the MICHELIN brand and its product performance: price positioning in line with the reputation of the MICHELIN brand
Sustained growth momentum, made possible by adapting production capacity
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2017 ANNUAL RESULTS – February 12, 2018
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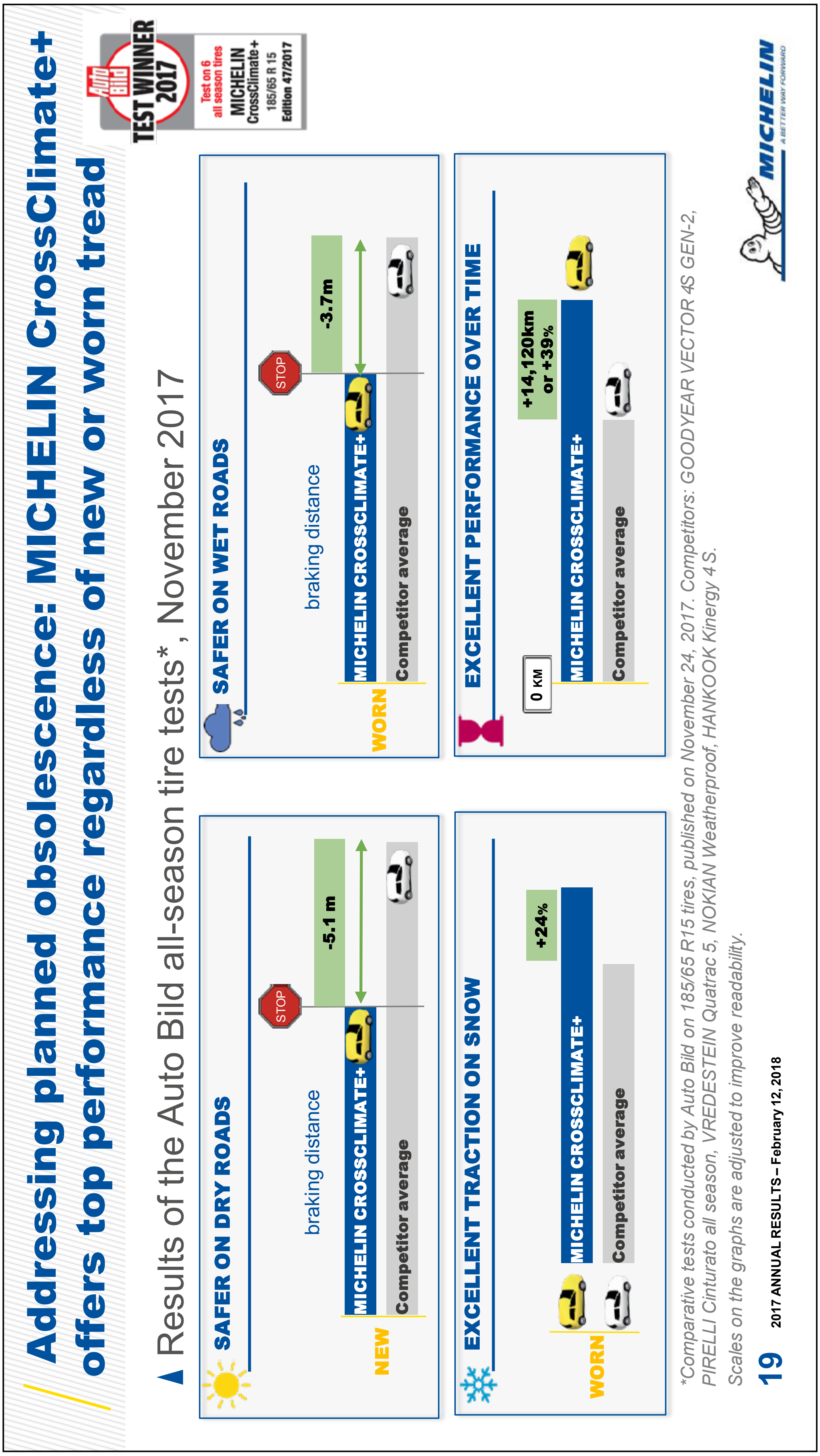
Addressing planned obsolescence: MICHELIN CrossClimate+ offers top performance regardless of new or worn tread
Auto Bild TEST WINNER 2017
Test on 6 all season tires
MICHELIN CrossClimate+
185/65 R 15
Edition 47/2017
Results of the Auto Bild all-season tire tests*, November 2017
SAFER ON DRY ROADS
braking distance
NEW
MICHELIN CROSSCLIMATE+
Competitor average
STOP
-5.1 m
SAFER ON WET ROADS
braking distance
WORN
MICHELIN CROSSCLIMATE+
Competitor average
STOP
-3.7m
EXCELLENT TRACTION ON SNOW
WORN
MICHELIN CROSSCLIMATE+
Competitor average
+24%
EXCELLENT PERFORMANCE OVER TIME
0 KM
MICHELIN CROSSCLIMATE+
Competitor average
+14,120km or +39%
*Comparative tests conducted by Auto Bild on 185/65 R15 tires, published on November 24, 2017. Competitors: GOODYEAR VECTOR 4S GEN-2, PIRELLI Cinturato all season, VREDESTEIN Quatrac 5, NOKIAN Weatherproof, HANKOOK Kinergy 4 S.
Scales on the graphs are adjusted to improve readability.
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Truck: innovative tires and solutions that meet customer needs, to drive a return to growth
MICHELIN X Multi Energy
70 launches scheduled for 2018
BFGoodrich
Europe
Convoy TripleA
and connected services
Indonesia
MICHELIN X Guard
India
Ashok Leyland
Mexico
Brazil
Argentina
sascar
COPILOTO SATELITAL
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Specialty tires: customer-aligned solutions in expanding markets
MICHELIN EVOBIB
2 in 1 technology
2017 SIMA INNOVATION AWARDS
Téléflow
PTG
Agricultural tires* (base 100 in 2016, in tonnes)
100
104
~107
~110
2016
2017
2018e
2020e
MICHELIN XDR 3
MICHELIN MEMS Evolution 4
Mining tires (base 100 in 2016, in tonnes)
100
115
~123
~130
2016
2017
2018e
2020e
*OE & RT in Europe and North America
21
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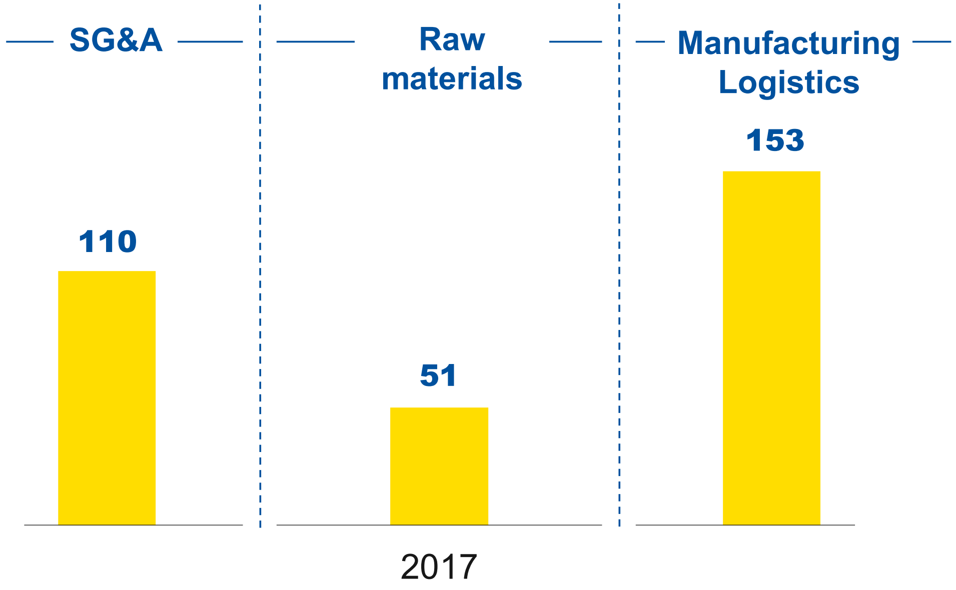
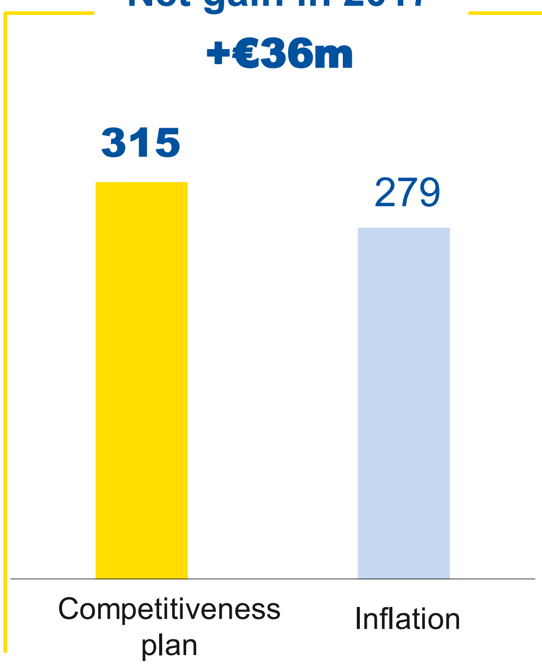
2017-2020 competitiveness plan on track to deliver targeted €1.2bn in gains

- Target: €300m in average annual gains*





*before inflation and including avoided costs.

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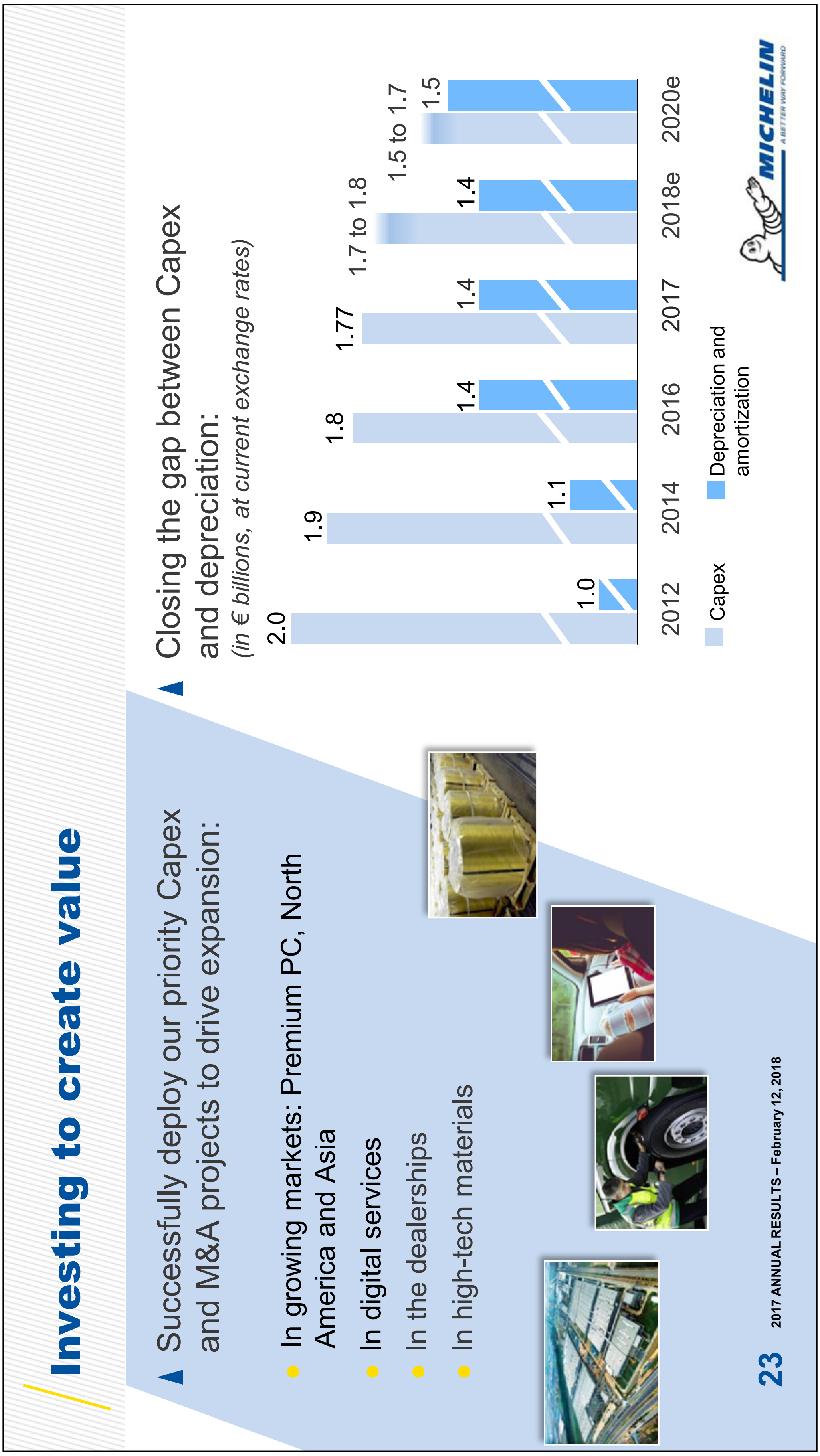
Investing to create value
Successfully deploy our priority Capex and M&A projects to drive expansion:
In growing markets: Premium PC, North America and Asia
In digital services
In the dealerships
In high-tech materials
Closing the gap between Capex and depreciation:
(in € billions, at current exchange rates)
2.0
1.0
1.9
1.1
1.8
1.4
1.77
1.4
1.7 to 1.8
1.4
1.5 to 1.7
1.5
2012
2014
2016
2017
2018e
2020e
Capex
Depreciation and amortization
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Michelin and Sumitomo Corporation to Create Second-Largest Wholesale Player in the US and Mexico

TBC CORPORATION

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

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

KEY FIGURES
TBC Corporation

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

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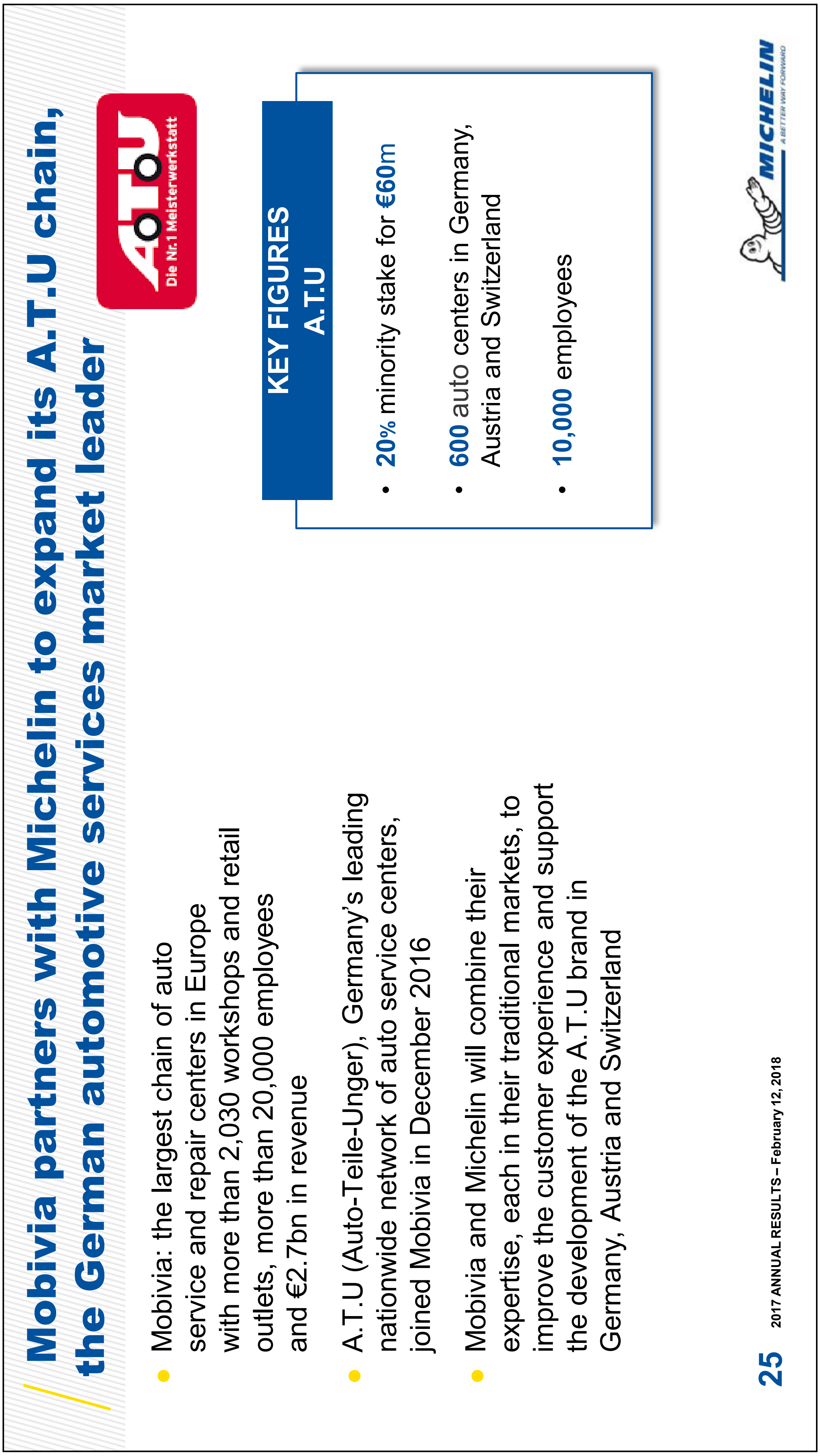
Mobivia partners with Michelin to expand its A.T.U chain, the German automotive services market leader
A.T.U
Die Nr.1 Meisterwerkstatt
Mobivia: the largest chain of auto service and repair centers in Europe with more than 2,030 workshops and retail outlets, more than 20,000 employees and €2.7bn in revenue
A.T.U (Auto-Teile-Unger), Germany's leading nationwide network of auto service centers, joined Mobivia in December 2016
Mobivia and Michelin will combine their expertise, each in their traditional markets, to improve the customer experience and support the development of the A.T.U brand in Germany, Austria and Switzerland
KEY FIGURES A.T.U
20% minority stake for €60m
600 auto centers in Germany, Austria and Switzerland
10,000 employees
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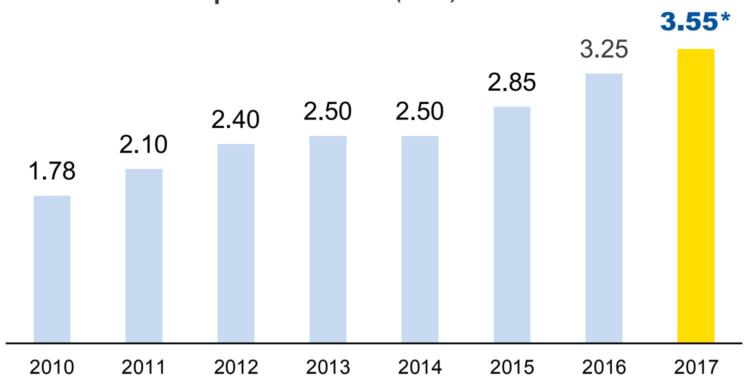
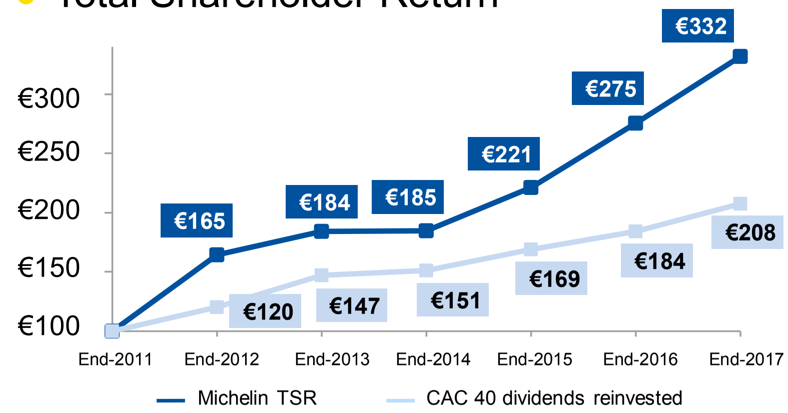
Sustained shareholder return policy: dividends and share buybacks

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

- Dividend per share *(in €)*



- Total Shareholder Return



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

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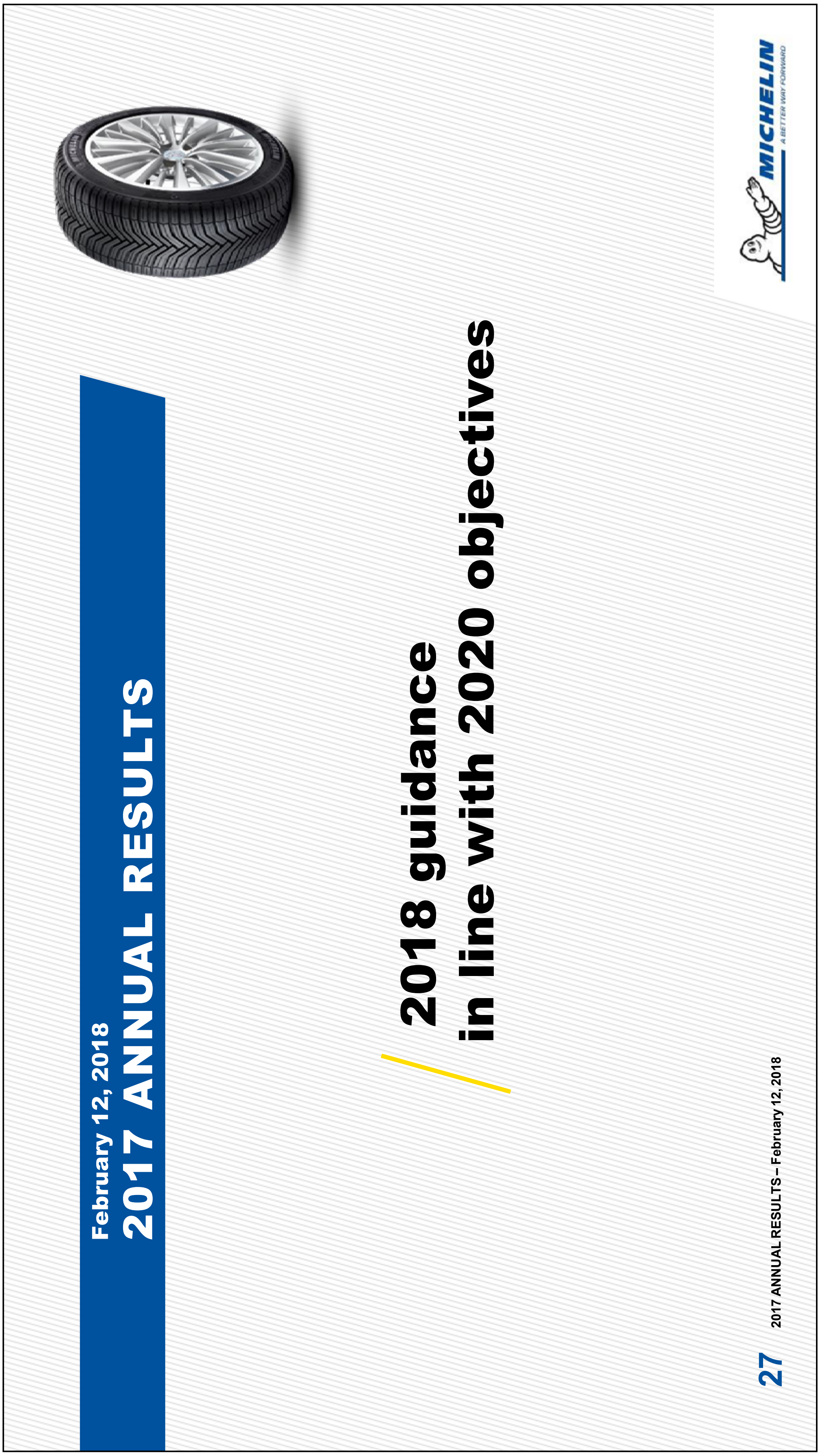
February 12, 2018
2017 ANNUAL RESULTS
2018 guidance
in line with 2020 objectives
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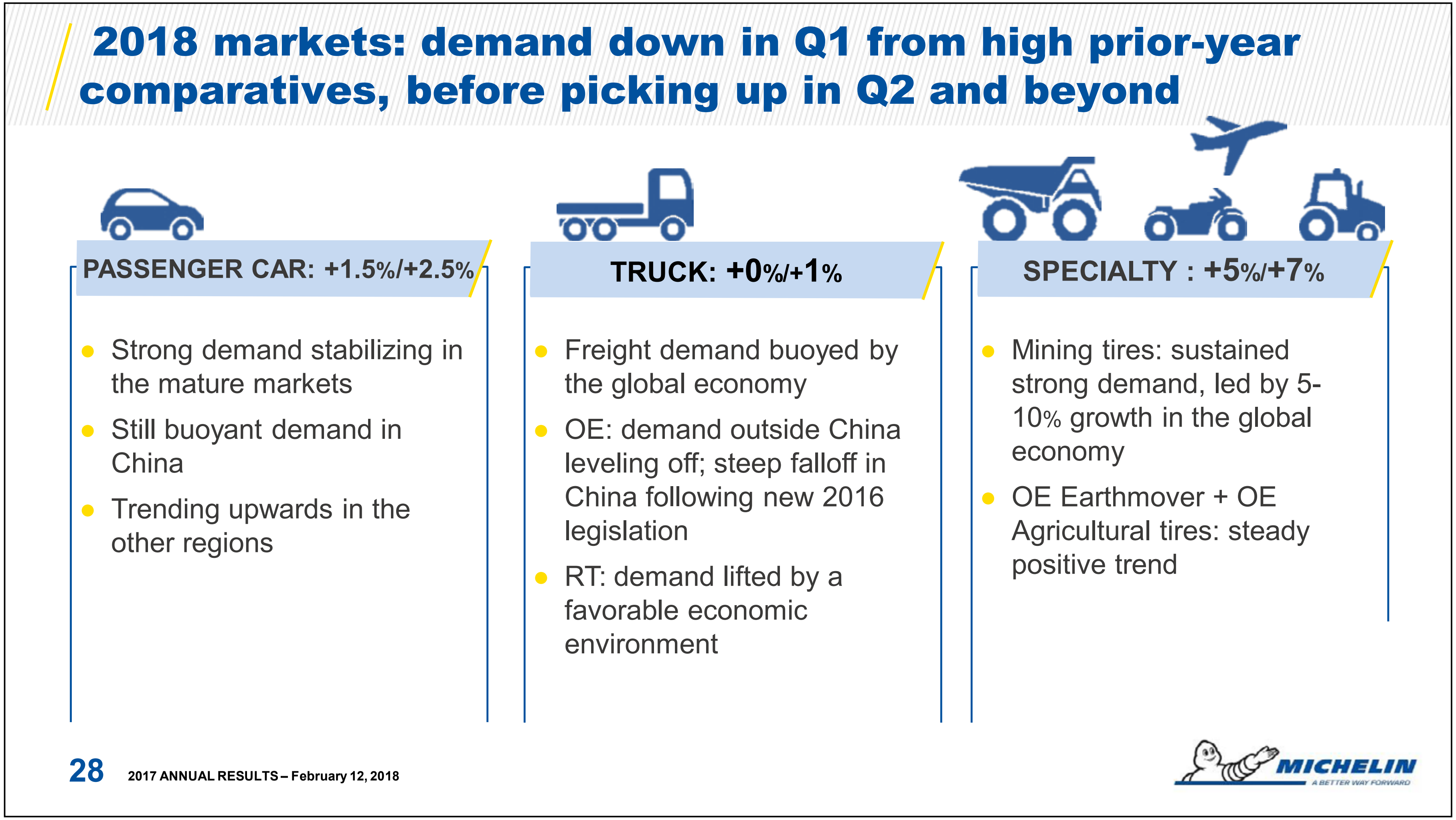
2017 ANNUAL RESULTS – February 12, 2018


2018 markets: demand down in Q1 from high prior-year comparatives, before picking up in Q2 and beyond
PASSENGER CAR: +1.5%/+2.5%
Strong demand stabilizing in the mature markets
Still buoyant demand in China
Trending upwards in the other regions
TRUCK: +0%/+1%
Freight demand buoyed by the global economy
OE: demand outside China leveling off; steep falloff in China following new 2016 legislation
RT: demand lifted by a favorable economic environment
SPECIALTY : +5%/+7%
Mining tires: sustained strong demand, led by 5-10% growth in the global economy
OE Earthmover + OE Agricultural tires: steady positive trend
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2018 guidance: on the road to our 2020 objectives

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

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2018 scenario*

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

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

**see slide 40

***based on currently available information

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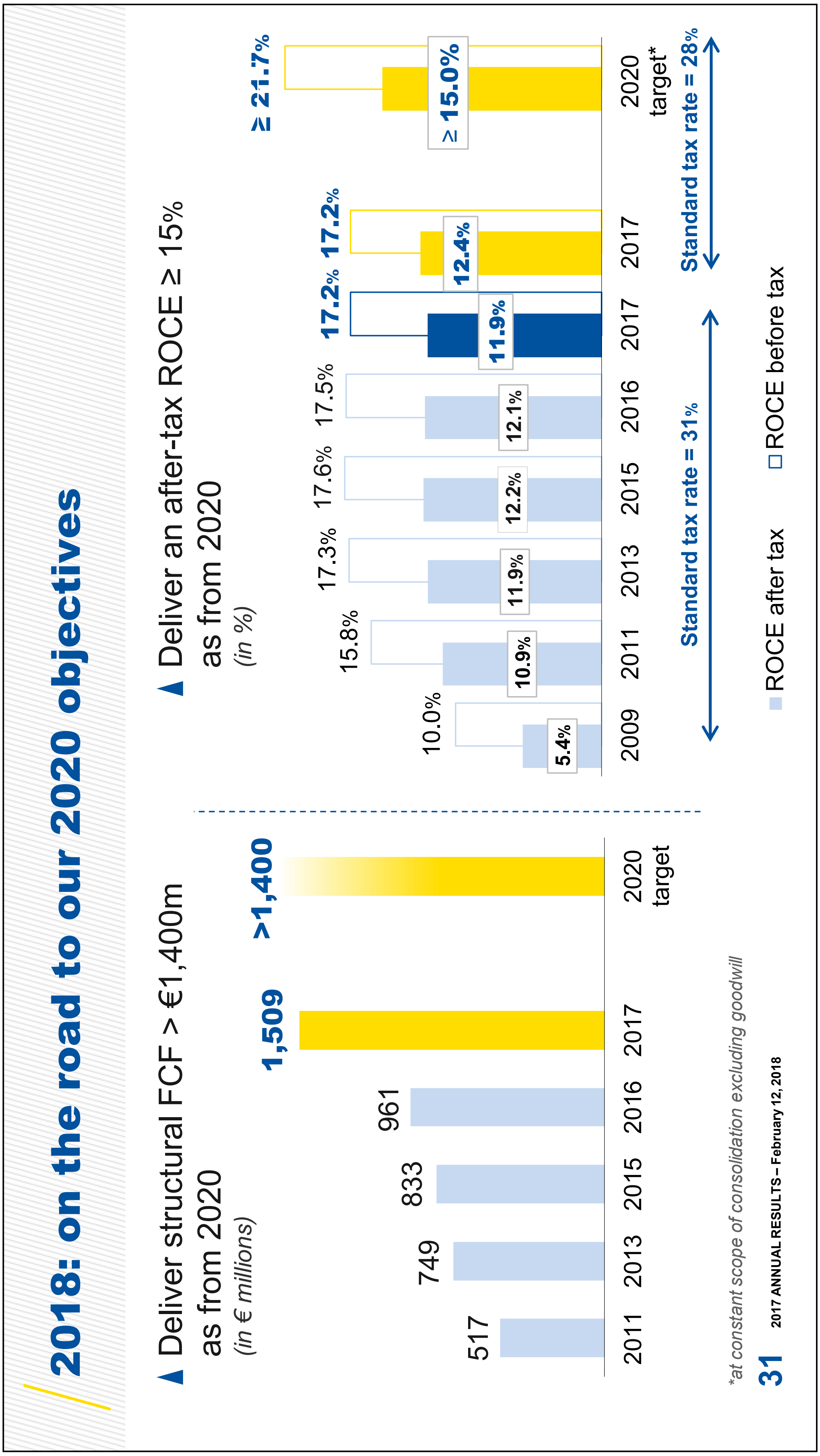
2018: on the road to our 2020 objectives
Deliver structural FCF > €1,400m as from 2020
(in € millions)
517
749
833
961
1,509
>1,400
2011
2013
2015
2016
2017
2020 target
Deliver an after-tax ROCE ≥ 15% as from 2020
(in %)
10.0%
5.4%
15.8%
10.9%
17.3%
11.9%
17.6%
12.2%
17.5%
12.1%
17.2%
11.9%
17.2%
12.4%
≥ 21.7%
≥ 15.0%
2009
2011
2013
2015
2016
2017
2017
2020 target*
Standard tax rate = 31%
Standard tax rate = 28%
ROCE after tax
ROCE before tax
*at constant scope of consolidation excluding goodwill
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Investor calendar

- **Coming events:**
  - **April 23, 2018 (after close of trading)**: First-quarter 2018 net sales
  - **May 18, 2018**: Annual Shareholders Meeting
  - **July 23, 2018 (after close of trading)**: First-half 2018 results
  - **October 22, 2018 (after close of trading)**: Third-quarter 2018 net sales
- **Dividend dates:**
  - **May 22, 2018**: Ex-dividend date
  - **May 23, 2018**: Record date
  - **May 24, 2018**: Payment date

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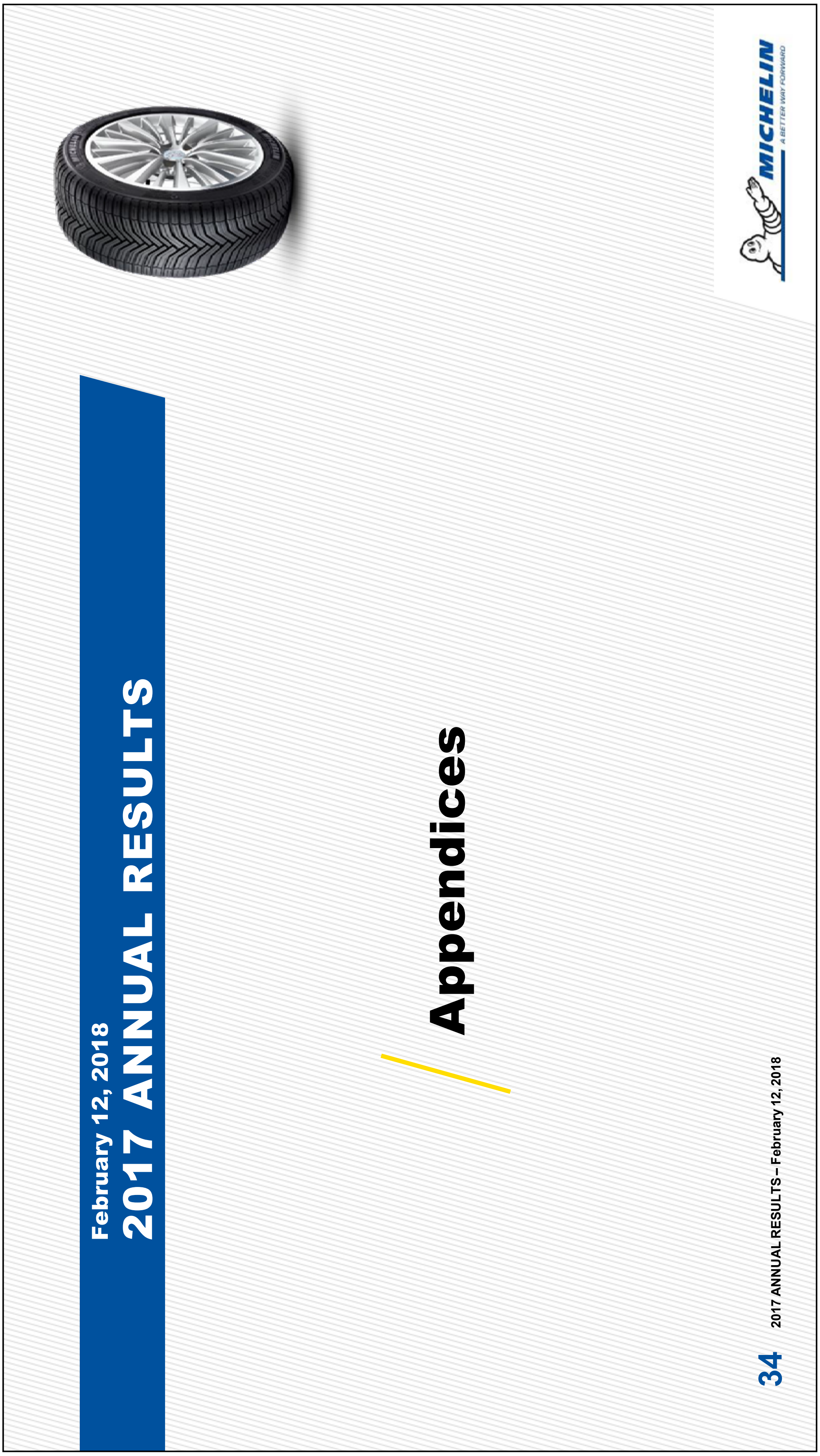
February 12, 2018
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Appendices
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Reported 2017 and 2016 financial highlights

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

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

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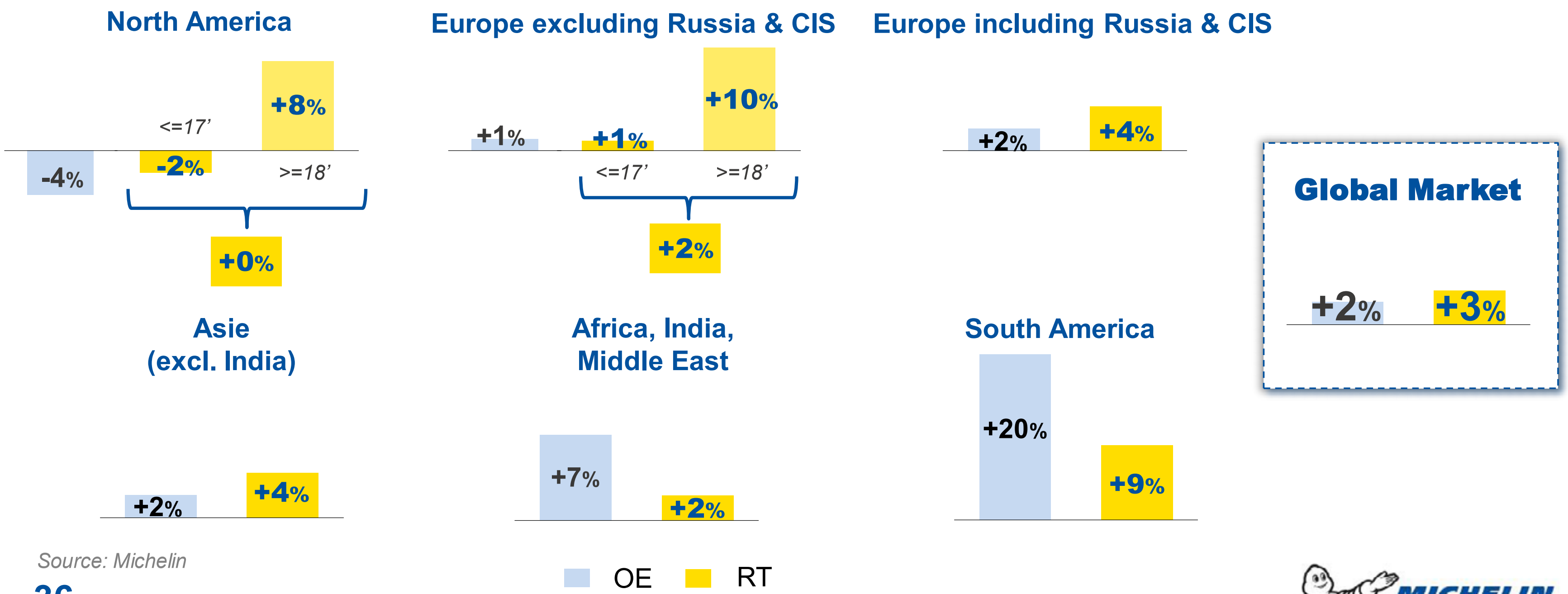
PC: Sustained OE demand worldwide except in North America; RT markets led by early buying in Q1

Passenger car tire market in 2017

(% change YoY, in number of tires)



Source: Michelin

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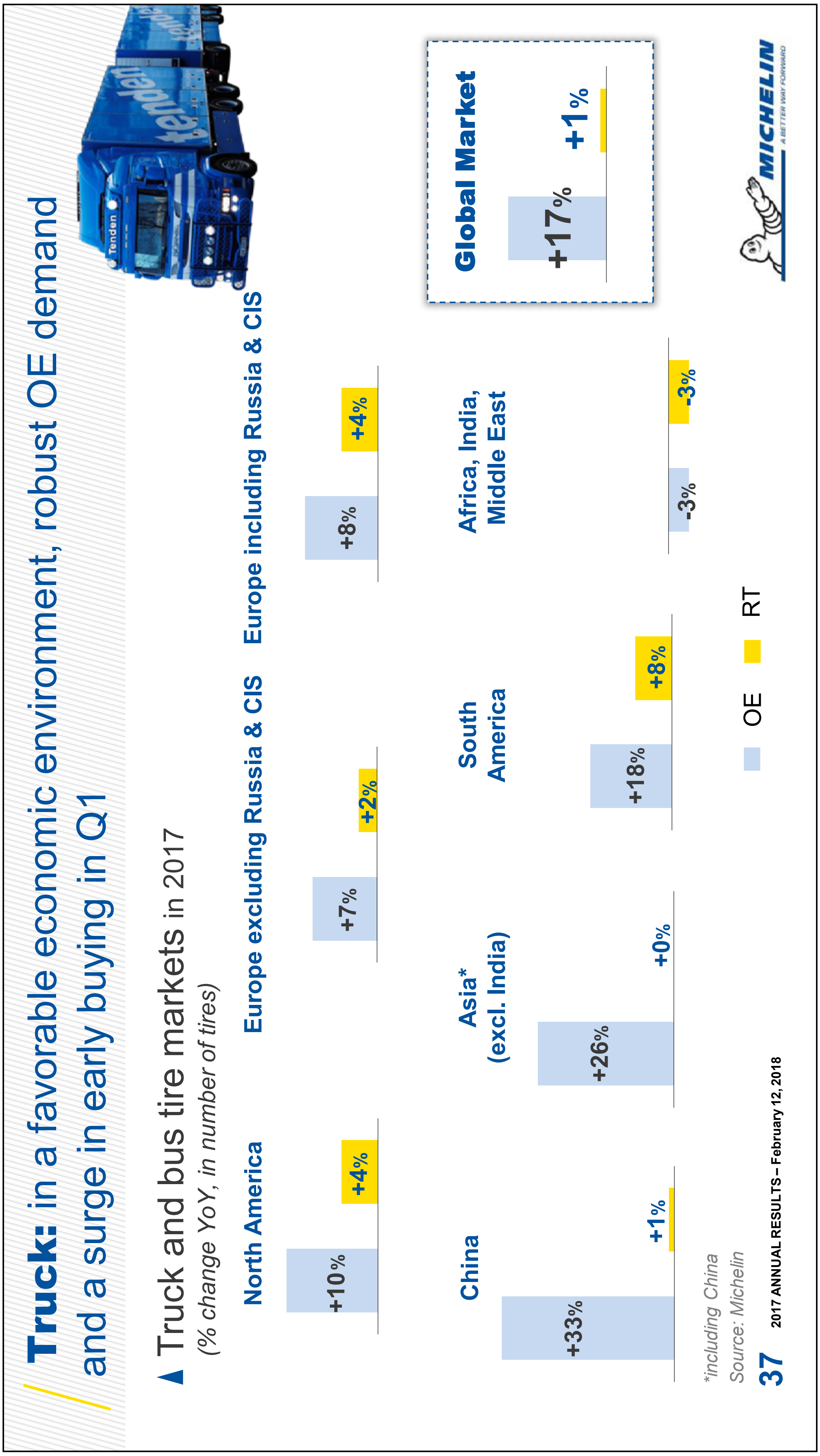
Truck: in a favorable economic environment, robust OE demand and a surge in early buying in Q1
Truck and bus tire markets in 2017
(% change YoY, in number of tires)
North America
+10%
+4%
Europe excluding Russia & CIS
+7%
+2%
Europe including Russia & CIS
+8%
+4%
China
+33%
+1%
Asia*
(excl. India)
+26%
+0%
South America
+18%
+8%
Africa, India, Middle East
-3%
-3%
Global Market
+17%
+1%
OE
RT
*including China
Source: Michelin
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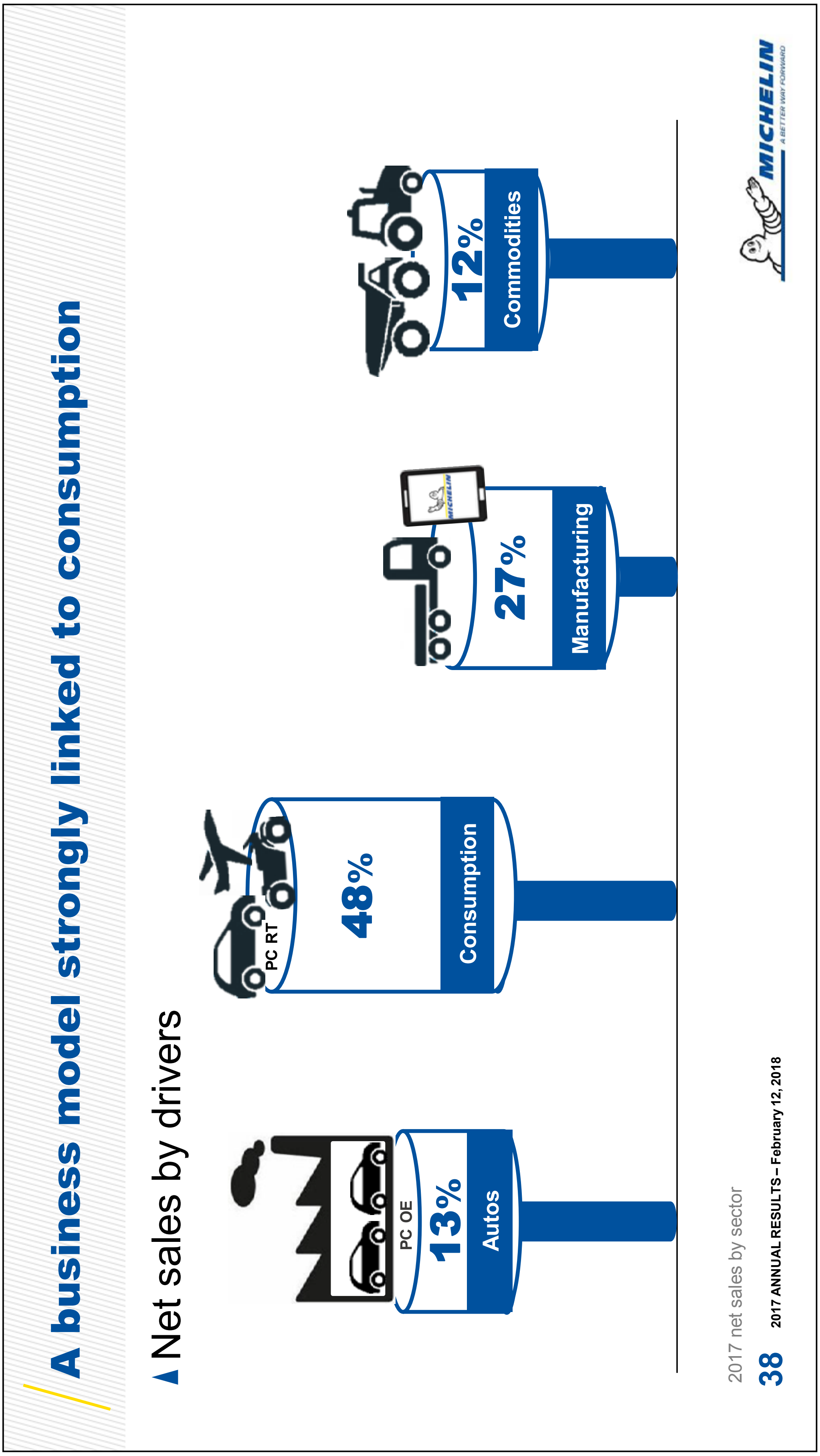
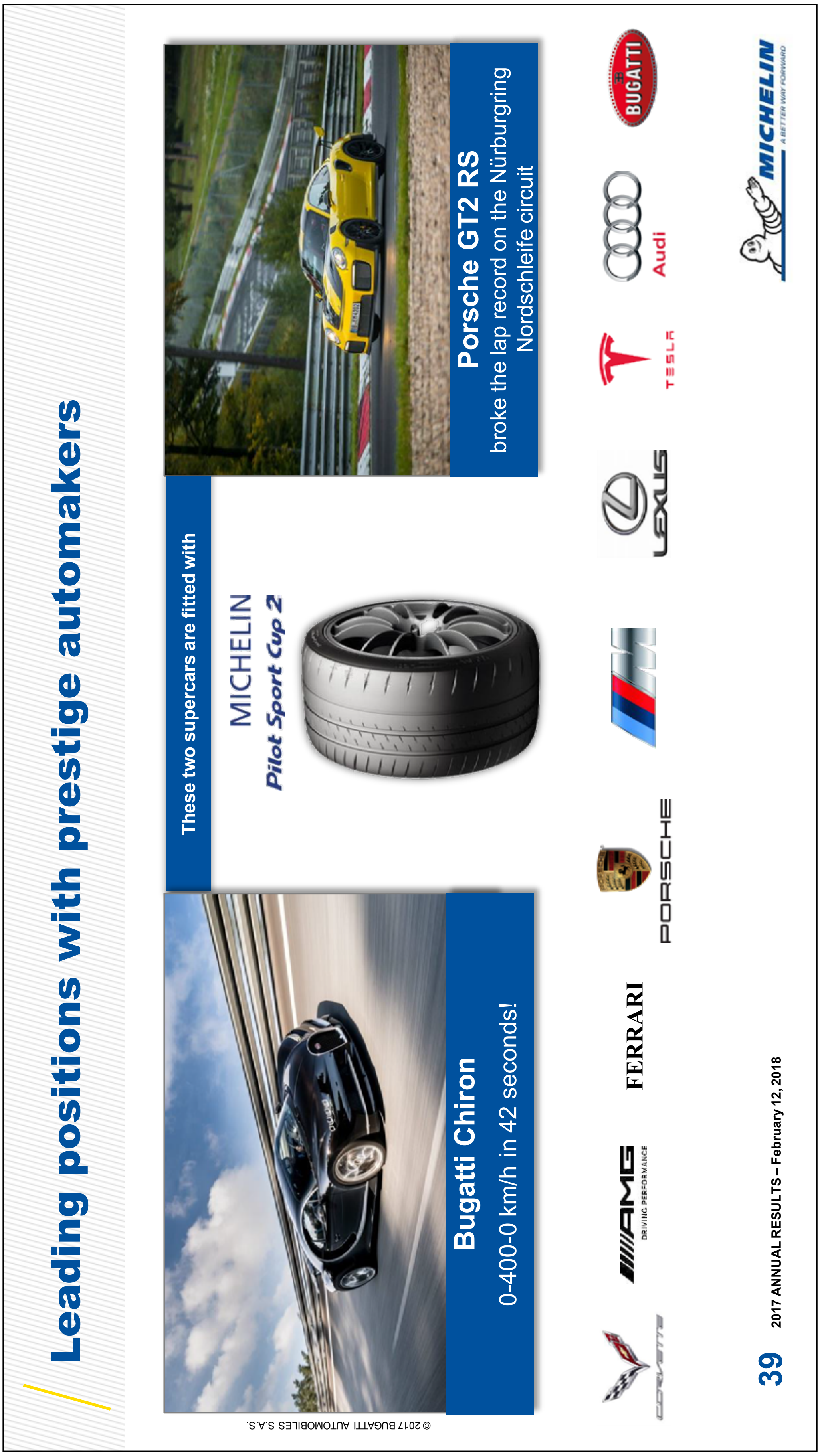
2017 ANNUAL RESULTS – February 12, 2018


A business model strongly linked to consumption
Net sales by drivers
PC OE
13%
Autos
PC RT
48%
Consumption
27%
Manufacturing
12%
Commodities
2017 net sales by sector
38
2017 ANNUAL RESULTS – February 12, 2018


Leading positions with prestige automakers
These two supercars are fitted with
MICHELIN
Pilot Sport Cup 2
Bugatti Chiron
0-400-0 km/h in 42 seconds!
Porsche GT2 RS
broke the lap record on the Nürburgring
Nordschleife circuit
© 2017 BUGATTI AUTOMOBILES S.A.S.
FERRARI
PORSCHE
Audi
BUGATTI
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2017 net sales by currency and EBIT impact

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

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

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

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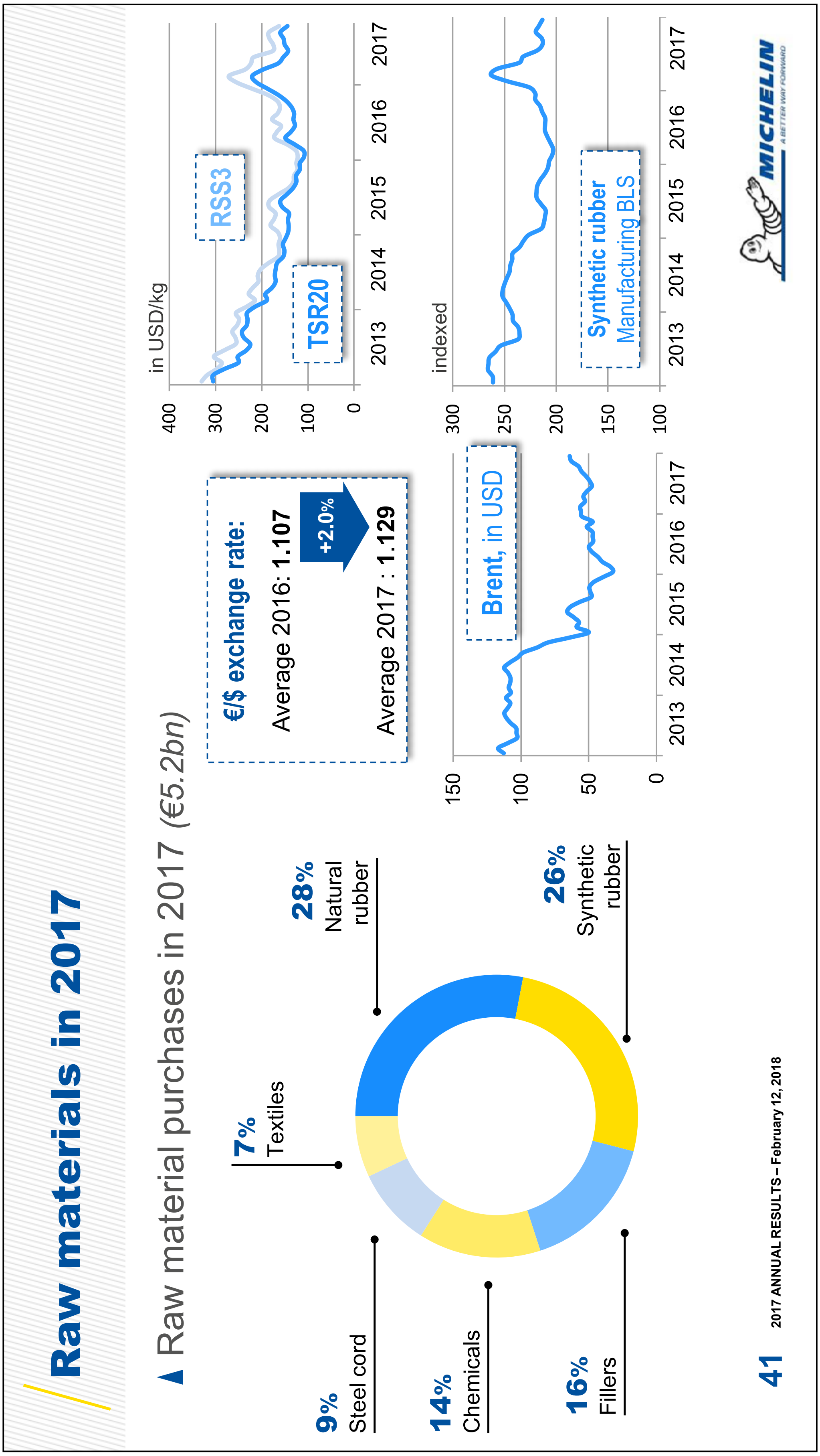
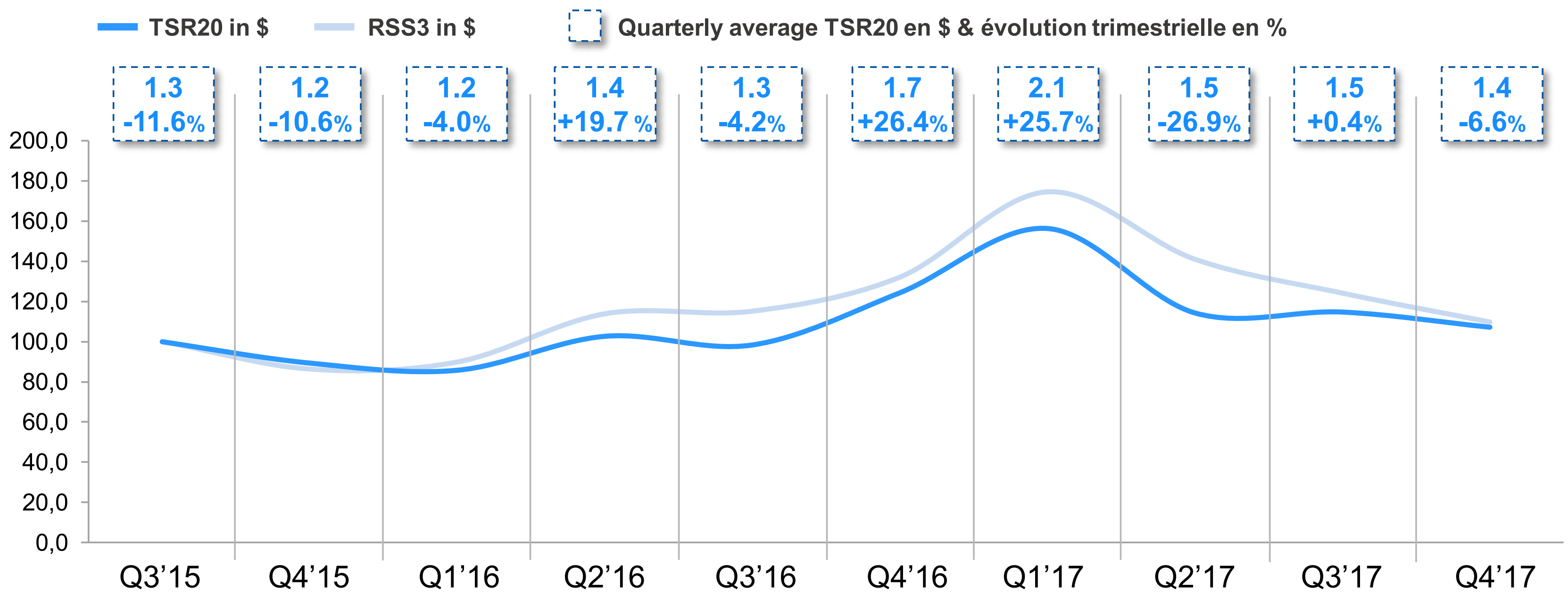

Raw materials in 2017
Raw material purchases in 2017 (€5.2bn)
28% Natural rubber
26% Synthetic rubber
16% Fillers
14% Chemicals
9% Steel cord
7% Textiles
€/$ exchange rate:
Average 2016: 1.107
+2.0%
Average 2017 : 1.129
Brent, in USD
150
100
50
0
2013 2014 2015 2016 2017
in USD/kg
400
300
200
100
0
RSS3
TSR20
2013 2014 2015 2016 2017
indexed
300
250
200
150
100
Synthetic rubber
Manufacturing BLS
2013 2014 2015 2016 2017
MICHELIN
A BETTER WAY FORWARD
41
2017 ANNUAL RESULTS – February 12, 2018

Natural Rubber price trend

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

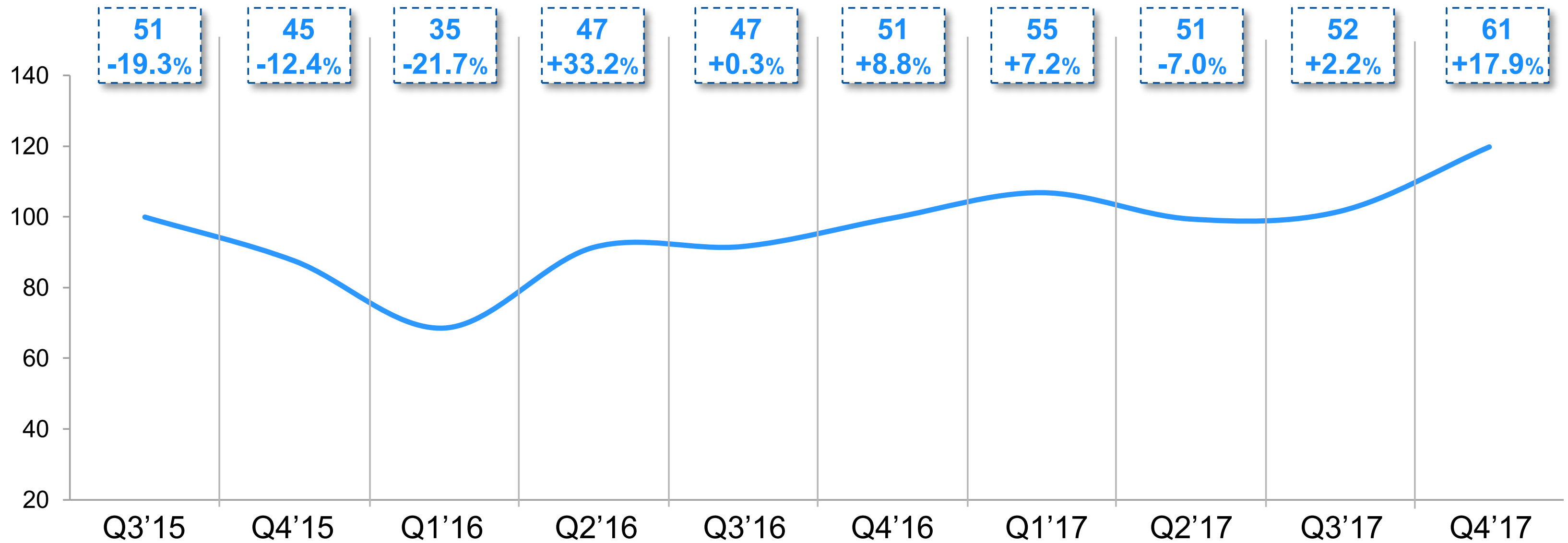


Source: SICOM

42 2017 ANNUAL RESULTS – February 12, 2018

Brent price trend

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



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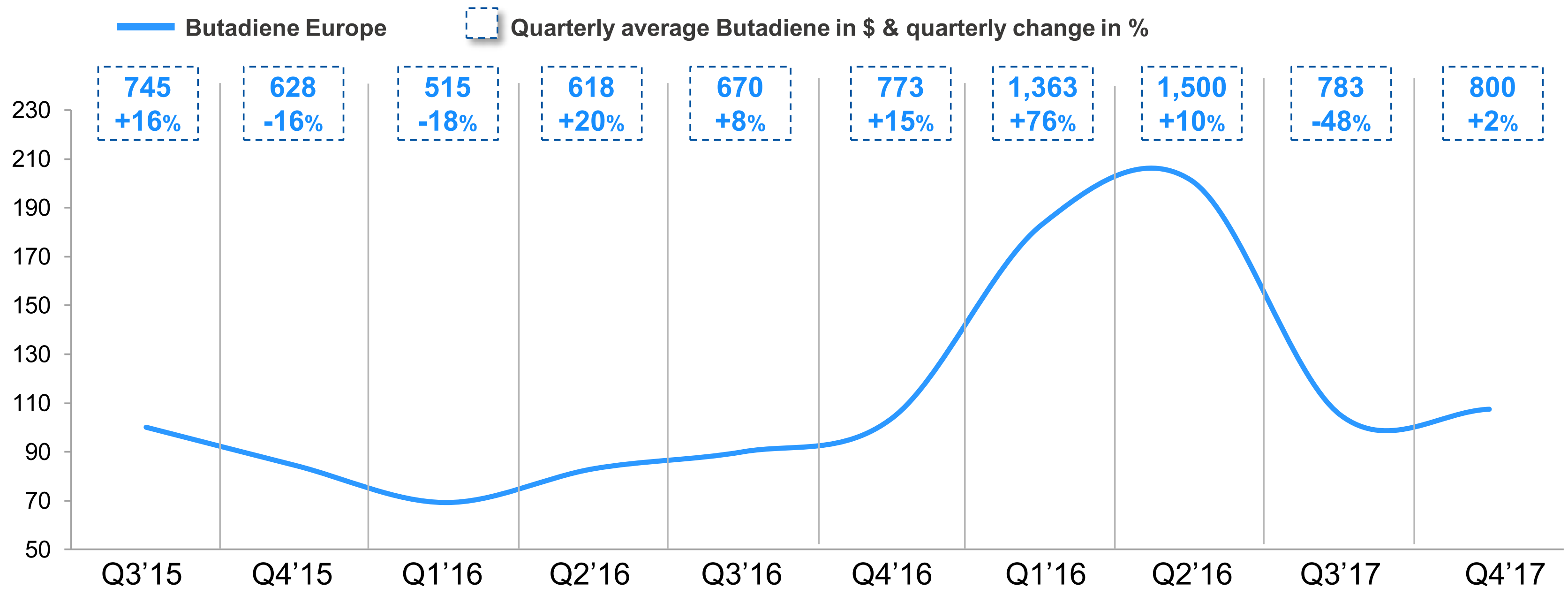
Butadiene price trend

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



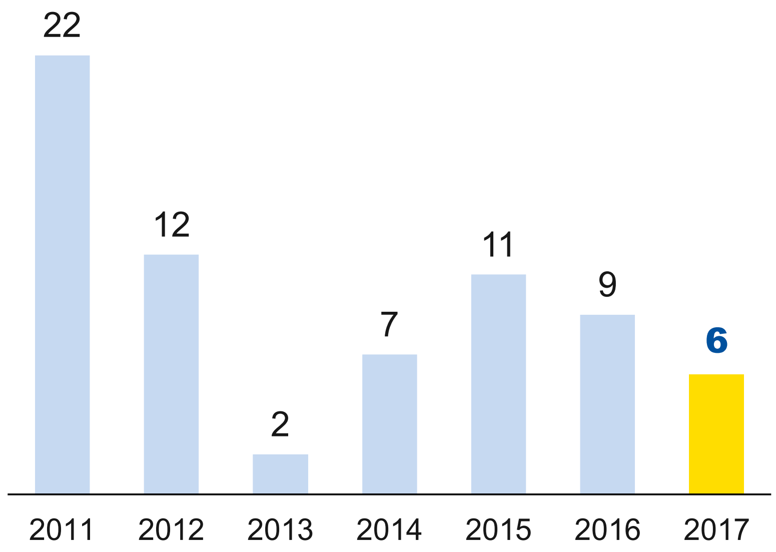
Source: IHS

44 2017 ANNUAL RESULTS – February 12, 2018

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

Gearing

Net debt/equity, in %



Solid long-term ratings

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

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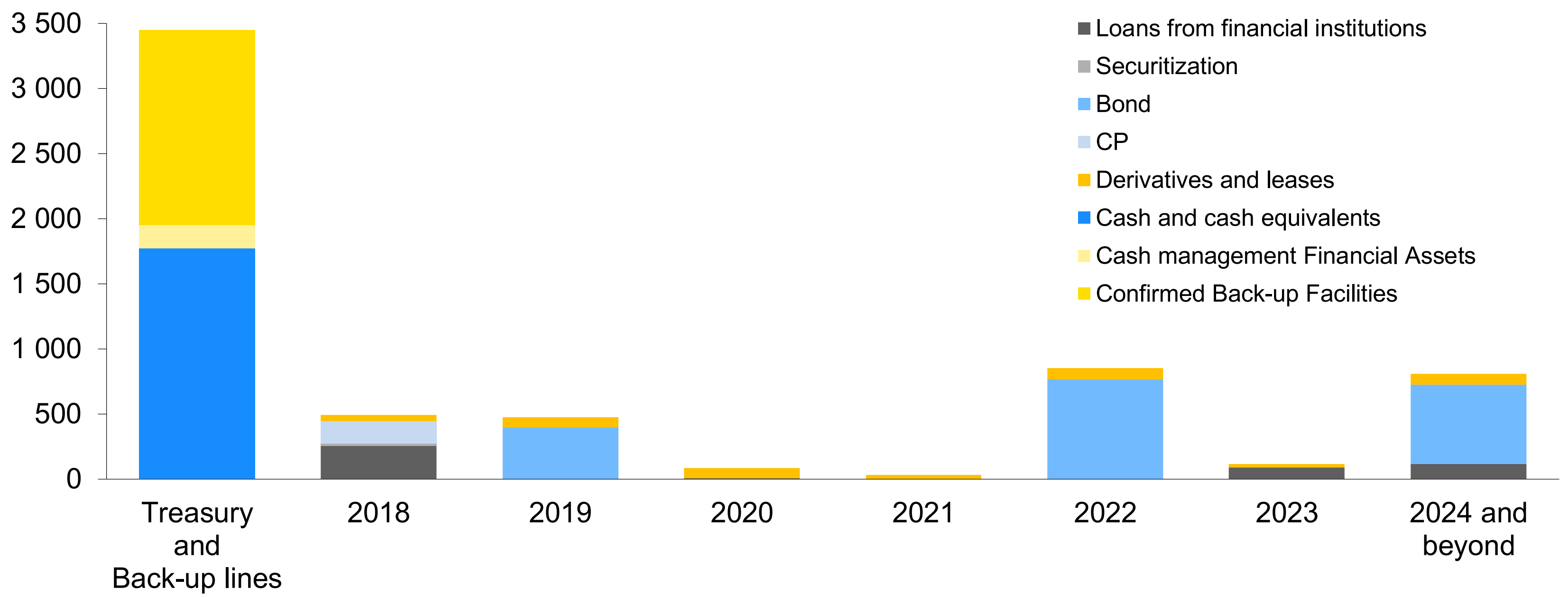
A confortable cash position

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



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Outstanding bond issues (as of February 9, 2018)

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

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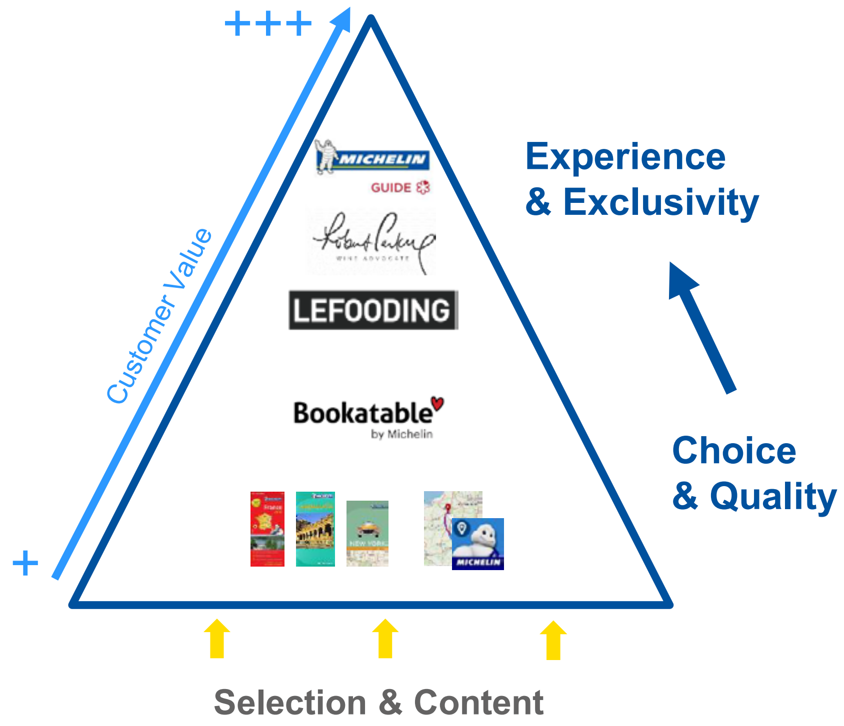
Michelin Experiences: Become the global "Selection" benchmark in the world of gourmet dining and travel services



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

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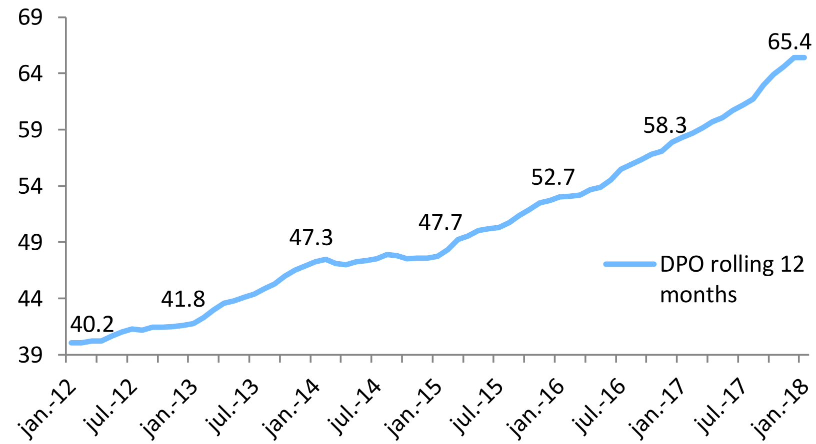
Optimizing Working Capital Requirements

- Inventory:
  - At least a €250m reduction expected from OPE by 2020 from 2016
- Receivables:
  - From 13% to 14% of Net sales
- Payables:
  - Further improvement through terms of payment and reverse factoring



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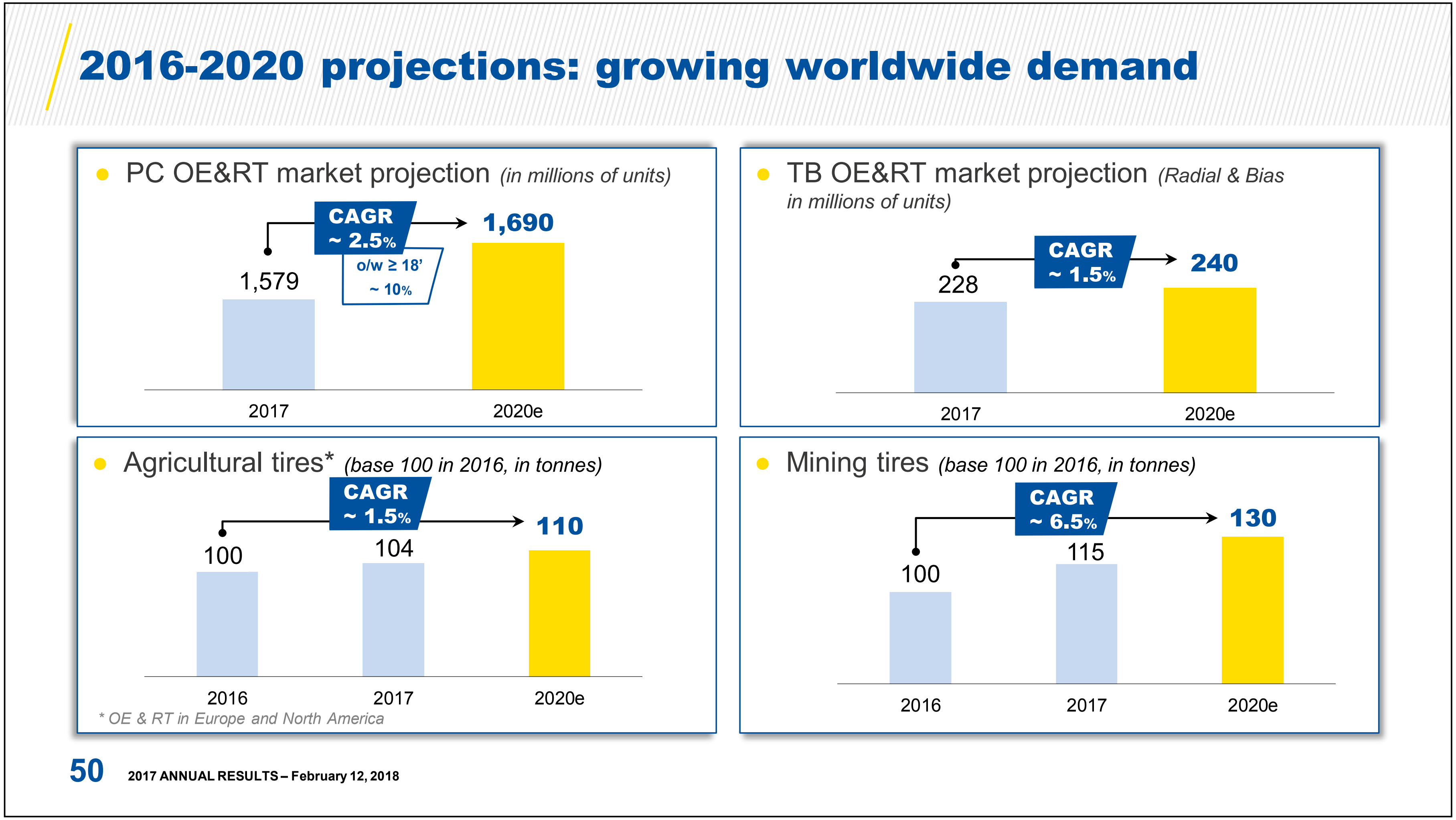
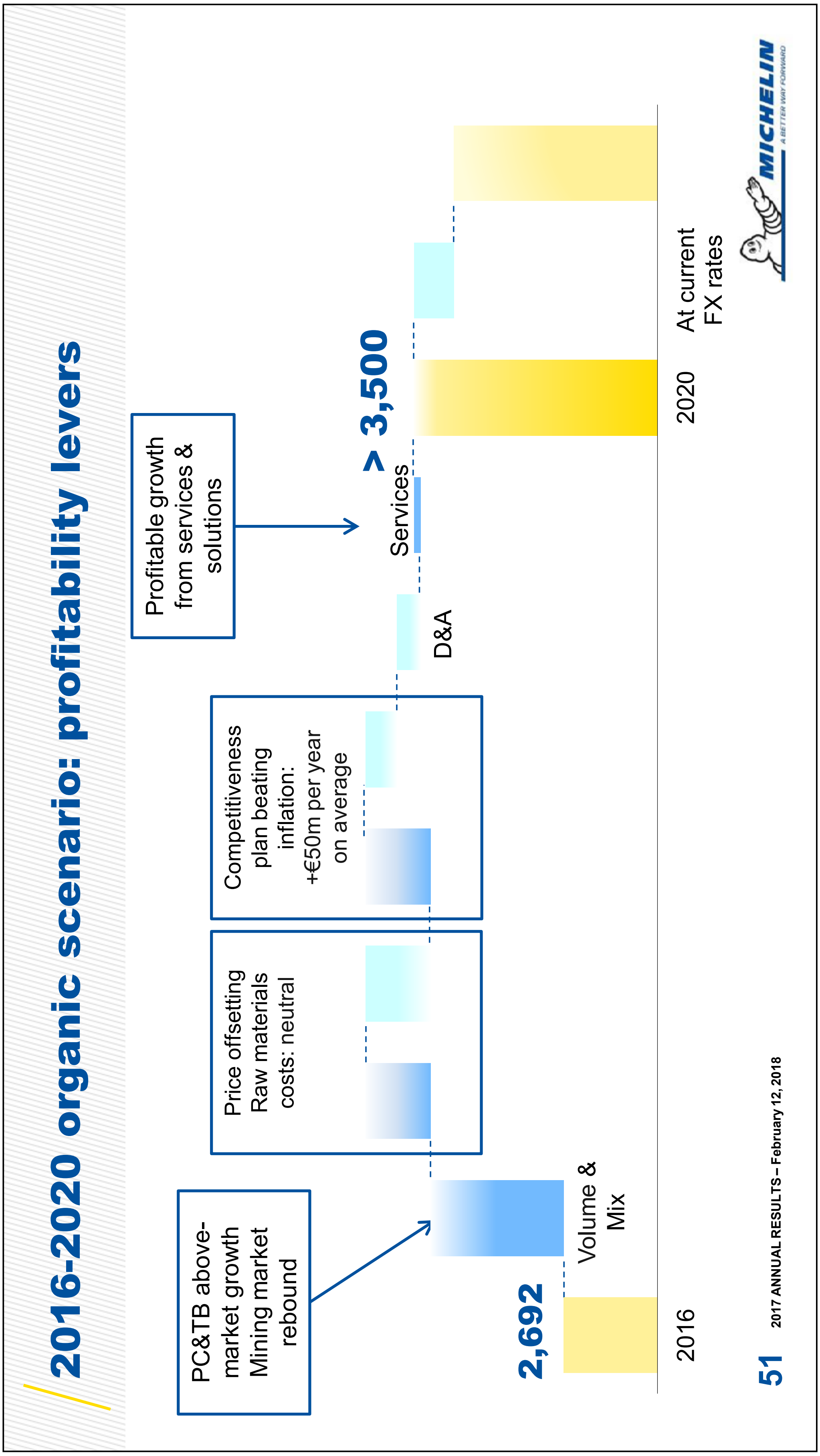

2016-2020 projections: growing worldwide demand
PC OE&RT market projection (in millions of units)
1,579
CAGR ~ 2.5%
o/w ≥ 18' ~ 10%
1,690
2017
2020e
TB OE&RT market projection (Radial & Bias in millions of units)
228
CAGR ~ 1.5%
240
2017
2020e
Agricultural tires* (base 100 in 2016, in tonnes)
CAGR ~ 1.5%
100
104
110
2016
2017
2020e
* OE & RT in Europe and North America
Mining tires (base 100 in 2016, in tonnes)
CAGR ~ 6.5%
100
115
130
2016
2017
2020e
50
2017 ANNUAL RESULTS – February 12, 2018


2016-2020 organic scenario: profitability levers
2,692
PC&TB above-market growth
Mining market rebound
Volume & Mix
Price offsetting
Raw materials costs: neutral
Competitiveness plan beating inflation:
+€50m per year on average
D&A
Profitable growth from services & solutions
Services
> 3,500
2016
2020
At current FX rates
51
2017 ANNUAL RESULTS – February 12, 2018
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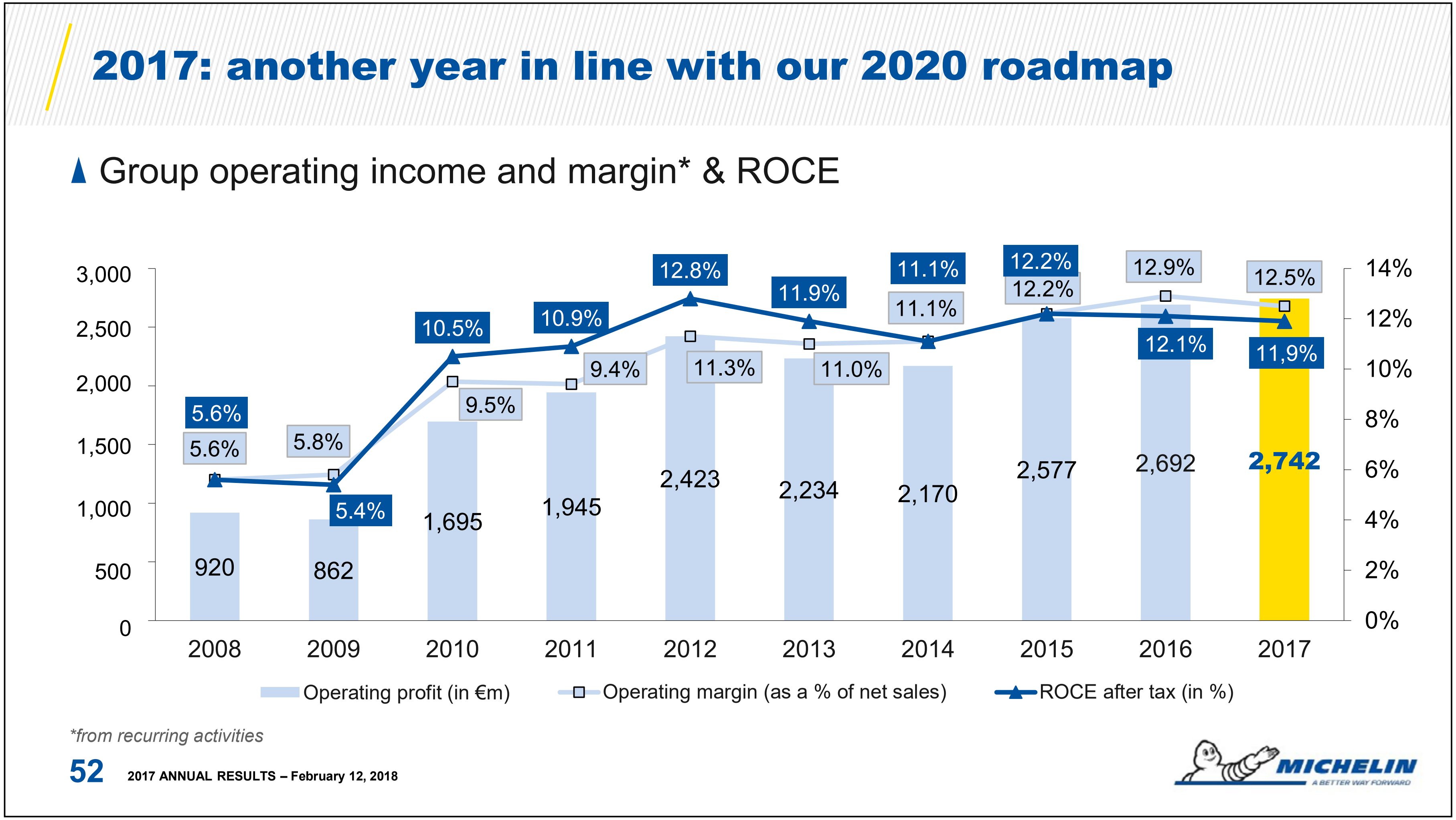
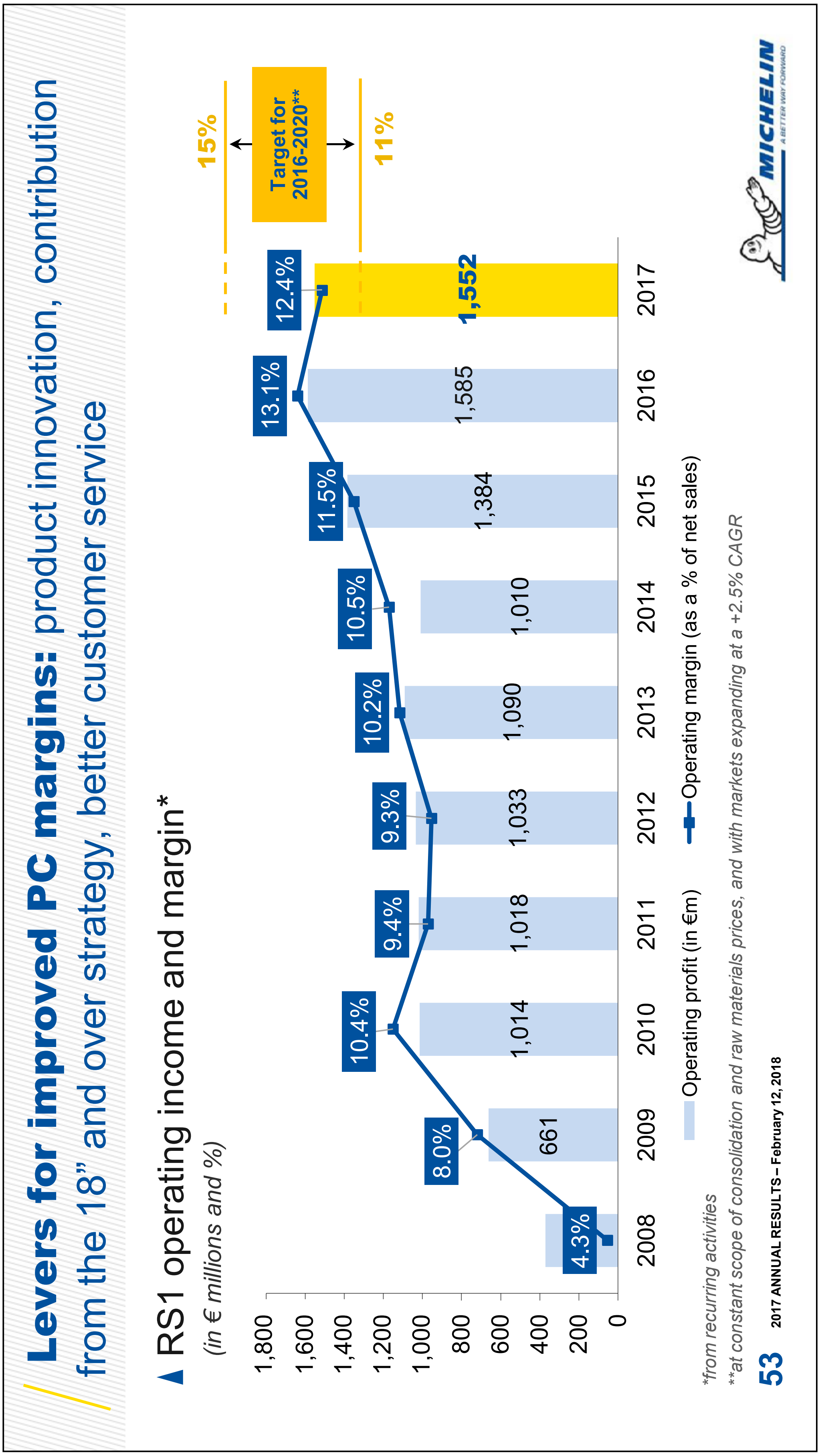
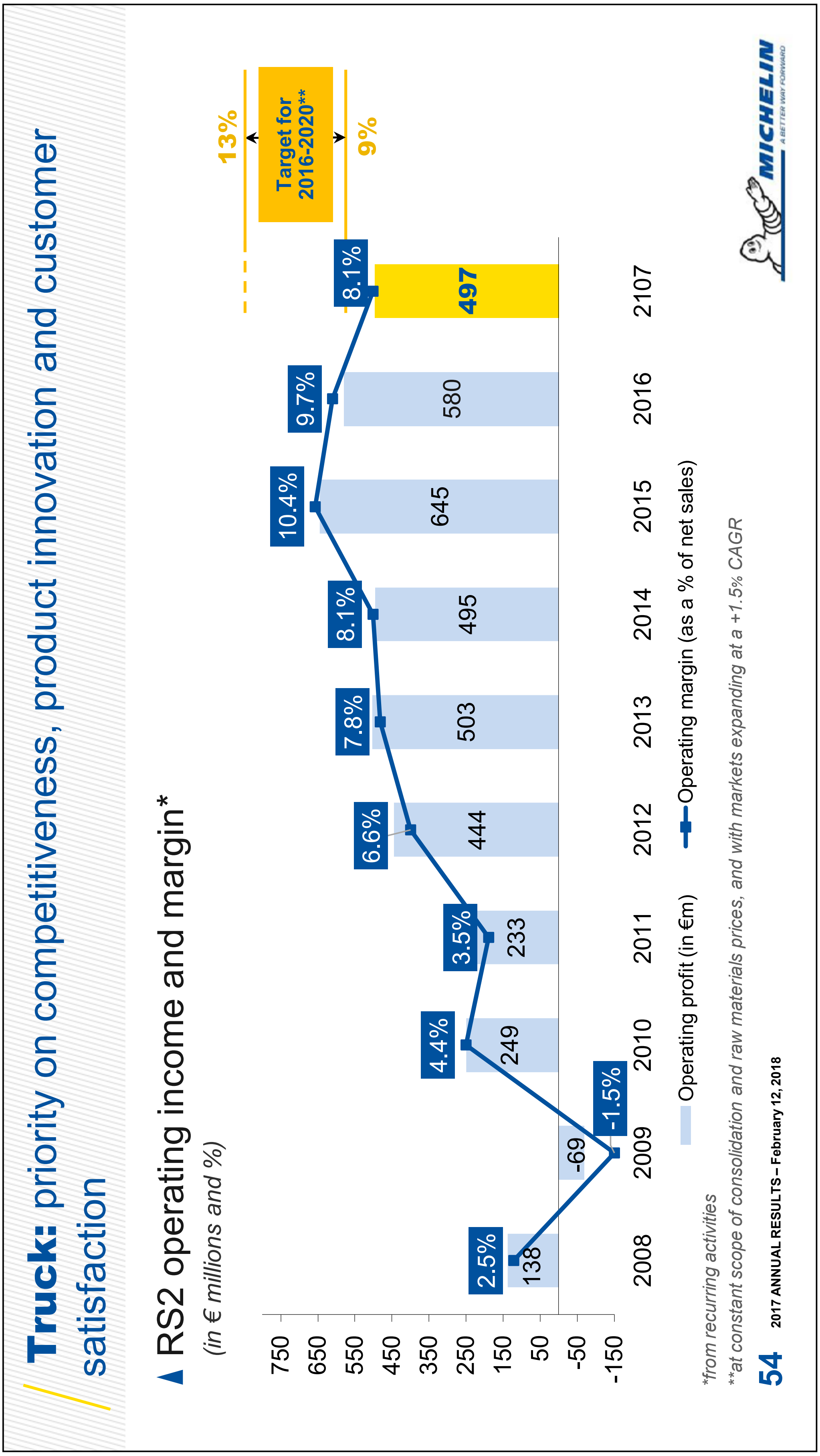

2017: another year in line with our 2020 roadmap
Group operating income and margin* & ROCE
3,000
2,500
2,000
1,500
1,000
500
0
14%
12%
10%
8%
6%
4%
2%
0%
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
920
862
1,695
1,945
2,423
2,234
2,170
2,577
2,692
2,742
5.6%
5.6%
5.8%
5.4%
10.5%
9.5%
10.9%
9.4%
12.8%
11.3%
11.9%
11.0%
11.1%
11.1%
12.2%
12.2%
12.9%
12.1%
12.5%
11,9%
Operating profit (in €m)
Operating margin (as a % of net sales)
ROCE after tax (in %)
*from recurring activities
52
2017 ANNUAL RESULTS – February 12, 2018
MICHELIN
A BETTER WAY FORWARD

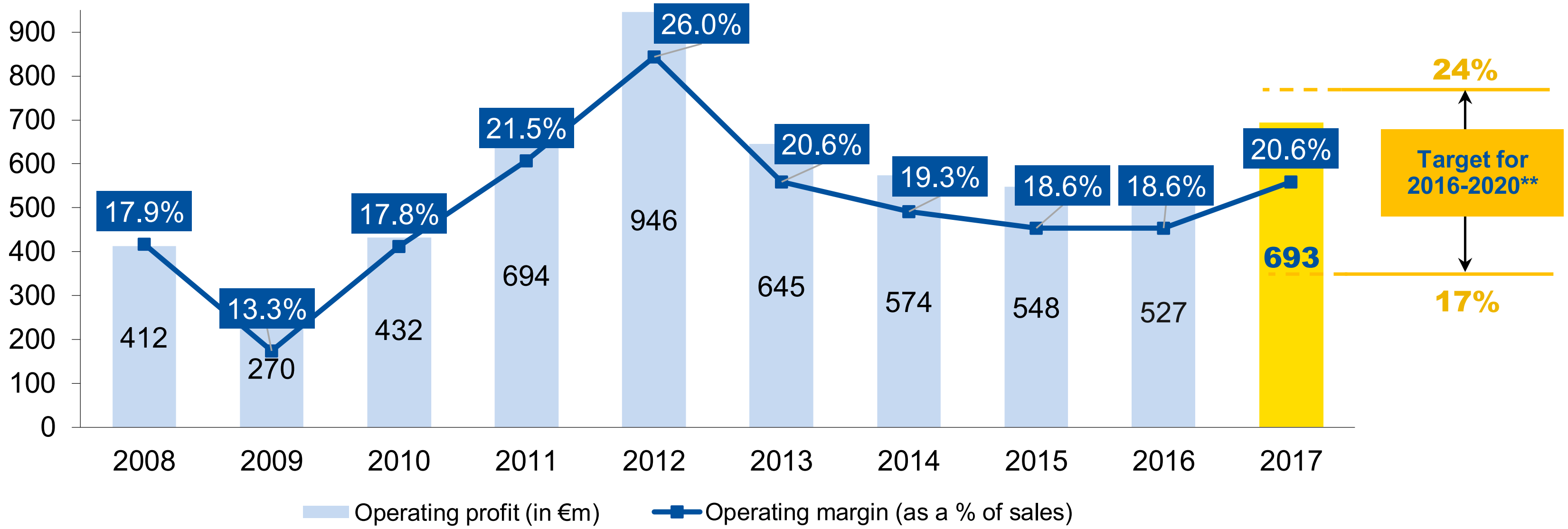

Levers for improved PC margins: product innovation, contribution from the 18" and over strategy, better customer service
RS1 operating income and margin*
(in € millions and %)
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
661
1,014
1,018
1,033
1,090
1,010
1,384
1,585
1,552
4.3%
8.0%
10.4%
9.4%
9.3%
10.2%
10.5%
11.5%
13.1%
12.4%
15%
Target for 2016-2020**
11%
Operating profit (in €m)
Operating margin (as a % of net sales)
*from recurring activities
**at constant scope of consolidation and raw materials prices, and with markets expanding at a +2.5% CAGR
53
2017 ANNUAL RESULTS – February 12, 2018
MICHELIN
A BETTER WAY FORWARD


Truck: priority on competitiveness, product innovation and customer satisfaction
RS2 operating income and margin*
(in € millions and %)
750
650
550
450
350
250
150
50
-50
-150
2.5%
138
-1.5%
-69
4.4%
249
3.5%
233
6.6%
444
7.8%
503
8.1%
495
10.4%
645
9.7%
580
8.1%
497
13%
Target for 2016-2020**
9%
2008
2009
2010
2011
2012
2013
2014
2015
2016
2107
Operating profit (in €m)
Operating margin (as a % of net sales)
*from recurring activities
**at constant scope of consolidation and raw materials prices, and with markets expanding at a +1.5% CAGR
54
2017 ANNUAL RESULTS – February 12, 2018

Specialty businesses: all divisions contributing in recovery markets

RS3 operating income and margin*

(in € millions and %)



*from recurring activities.

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

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This presentation may contain a number of forward-looking statements. Although the Company believes that these statements are based on reasonable assumptions at the time of the publication of 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 induced by these statements."

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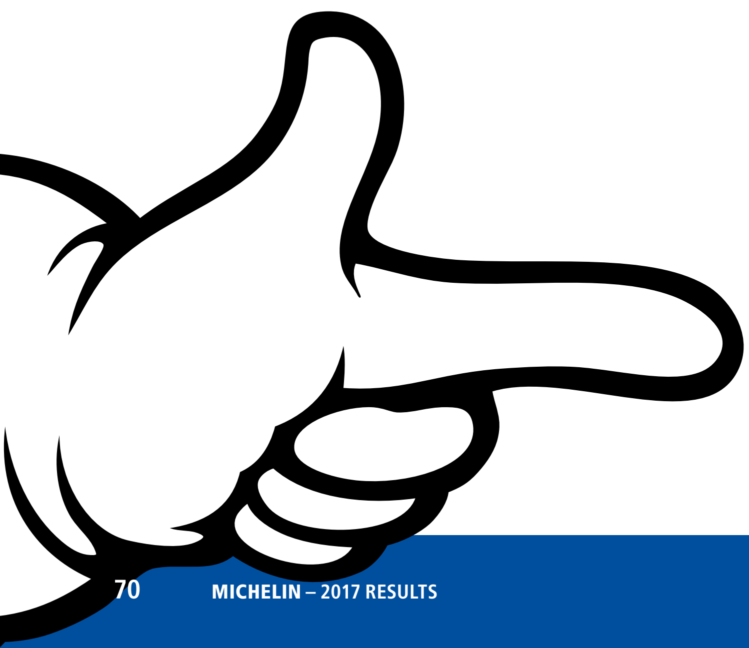
3

REPORT OF THE MANAGING PARTNERS



3.1 TIRE MARKETS

3.1.1 A GLOBAL MARKET WORTH SOME $150 BILLION[1] IN 2016

The global tire market totaled $150 billion in 2016[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 215 million truck and bus tires[2]. In all, three out of four tires were sold in the replacement market.

Over the 2015-2020 period, Michelin expects new tire demand to grow by an average of 2.5% a year in the Passenger car and Light truck segment and by an average 1.5% a year in the new Truck tire segment. Over the same period, the mining tire market is forecast to expand by an average 6.5% a year and the agricultural tire market by 1.5%.

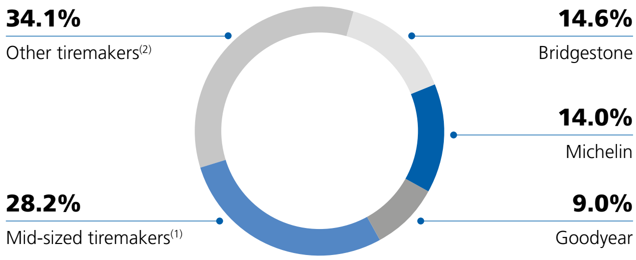
Longer term, tire demand is likely to expand by 1-2% a year in mature markets and by 5-10% a year in the new markets.

New standards

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

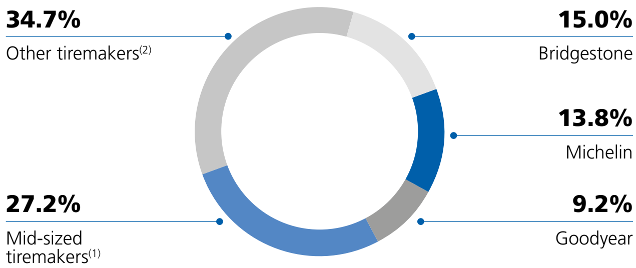
These trends are favorable to low rolling resistance tires, where Michelin sets the market standard. Original equipment sales of these tires are expected to increase by around 200 million units between 2010 and 2020 to a total of nearly 500 million units a year[2].

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 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.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2015



Source: 2015 sales in US dollars, published in Tire Business, August 2016.
(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.

3.1.2 TIRE MARKETS IN 2017

In 2017, the Passenger car/Light truck and Truck tire markets in Europe, North America and China were shaped by the surge in buying in the first quarter ahead of the price increases announced across the industry and the subsequent easing of demand in the following quarters. The other new markets enjoyed firmer demand over the entire year. The specialty tire markets sustained the rebound that began in the final quarter of 2016, delivering brisk growth led by the mining businesses and the agricultural tire segment.

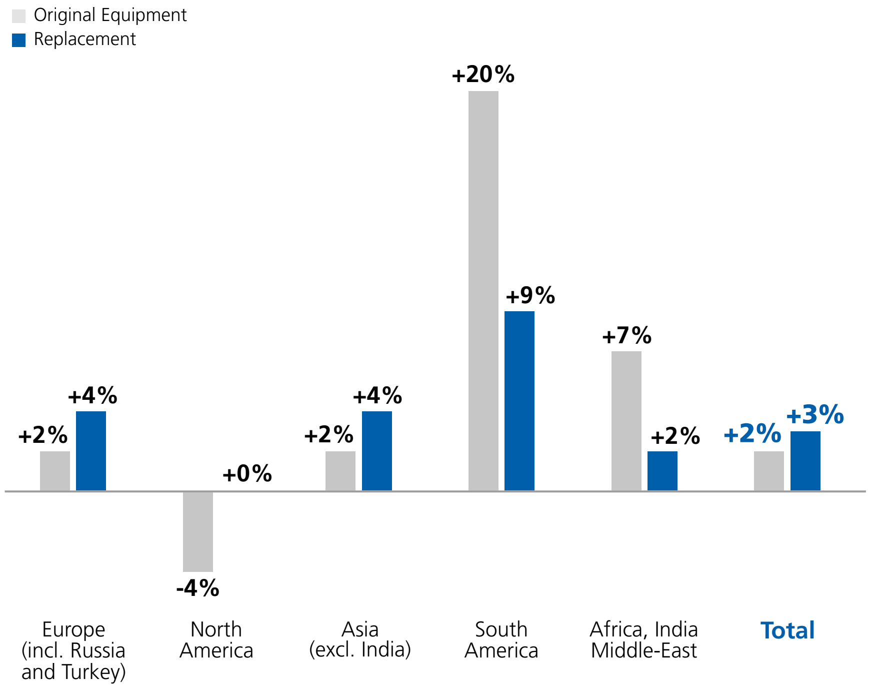
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number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

(1) Source: Tire Business, August 2017.
(2) Michelin estimates.

3.1.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2017

In 2017, the global original equipment and replacement **Passenger car and Light truck** tire market expanded by 3% in number of tires sold.

THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2017 *VS.* 2016



Michelin estimates.

3.1.3 a) Original equipment

Worldwide original equipment demand ended the year up 2% in number of tires sold, led by gains in every geography except North America, where annual performance was dragged down by a sharp contraction in the second half.

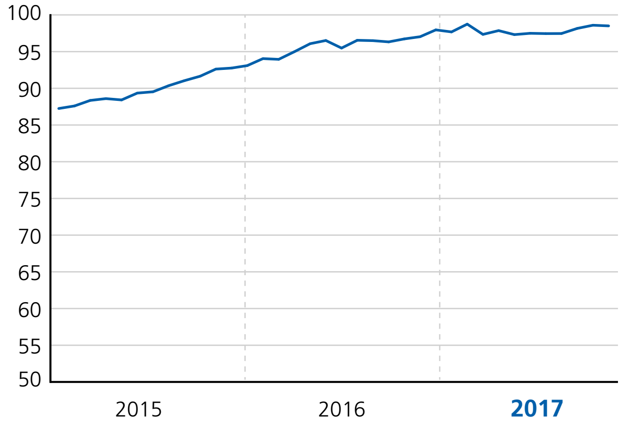
Passenger car and Light truck tire markets Original equipment *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe(1)	104.4	102.5	+2%	+4%	+5%	+2%	+0%	-5%	+6%
North America(2)	83.8	87.6	-4%	-8%	-6%	-11%	-0%	-2%	+2%
Asia (excluding India)	215.7	210.9	+2%	+1%	-1%	+5%	+3%	+1%	+5%
South America	16.4	13.7	+20%	+21%	+15%	+27%	+19%	+18%	+21%
Africa/India/Middle East	35.5	33.3	+7%	+4%	+2%	+6%	+10%	+7%	+12%
TOTAL	**455.7**	**447.9**	**+2%**	**+1%**	**-0%**	**+2%**	**+3%**	**-0%**	**+6%**

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

Demand in **Europe** rose by 2% overall during the year, reflecting the combined impact of a 1% increase in Western Europe (lifted by a 4% gain in the final quarter) and a robust 14% upsurge in the Eastern European countries.

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN EUROPE

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

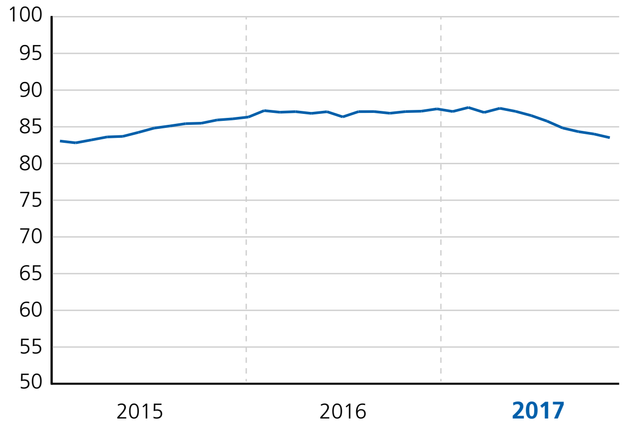


Michelin estimates.

The **North American** market ended the year down 4%, as demand tumbled 8% in the second half after holding firm in the first, in line with the decline in automobile production.

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)** rose by 2% overall in 2017. Growth in China cooled to 2%, reflecting rising sales of both SUVs and luxury cars, with demand for compact cars declining following a reduction in government incentives. Demand was up 5% in Japan and stable in South Korea.

South American markets delivered a sharp 20% upturn, driven by both domestic and export sales.

In the **Africa/India/Middle East** region, demand climbed 7% on the back of a 7% increase in the Indian market, where vehicle sales rose in an economy that remains strong despite the government's demonetization drive in late 2016.

3.1.3 b) Replacement

The worldwide replacement tire market rose by 3% over the year, primarily due to gains in the new markets, with demand in the European, North American and Chinese markets slowing in the second and third quarters following significant first-quarter buying ahead of price increases. The size mix continued to improve, while entry-level brand sales enjoyed stronger growth in Europe, North America and South America.

Passenger car and Light truck tire markets Replacement *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe[(1)]	363.1	350.8	+4%	+3%	+2%	+3%	+4%	+1%	+8%
North America[(2)]	289.0	288.7	+0%	-0%	+1%	-1%	+0%	-2%	+3%
Asia (excluding India)	280.3	270.0	+4%	+2%	+0%	+5%	+5%	+4%	+7%
South America	82.6	76.0	+9%	+10%	+9%	+11%	+7%	+7%	+6%
Africa/India/Middle East	108.2	105.9	+2%	+2%	+2%	+2%	+2%	+2%	+2%
TOTAL	**1,123.2**	**1,091.4**	**+3%**	**+2%**	**+2%**	**+3%**	**+3%**	**+1%**	**+6%**

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

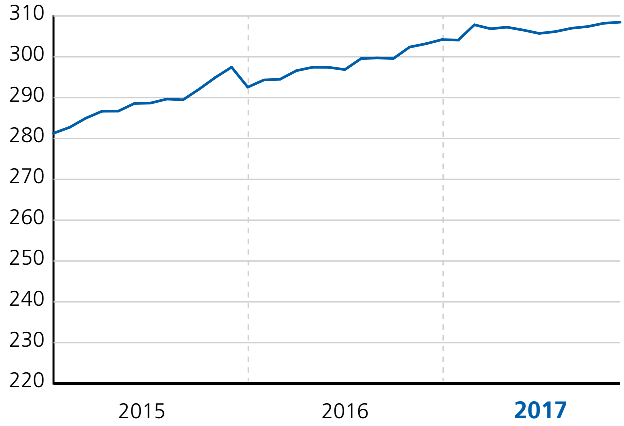
The **European** market saw a 4% overall increase during the year. Demand in Western Europe edged back 1%, as gains in Spain (up 5%), France (up 3%) and Germany (up 1%) were offset by declines in the United Kingdom (down 8%) and, to a lesser extent, the Nordic countries (down 4%). Markets in Central Europe and Eastern Europe reported robust growth, ending the year up 12% and 16% respectively. Sales of all-season tires remained firm throughout the year, with strong growth in Europe. Winter tire demand was boosted by year-end weather conditions.

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

Passenger car and Light truck tires – Replacement	Year-on-year change
WESTERN EUROPE	**+2%**
▶ France	+3%
▶ Spain	+5%
▶ Italy	-2%
▶ United Kingdom	-8%
▶ Germany	+1%
▶ Poland	+15%
▶ Turkey	+12%
EASTERN EUROPE	**+16%**
▶ Russia	+22%

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

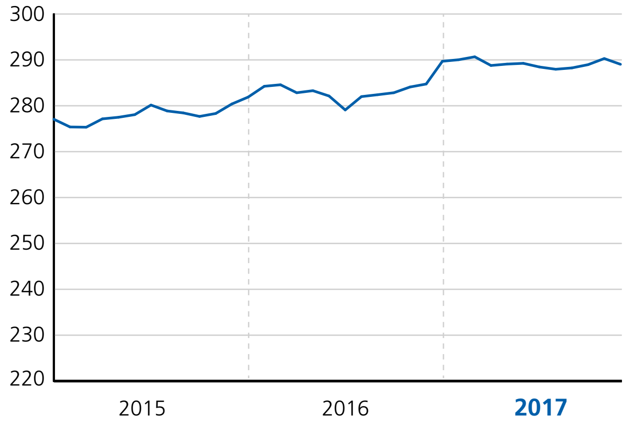
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

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

(in millions of tires – moving 12 months)



Michelin estimates.

The **North American** market was flat for the year, although after two straight quarters of decline, demand picked up 1% in the final three months. The 5% contraction in Mexico was offset by a 7% gain in Canada, while in the United States, the favorable economic environment failed to move the market off of last year's levels.

Demand **in Asia (excluding India)** rose by 4%, as sustained growth in China (up 7%) made up for the tepid 1% increase in Japan.

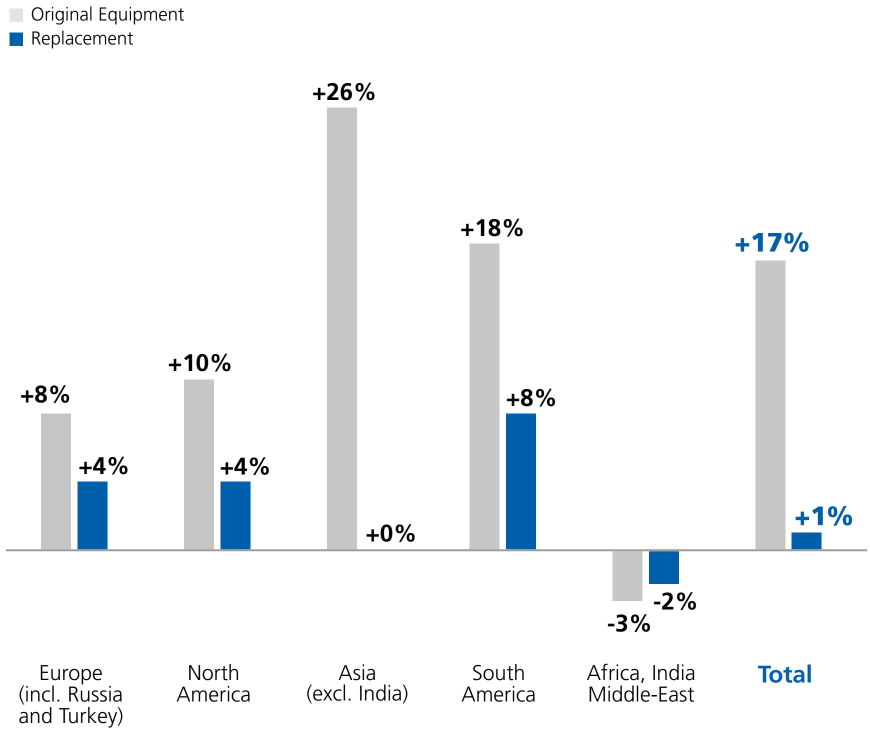
The **South American** market rebounded 9%, with a 15% gain in Brazil led by a significant, exchange rate-driven increase in Asian imports.

The **Africa/India/Middle East** market rose by 2%, with a strong 7% increase in India at a time of economic transition, and more modest gains in Africa and the Middle East due to political instability in certain countries and weakness in the oil-price dependent economies.

3.1.4 TRUCK TIRE MARKETS IN 2017

Supported by rising demand for overland transport in a favorable economic environment, the number of new radial and bias **Truck** tires sold worldwide rose by 4% in 2017. The year was shaped by a sharp 17% surge in original equipment sales and, in the replacement segment, by heavy buying in the first quarter ahead of the price increases announced across the industry and the subsequent easing of demand over the rest of the year (for a 1% increase overall).

THE GLOBAL TRUCK TIRE MARKET, 2017 *VS.* 2016



Michelin estimates – new tire market only.

3.1.4 a) Original equipment

In 2017, the **global OE Truck tire market,** as measured by the number of new radial and bias tires sold, rose by 17% off of low comparatives, led by a rebound in demand in China, North America, South America and Eastern Europe.

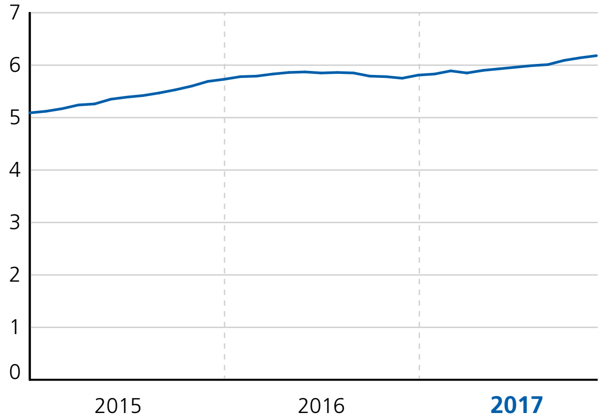
Truck tire markets Original equipment *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe[1]	7.0	6.5	+8%	+9%	+12%	+7%	+7%	+4%	+11%
North America[2]	5.8	5.3	+10%	+17%	+9%	+26%	+4%	+14%	-6%
Asia (excluding India)	28.6	22.7	+26%	+28%	+26%	+30%	+24%	+25%	+24%
South America	1.1	0.9	+18%	+40%	+65%	+22%	-1%	+5%	-6%
Africa/India/Middle East	5.2	5.3	-3%	+10%	+11%	+8%	-14%	-25%	-3%
TOTAL	**47.7**	**40.7**	**+17%**	**+22%**	**+20%**	**+23%**	**+13%**	**+13%**	**+13%**

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

The **European** market, which gained momentum at year-end to deliver an 8% overall increase for the year, benefited from low interest rates and truck purchases in response to the sustained demand for overland transport. In the Eastern European countries, an improving economy helped to drive a 14% rebound in the market.

THE OE TRUCK TIRE MARKET IN EUROPE

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

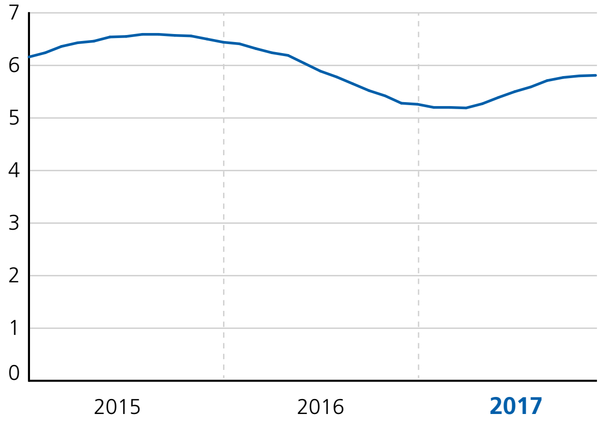


Michelin estimates.

In North America, the market enjoyed a rebound during the year, gaining 10% as the favorable economic environment encouraged trucking companies to upgrade their fleets.

THE OE TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Demand for radial and bias tires **in Asia (excluding India)** jumped 26% overall, led by the very robust 32% growth in China, where legislation limiting truck size and weight drove higher demand over the first three quarters. Sustained growth in the Thai market offset softer demand in Japan.

The **South American** market bounced back in the second half, surging 40% and ending the year up 18%, supported by the first signs of an economic recovery in Brazil and by export sales.

The **Africa/India/Middle East** radial and bias tire market retreated by 3%, reflecting (i) a 4% falloff in demand in India despite a timid upturn at year-end thanks to the new carbon emissions standards; and (ii) stable markets in Africa and the Middle East due to local economic and geopolitical issues.

3.1.4 b) Replacement

The **global replacement market** rose by 1%, on very brisk gains in every geography, except Africa/India/Middle East, led by early-year buying ahead of price increases.

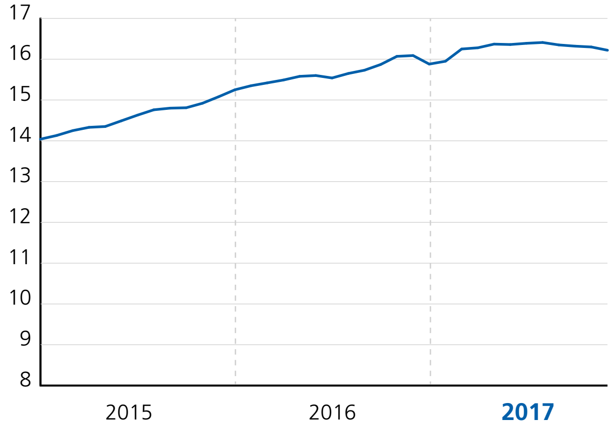
Truck tire markets Replacement *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe[1]	24.4	23.6	+4%	+0%	-3%	+4%	+7%	+3%	+12%
North America[2]	25.4	24.5	+4%	+9%	+2%	+15%	-1%	-7%	+5%
Asia (excluding India)	84.9	84.5	+0%	-2%	-3%	-0%	+3%	-2%	+9%
South America	14.1	13.0	+8%	+11%	+12%	+10%	+5%	+4%	+7%
Africa/India/Middle East	31.0	31.8	-2%	-1%	-0%	-2%	-4%	-3%	-4%
TOTAL	**179.9**	**177.5**	**+1%**	**+1%**	**-1%**	**+3%**	**+2%**	**-2%**	**+6%**

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

The **European** market rose by 4% over the year, led by demand from the freight and construction industries. The overall gain reflected growth in France (up 7%), Turkey (up 9%) and Russia (up 10%), flat demand in Germany and declines in Italy (down 2%) and Spain (down 3%).

THE REPLACEMENT TRUCK TIRE MARKET IN EUROPE

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

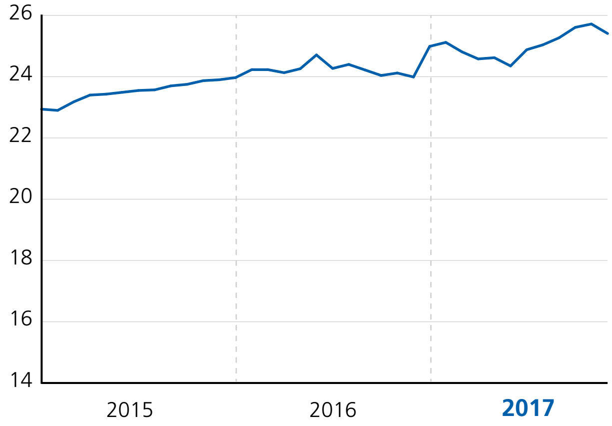


Michelin estimates.

Demand **in North America** ended the year up 4%, as a slight decline in the first half was offset by a 9% upsurge in the second, buoyed by the favorable economic environment. Growth slowed to 2% in the fourth quarter, due to comparison with year-earlier demand, which was boosted by early buying of Chinese tires ahead of proposed import duties.

THE REPLACEMENT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Replacement radial and bias tire markets **in Asia (excluding India)** leveled off during the year. Demand edged up just 1% in China, held back by the robust OE market and by the impact of emissions controls. It also improved by 3% in Japan, but declined by 3% in Thailand. Radial technology enjoyed another period of strong growth in the ASEAN markets.

The **South American** radial and bias tire market rebounded by a strong 8% in 2017, thanks in particular to the improving economy in Brazil.

In the **Africa/India/Middle East** region, the radial and bias market fell back 3%, in an economic environment that was at best stable over the year, with the exception of a few sub-Saharan countries. In India (down 3%), local economic and tax reforms dampened demand for freight transport and, by extension, truck tires.

3.1.5 SPECIALTY TIRE MARKETS IN 2017

Earthmover tires: after three straight years of decline, the mining tire markets rebounded by 15% in 2017, as inventory drawdowns bottomed out, production at both multinational and mid-sized mining companies recovered, and demand for outsourcing reappeared.

Original equipment markets turned sharply upwards, by 25% excluding China, at a time of low inventory and rising demand for mining machines.

Demand for infrastructure and quarry tires is improving, lifted by the favorable economic environment.

Agricultural tires: original equipment markets ended 2017 up 10%, as the early-year slowdown gave way to a sharp, unexpected upturn in OEM demand in the second quarter.

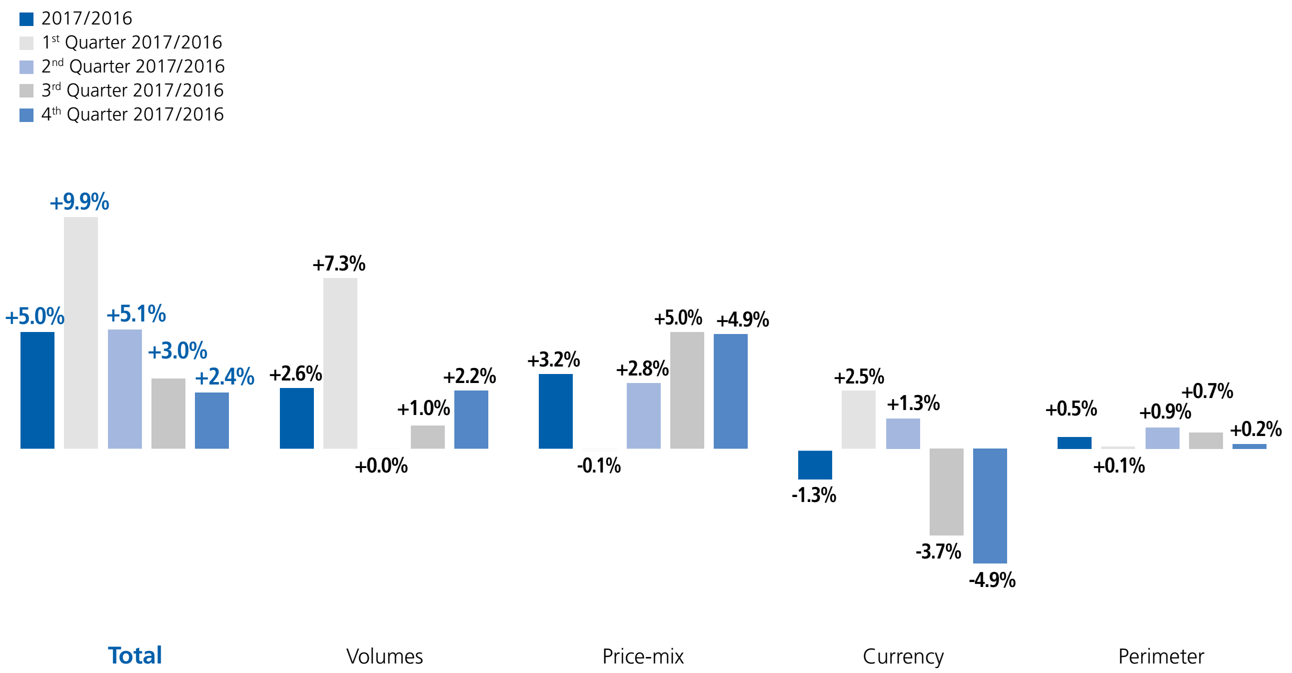
The replacement markets in mature countries are down over the year, the decline seen in the second half of the year exceeding the growth of the beginning of the year fueled by price increases.

Two-wheel tires: motorcycle tire markets are expanding in the mature regions and are also trending upwards in the emerging economies.

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

3.2 NET SALES

3.2.1 ANALYSIS OF NET SALES



Net sales stood at €21,960 million for the year, up 5.0% from €20,907 million in 2016 due to the combined impact of the following factors:

- a €543 million increase from the 2.6% growth in volumes, led by the sharp rebound in the mining tire businesses and the Group's sales performance;
- a €668 million or 3.2% increase from the price mix, primarily stemming from the €524 million or 2.5% improvement in prices, which, as announced, had a rapidly increasing impact over the year, from a negative 1.0% in the first quarter to a positive 2.1% in the second, and a positive 4.4% in the third and fourth respectively. This reflected the implementation of all of the announced price increases in the replacement segment and the contractual adjustments following application of raw materials indexation clauses in the indexed businesses. The mix effect added €144 million to net sales, or 0.7% to growth, thanks to (i) the highly positive product mix, primarily led by the 19% growth in volumes in the premium 18-inch and larger segment; and (ii) the favorable impact of the rebound in the mining tire business, which were somewhat dampened by the unfavorable impact of the relative growth rates of OE and replacement tire sales;
- the currency effect, which after holding positive in the first half, ended the year at a negative 1.3%, trimming €261 million from net sales. It primarily reflected the euro's unfavorable moves against the US dollar, Turkish lira and Chinese yuan, which were only partially offset by more favorable movements against the Brazilian real and the Russian ruble;
- a €103 million or 0.5% increase from changes in the scope of consolidation, including (i) the first-time consolidation of Levorin, a Brazilian two-wheel tiremaker acquired in December 2016, and NexTraq, a US truck fleet telematics solutions provider acquired in July 2017; and (ii) the disposal of TCi dealerships in the United States.

Note that net sales of tire-related services and solutions totaled €1,112 million in 2017, *versus* €1,059 million in 2016.

(in € millions)	2017	Second half 2017	Fourth quarter 2017	Third quarter 2017	First half 2017	Second quarter 2017	First quarter 2017
NET SALES	**21,960**	**10,901**	**5,566**	**5,335**	**11,059**	**5,492**	**5,567**
Year-on-year change	**+1,052**	**+285**	**+129**	**+156**	**+767**	**+265**	**+502**
Volumes	+543	+171	+119	+52	+372	+1	+371
Price mix	+668	+523	+265	+259	+145	+148	-3
Currency effect	-262	-460	-267	-193	+198	+70	+128
Scope of consolidation	+103	+51	+12	+38	+52	+46	+6
Year-on-year % change	**+5.0%**	**+2.7%**	**+2.4%**	**+3.0%**	**+7.5%**	**+5.1%**	**+9.9%**
Volumes	+2.6%	+1.6%	+2.2%	+1.0%	+3.6%	+0.0%	+7.3%
Price mix	+3.2%	+4.9%	+4.9%	+5.0%	+1.4%	+2.8%	-0.1%
Currency effect	-1.3%	-4.3%	-4.9%	-3.7%	+2.0%	+1.3%	+2.5%
Scope of consolidation	+0.5%	+0.5%	+0.2%	+0.7%	+0.5%	+0.9%	+0.1%

3.2.2 NET SALES BY REPORTING SEGMENT

(in € millions)	2017	Second half 2017	Fourth quarter 2017	Third quarter 2017	First half 2017	Second quarter 2017	First quarter 2017
CONSOLIDATED TOTAL	**21,960**	**10,901**	**5,566**	**5,335**	**11,059**	**5,492**	**5,567**
Passenger car/Light truck tires & related distribution	12,479	6,216	3,237	2,979	6,263	3,062	3,201
Truck tires & related distribution	6,123	3,082	1,518	1,564	3,041	1,523	1,518
Specialty businesses[(1)]	3,358	1,603	811	792	1,755	907	848
Year-on-year % change	**+5.0%**	**+2.7%**	**+2.4%**	**+3.0%**	**+7.5%**	**+5.1%**	**+9.9%**
Passenger car/Light truck tires & related distribution	+3.1%	+0.4%	+0.4%	+0.5%	+5.9%	+1.4%	+10.5%
Truck tires & related distribution	+2.6%	+0.8%	-0.5%	+2.0%	+4.6%	+3.1%	+6.2%
Specialty businesses[(1)]	+18.4%	+17.3%	+18.4%	+16.1%	+19.5%	+24.1%	+14.9%

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

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

Volumes in the Passenger car/Light truck tires & related distribution business increased by 2% in 2017, with an especially robust 8% gain in the first quarter driven by buying ahead of the price increases applied in every geography. This was followed by a 2% contraction in the second quarter as demand eased before recovering in the second half, with gains of 1% in the third quarter and 2% in the fourth. During the year, the Group further strengthened its positions in the original equipment segment.

In the aggressively competitive **European** market, sales in Western Europe rose solidly in the OE segment, while replacement volumes felt the impact of higher prices, albeit with a growing proportion of 18-inch and larger tires in the mix and a successful performance by the MICHELIN CrossClimate+ and MICHELIN Pilot Sport 4S lines. In Eastern Europe, the other Group brands helped to drive a strong rebound in sales as demand turned upwards again.

In North America, where markets remain highly import-driven, net sales edged back slightly over the year, demonstrating resilience in the weakening OE segment and holding steady on the replacement side, supported by the new MICHELIN Pilot Sport 4S, MICHELIN Defender and MICHELIN Primacy XC lines.

The decline in net sales **in South America** reflected the Group's priority focus on maintaining margin integrity and a firm pricing policy, particularly in the 18-inch and larger segment.

In Asia (excluding India), net sales in China are expanding, thanks to a deepening presence with local OEMs and growth in line with the market in the replacement segment. Positions in Southeast Asia are being consolidated in both the OE and replacement segments by enhancing the product offering and continuing to optimize the dealership network.

Sales volumes were unchanged **in the Africa/India/Middle East** region, where the Group's positions improved somewhat in India and business in the rest of the region felt the impact of local geopolitical and economic difficulties.

In all, net sales in the Passenger car/Light truck tires & related distribution segment rose by 3.1% in 2017, to €12,479 million from €12,105 million the year before. The 2% increase in volumes was dampened by the geographic mix in the original equipment segment. Prices generally ended the period higher, lifted by the increases introduced in response to rising raw materials costs. The still favorable mix effect reflected the success of the MICHELIN CrossClimate+ and MICHELIN Pilot Sport 4S lines, as well as the 19% growth in sales of MICHELIN brand 18-inch and larger tires in a segment that expanded by 13% over the year.

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

Volumes in the Truck tires & related distribution business slipped 2% in 2017, with a robust 3% gain in the first quarter driven by buying ahead of the price increases announced in every geography, followed by a 3% contraction in each of the following quarters, reflecting the priority focus on preserving margins and maintaining higher prices.

In the highly competitive **Western European** market, the first quarter saw very strong growth in sales of new Group tires, driven by dealer buying ahead of the price increases, even when these were scheduled for introduction at a later date. The rest of the year was shaped by price pressure stemming from the downturn in raw materials prices. This competitive environment also weighed on the performance of the integrated dealership networks.

In North America, where the market was shaped by a favorable economic environment, strong growth in original equipment sales and a decline in imports, Group volumes suffered from the price increases and a certain number of supply chain issues. The development of fleet services continued apace.

In South America, where growth in the replacement market is being driven by the economic recovery and imports (which led to a decline in the premium segment in Brazil), Michelin is focusing on margin integrity by maintaining higher prices. The intermediate brands are enjoying sustained growth and Sascar's telematics services remain highly popular.

In Asia (excluding India), net sales in China contracted during the year, despite the launch of the MICHELIN X Guard tire and the fact that Michelin tires deliver energy efficiency in line with the government's commitment to reducing emissions in urban areas. The Group's share of the Southeast Asian market rose slightly thanks to sales of the MICHELIN brands and the BFGoodrich intermediate lines.

In the Africa/India/Middle East region, sales in India were lifted by the improving economy, the start-up of the original equipment contract with Ashok Leyland and the popularity of the MICHELIN X Guard tire. Business in the rest of the region remains fragile in an uncertain geopolitical environment.

In all, net sales in the Truck tires & related distribution segment amounted to €6,123 million in 2017, a 2.6% increase from the €5,966 million reported a year earlier. The performance reflected (i) the negative currency effect; (ii) the priority focus on margins, with price increases introduced to offset, particularly in the second half, the rise in raw materials costs; and (iii) the 2% decline in sales volumes.

3.2.2 c) Specialty businesses – Analysis of net sales

Earthmover tires: net sales climbed sharply, lifted by the rebound in mining operations around the world and the application of raw materials indexation clauses.

Agricultural tires: net sales rose over the year, led by the growth in volumes as demand for farm machinery recovered.

Two-wheel tires: The slight increase in net sales (excluding Levorin) was driven by the growth in volumes, which was evenly spread between the recreational and commuting segments. The consolidation of Levorin is supporting the growth strategy in South America.

Aircraft tires: net sales edged up over the year, with gains in the commercial radial segment thanks to the demand for NZG technology.

Michelin Travel Partner's net sales performance was mainly shaped by (i) further market share gains in the persistently difficult print B2C markets; (ii) sustained growth in B2B revenue thanks to the monetization of MICHELIN Guide launches; and (iii) stable revenue in the digital segment where the online business has slowed. Michelin Restaurants now operates as part of BookaTable. Michelin Travel Partner is sharpening its strategic focus on dining and travel as part of the Michelin Experiences line, which brings together all of the businesses that offer customers an outstanding mobility experience. In 2017, the unit pursued its targeted acquisition strategy, purchasing successively (i) Alliance Réseaux and One Shop Pay (and indirectly Mon Tour En France) in April to expand its travel services portfolio; (ii) a 40% stake in Robert Parker Wine Advocate, the world's most widely read wine tasting and rating guide, in June; (iii) the assets of Streetwise, a North American laminated map publisher, in August; and (iv) a 40% stake in Le Fooding, a website specialized in hot new restaurants and trendy bars, in October.

In all, net sales by the Specialty Businesses increased by 18.4% year-on-year, to €3,358 million from €2,836 million in 2016. The increase corresponded to the robust 16% growth in volumes, which offset the unfavorable currency effect thanks to the continued rebound in mining tire sales and the sharp upturn in the Earthmover and Agricultural original equipment business. Net sales were also lifted by the price increases applied in both the indexed and non-indexed businesses.

3.2.3 CHANGES IN EXCHANGE RATES FOR THE MAIN OPERATING CURRENCIES

At current exchange rates, consolidated net sales rose by 5.0% in 2017.

This performance reflected a €261 million negative currency effect resulting primarily from the euro's unfavorable moves against the US dollar, the Chinese yuan, the Turkish lira, the British pound, the Japanese yen, the Argentine peso and the Mexican peso. On the other hand, the rebounds in the Russian and Brazilian economies had a favorable impact on their currencies' exchange rates against the euro.

Average exchange rate	2017	2016	Change
Euro/USD	1.129	1.107	+2.0%
Euro/CAD	1.465	1.466	-0.1%
Euro/MXN	21.307	20.615	+3.4%
Euro/BRL	3.601	3.841	-6.2%
Euro/GBP	0.877	0.816	+7.4%
Euro/JPY	126.630	120.077	+5.5%
Euro/CNY	7.631	7.351	+3.8%
Euro/THB	38.311	39.070	-1.9%
Euro/AUD	1.473	1.488	-1.0%
Euro/ZAR	15.021	16.237	-7.5%
Euro/ARS	18.624	16.290	+14.3%
Euro/TRY	4.114	3.333	+23.4%
Euro/RUB	65.879	73.887	-10.8%

Net sales break down as follows by currency:

Currency	%	Currency	%
ARS	1%		
AUD	2%	JPY	1%
BRL	4%	MXN	2%
CAD	3%	PLN	1%
CLP	1%	RUB	1%
CNY	6%	THB	1%
EUR	34%	TRY	1%
GBP	3%	USD	37%
INR	1%	Other currencies	1%
TOTAL			**100%**

3.2.4 NET SALES BY REGION

(in € millions)	2017	2017/2016	Second half 2017	First half 2017
GROUP	**21,960**	**+5.0%**	**10,901**	**11,059**
Europe	8,315	+2.6%	4,209	4,106
of which France	*1,984*	*+3.5%*	*1,004*	*980*
North America (incl. Mexico)	8,056	+3.4%	3,955	4,100
Other regions	5,589	+11.5%	2,736	2,853

(in € millions)	2017	% of total	2016	% of total
GROUP	**21,960**		**20,907**	
Europe	8,315	37.9%	8,101	38.7%
of which France	*1,984*	*9.0%*	*1,917*	*9.2%*
North America (incl. Mexico)	8,056	36.7%	7,792	37.3%
Other regions	5,589	25.5%	5,014	24.0%

At a time of rising raw materials prices, consolidated net sales rose in every geography despite unfavorable currency movements.

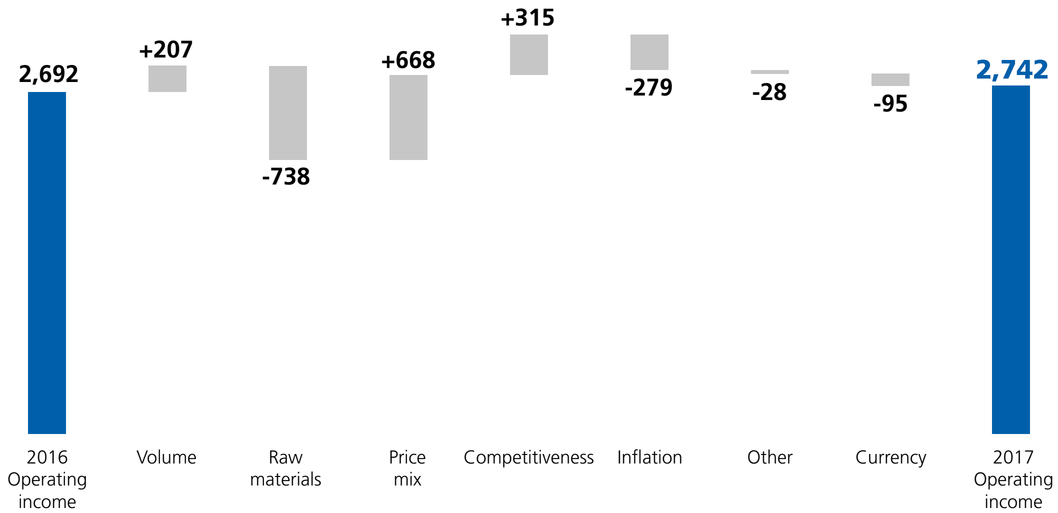
More than 60% of consolidated net sales were generated outside Europe and more than 90% outside France.

3.3 CONSOLIDATED INCOME STATEMENT REVIEW

(in € millions, except per-share data)	2017	2016	2017/2016	2017 *(as a % of net sales)*	2016 *(as a % of net sales)*
Net sales	**21,960**	**20,907**	**+5.0%**		
Cost of sales	(14,815)	(13,810)	+7.3%	67.5%	66.1%
Gross income	**7,145**	**7,097**	**+0.7%**	**32.5%**	**33.9%**
Sales and marketing expenses	(1,861)	(1,907)	-2.4%	8.5%	9.1%
Research and development expenses	(641)	(718)	-10.6%	2.9%	3.4%
General and administrative expenses	(1,866)	(1,759)	+6.1%	8.5%	8.4%
Other operating income and expenses	(35)	(21)	+64.5%	0.2%	0.1%
Operating income from recurring activities	**2,742**	**2,692**	**+1.9%**	**12.5%**	**12.9%**
Operating income/(loss) from non-recurring activities	(111)	99	-211.8%	0.5%	0.5%
Operating income	**2,631**	**2,791**	**-5.7%**	**12.0%**	**13.3%**
Cost of net debt	(176)	(203)	-13.5%	0.8%	1.0%
Other financial income and expenses	0	20	-100.5%	0.0%	0.1%
Net interest on employee benefit obligations	(115)	(139)	-17.0%	0.5%	0.7%
Share of profits and losses from associates	14	(5)	nm	0.1%	0.0%
Income before taxes	**2,354**	**2,464**	**-4.5%**	**10.7%**	**11.8%**
Income tax	(661)	(797)	-17.0%	3.0%	3.8%
Net income	**1,693**	**1,667**	**+1.5%**	**7.7%**	**8.0%**
▶ Attributable to shareholders of the Company	1,700	1,676	+1.4%	7.7%	8.0%
▶ Attributable to non-controlling interests	(7)	(9)			
Earnings per share *(in €)*					
▶ Basic	9.39	9.21	+2.0%		
▶ Diluted	9.34	9.03	+3.4%		

3.3.1 OPERATING INCOME FROM RECURRING ACTIVITIES

(in € millions)



Operating income from recurring activities amounted to €2,742 million or 12.5% of net sales in the year ended December 31, 2017, *versus* a reported €2,692 million and 12.9% in 2016. Operating income/(loss) from non-recurring activities represented a loss of €111 million, corresponding primarily to costs related to the reorganization and alignment of Group operations, which were partially offset by gains on changes to the retiree health coverage plan in the United States and to the pension plan in the United Kingdom.

Growth for the year may be analyzed as follows:

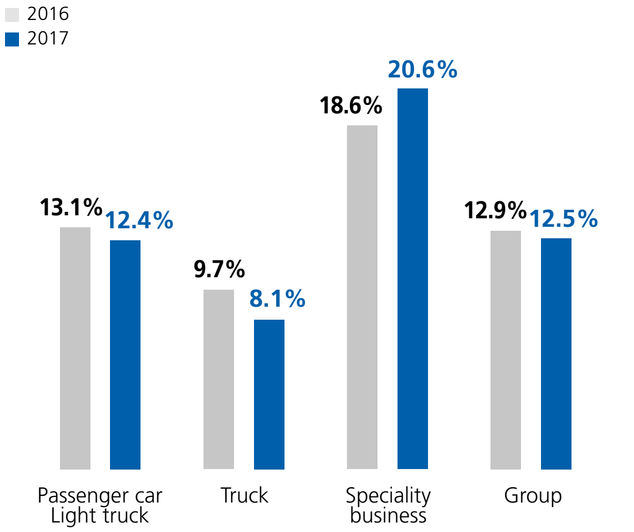
- a €207 million increase from the 2.6% growth in volumes;
- a €70 million net decrease from changes in the price mix and raw materials costs. Changes in the price mix added €668 million to operating income for the period, of which €524 million stemmed from the price increases introduced to offset higher raw materials costs, which had a €738 million adverse impact over the year. In all, the net decrease came to €57 million for businesses whose prices are indexed to raw materials costs and €13 million for non-indexed businesses;
- €315 million in gains from the competitiveness plan, in line with the implementation schedule. These included €110 million in general cost savings, €51 million in materials cost savings and €153 million in manufacturing and logistics productivity gains, which together exceeded the €279 million adverse impact of inflation on production costs and overheads;
- a €28 million decrease from other unfavorable cost factors;
- a €95 million decrease from the currency effect.

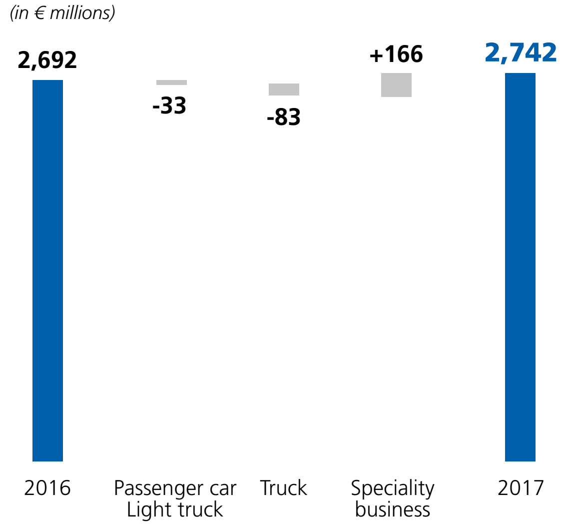
For the full year, Michelin has therefore achieved its target of generating operating income from recurring activities in an amount exceeding the 2016 figure at constant exchange rates. In 2017, operating income from recurring activities totaled €2,837 million at constant exchange rates, a €145 million improvement on the €2,692 million reported in 2016.

3.3.2 OPERATING INCOME FROM RECURRING ACTIVITIES BY OPERATING SEGMENT

(in € millions)	2017	2016	Second half 2017	First half 2017
Passenger car/Light truck tires & related distribution				
Net sales	12,479	12,105	6,216	6,263
Operating income from recurring activities	1,552	1,585	752	800
Operating margin on recurring activities	**12.4%**	**13.1%**	**12.1%**	**12.8%**
Truck tires & related distribution				
Net sales	6,123	5,966	3,082	3,041
Operating income from recurring activities	497	580	268	229
Operating margin on recurring activities	**8.1%**	**9.7%**	**8.7%**	**7.5%**
Specialty businesses				
Net sales	3,358	2,836	1,603	1,755
Operating income from recurring activities	693	527	329	364
Operating margin on recurring activities	**20.6%**	**18.6%**	**20.5%**	**20.7%**
Group				
Net sales	21,960	20,907	10,901	11,059
Operating income from recurring activities	2,742	2,692	1,349	1,393
Operating margin on recurring activities	**12.5%**	**12.9%**	**12.4%**	**12.6%**

3.3.2 a) Operating margin on recurring activities by operating segment





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

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

Passenger car/Light truck tires & related distribution *(in € millions)*	**2017**	**2016**	**2017/2016**	**2017** *(% of consolidated total)*	**2016** *(% of consolidated total)*
Net sales	12,479	12,105	+3.1%	57%	58%
Change in volumes	*+2%*				
Operating income from recurring activities	1,552	1,585	-2.1%	57%	59%
Operating margin on recurring activities	12.4%	13.1%	-0.7 pt		

Operating income from recurring activities came to €1,552 million or 12.4% of net sales *versus* the €1,585 million and 13.1% reported in 2016.

At a time of sharply rising raw materials costs, the Group successfully maintained margins in its Passenger car/Light truck tires business, excluding the currency effect, by pursuing an agile pricing policy that delivered a positive price-mix/raw materials effect with a 2% increase in volumes. The mix effect remained positive despite the relative growth rates of OE and replacement tire sales and an unfavorable geographic mix. It reflected the success of the MICHELIN CrossClimate+ and MICHELIN Pilot Sport 4S lines, which drove sales gains of 2% for MICHELIN brand tires, with a 19% increase for 18-inch and larger tires. Sales of other Group brands rose by 3% over the year. The 0.7-point contraction in operating margin was primarily caused by the dilutive impact of the price increases introduced to offset the impact of higher raw materials costs and adverse exchange rate movements.

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

Truck tires & related distribution *(in € millions)*	**2017**	**2016**	**2017/2016**	**2017** *(% of consolidated total)*	**2016** *(% of consolidated total)*
Net sales	6,123	5,966	+2.6%	28%	29%
Change in volumes	*-2%*				
Operating income from recurring activities	497	580	-14.3%	18%	22%
Operating margin on recurring activities	8.1%	9.7%	-1.6 pt		

Operating income from recurring activities amounted to €497 million or 8.1% of net sales, compared with €580 million and 9.7% the year before.

The decrease first of all reflected the steep increase in raw materials costs, offset by the pricing policy implemented to preserve unit margins. In this regard, given a more competitive environment, the decline was mainly attributable to reduced volumes and the negative currency effect. New products and services continued to be introduced over the year, which was shaped by the success of the MICHELIN X Multi, MICHELIN X Works, MICHELIN X-Guard and BFGoodrich tire lines, strong sales of Tire Care services and the growing popularity of Sascar solutions in South America. The effects of a very positive manufacturing performance in 2017, particularly in Asia, partially offset the cost of programs to adjust the manufacturing base in Europe, particularly in retreading operations. The 1.6-point contraction in operating margin was partially caused by the dilutive impact of the price increases introduced to offset the impact of higher raw materials costs and adverse exchange rate movements.

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

Specialty businesses *(in € millions)*	**2017**	**2016**	**2017/2016**	**2017** *(% of consolidated total)*	**2016** *(% of consolidated total)*
Net sales	3,358	2,836	+18.4%	15%	14%
Change in volumes	*+16%*				
Operating income from recurring activities	693	527	+31.5%	25%	20%
Operating margin on recurring activities	20.6%	18.6%	+2.0 pt		

Operating income from recurring activities amounted to €693 million, *versus* a reported €527 million in 2016, for a margin up two points to 20.6% of net sales.

The improvement corresponded to the robust 16% growth in volumes, led by the sustained rebound in demand for the Group's mining tires and the sharp upturn in Earthmover and Agricultural original equipment sales. This factor and the price increases introduced in both the indexed and non-indexed businesses amply outweighed the impact of higher raw materials costs and the negative currency effect.

3.3.3 OTHER INCOME STATEMENT ITEMS

3.3.3 a) Raw materials

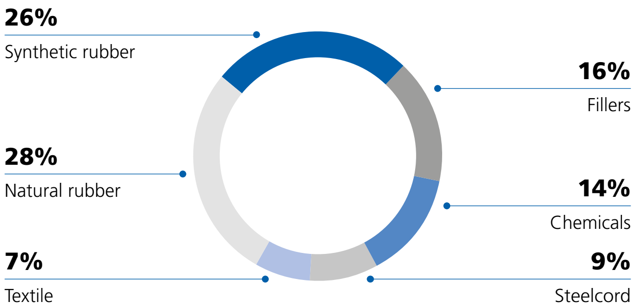
The cost of **raw materials** reported in the income statement under "Cost of sales" has been estimated at €5.2 billion in 2017 *versus* €4.3 billion in 2016.

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.

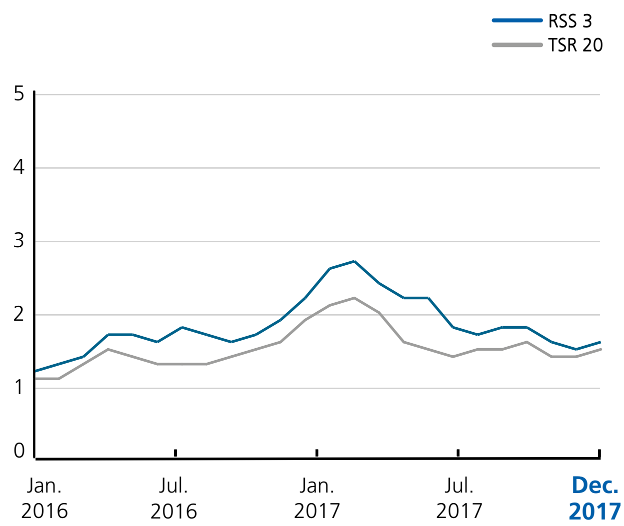
In 2017, the raw materials costs recognized in cost of sales included the €738 million gain from price adjustments, as well as the residual currency effect. Changes in prices feed through to the income statement five to six months later for natural rubber and around three months later for butadiene.

RAW MATERIALS RECOGNIZED IN 2017 COST OF SALES (€5.2 BILLION)

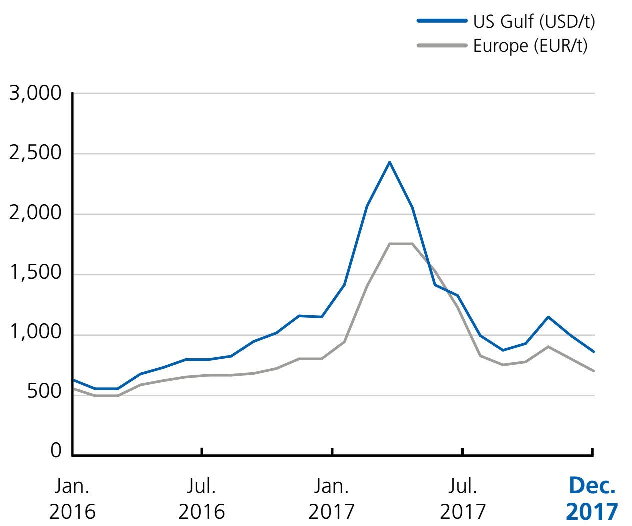


NATURAL RUBBER PRICES (SICOM)

(USD/kg)



BUTADIENE PRICES



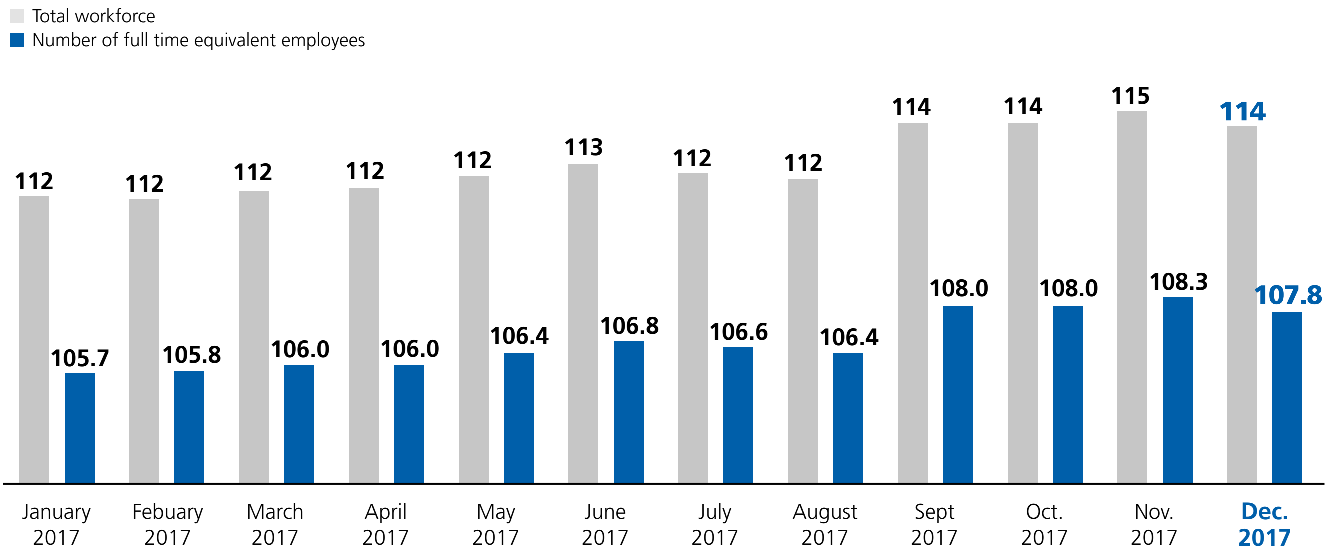
3.3.3 b) Employee benefit costs and number of employees

At €5,871 million, **employee benefit costs** represented 26.7% of net sales in 2017, unchanged from the year before. In addition to inflation in the emerging economies and North America, the increase in these costs primarily resulted from the consolidation of companies acquired in late 2016 and throughout 2017 (especially Levorin in Brazil and NexTraq in the United States). Group-wide, the inflation rate stood at 2.05% for the year.

(in € millions and number of people)	2017	2016	Change
Total employee benefit costs	5,871	5,542	+5.9%
As a % of net sales	*26.7%*	*26.5%*	*+0.2pt*
Employees on payroll at December 31	114,100	111,700	+2.1%
Number of full time equivalent employees at December 31	107,800	105,700	+2.0%
Average number of full time equivalent employees	106,800	106,200	+0.6%

NUMBER OF EMPLOYEES

(in thousands)

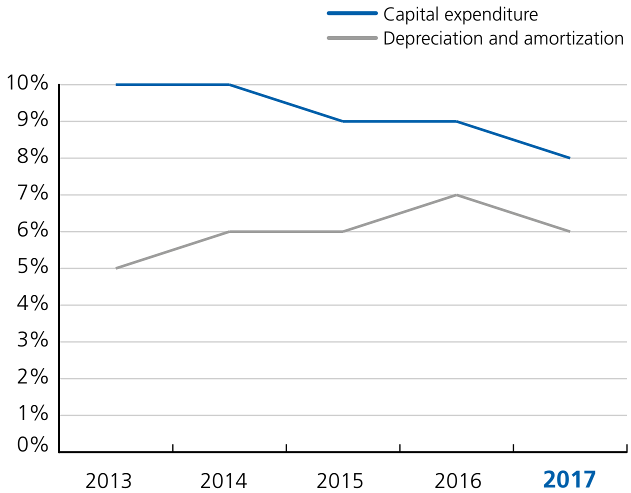


3.3.3 c) Depreciation and amortization

(in € millions)	2017	2016	Change
Depreciation and amortization	1,345	1,392	-3.4%
As a % of additions to intangible assets and property, plant and equipment	*76%*	*77%*	

Depreciation and amortization charges decreased by €47 million or 3.4% to €1,345 million for the year. The improvement reflected the results of research and development programs that increased the useful lives of the Group's tire curing molds, resulting in longer depreciation periods. This factor (+€80 million) more than offset the steady growth in depreciation charges due to the temporary increase in capital expenditure committed in recent years to support the Group's growth. Given the projects currently underway, depreciation and amortization charges are expected to continue to increase in the years ahead.

(As a % of net sales)



3.3.3 d) Transportation costs

(in € millions)	2017	2016	Change
Transportation costs	1,183	1,152	+2.7%
As a % of net sales	*5.4%*	*5.5%*	

Transportation costs stood at €1,183 million, up 2.7% year-on-year, mainly due to (i) the increase in sales volumes, particularly in the mining businesses; (ii) the faster growth in intercontinental transport costs required to serve growing markets; and (iii) higher fuel prices.

3.3.3 e) Sales and marketing expenses

Sales and marketing expenses represented 8.5% of net sales in 2017, or 0.6 point lower than the year before. In value, they declined by €46 million to €1,861 million as a result of the greater efficiency in spending and the favorable currency effect.

3.3.3 f) Research and development expenses

Research and development expenses stood at €641 million, a 10.6% year-on-year reduction that reflected (i) the commitment to optimizing the R&D and engineering teams to improve the efficiency of R&D activities; and (ii) the reassignment of some of these teams to corporate services, reducing the budget by around €40 million over the year.

As a percentage of net sales, R&D expenses declined to 2.9% from 3.4% in 2016.

3.3.3 g) General and administrative expenses

At €1,866 million, **general and administrative expenses** represented 8.5% of net sales, *versus* €1,759 million and 8.4% in 2016. The €107 million increase primarily stemmed from the reallocation of certain R&D expenses to corporate overheads, as well as the costs of organizing the global Movin'On sustainable mobility summit and of deploying the project to reorganize the Group's worldwide operations.

3.3.3 h) Other operating income and expenses from recurring activities

Other operating income and expenses from recurring activities represented a net expense of €35 million in 2017 *versus* the net expense of €21 million reported in 2016. Most of the 2017 expense corresponded to various taxes, acquisition costs and expenses on stock option grants in France.

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

Operating income/(loss) from non-recurring activities represented a loss of €111 million in 2017, *versus* income of €99 million in 2016 (primarily reflecting the €271 million gain from a change in the retiree health coverage plan in the United States).The loss mainly corresponded to a provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions, and to the costs of reorganizing Group operations. It was partially offset by gains on changes to the retiree health coverage plan in the United States and to the pension plan in the United Kingdom.

3.3.3 j) Cost of net debt

(in € millions)	2017	2016	Change
Cost of net debt	176	203	-27

At €176 million, the **cost of net debt** was down €27 million compared with 2016, primarily as a result of the following factors:

- a €30 million decline in net interest expense, to €172 million, reflecting the net impact of:
  - a €4 million decrease due to the reduction in average net debt to €1,199 million in 2017 from €1,294 million the year before,
  - a €28 million decrease from the decline in the average gross interest rate on borrowings to 6.2% in 2017 from 7.1% in 2016,
  - a €1 million net increase from a variety of factors, including the negative carry, corresponding to the effect of investing cash and cash equivalents at a rate below the Group's average borrowing cost;
- a €16 million negative result on interest rate derivatives (-€9 million compared to 2016) mainly due to the variation of Chinese interest rates;
- a €6 million decrease from capitalizing borrowing costs;
- a €6 million net decrease from other factors.

3.3.3 k) Other financial income and expenses

(in € millions)	2017	2016	Change
Other financial income and expenses	0	20	-20

There were no **other financial income and expenses** recognized in 2017. The €20 million in income reported in 2016 stemmed mainly from the recognition of a gain on the renegotiation of a pension insurance contract in Spain.

3.3.3 l) Income tax

(in € millions)	2017	2016	Change
Income before taxes	2,354	2,464	-110
Income tax	**(661)**	**(797)**	**-136**
Current tax	(478)	(665)	-187
Withholding tax	(81)	(84)	-3
Deferred tax	(102)	(48)	+54

Income tax amounted to €661 million in 2017, a €136 million year-on-year decrease that reflected not only the decline in income before taxes, but also a number of positive factors, such as (i) lower tax rates in Poland and the United States, which had a positive impact on deferred taxes; (ii) the reduction in losses at companies whose deferred tax assets have not yet been recognized; and (iii) the reimbursement of the 3% tax on dividends in France.

The effective tax rate was 28.1%, *versus* 32.3% the year before.

3.3.3 m) Consolidated net income and earnings per share

(in € millions)	2017	2016	Change
Net income	1,693	1,667	+26
As a % of net sales	*7.7%*	*8.0%*	*-0.3pt*
▶ Attributable to shareholders of the Company	1,700	1,676	+24
▶ Attributable to non-controlling interests	(7)	(9)	+2
Earnings per share *(in €)*			
▶ Basic	9.39	9.21	+0.18
▶ Diluted	9.34	9.03	+0.31

Net income came to €1,693 million, or 7.7% of net sales, compared with the €1,167 million reported in 2016. The €26 million increase reflected the following factors:

- favorable factors:
  - the €50 million increase in operating income from recurring activities,
  - the €27 million reduction in cost of net debt,
  - the €24 million decrease in interest on employee benefit obligations,
  - the €19 million improvement in the Group's share of profit from associates, which swung to a €14 million profit from a €5 million loss in 2016,
  - the €136 million reduction in income tax;
- unfavorable factors:
  - the €210 million negative swing in operating income/(loss) from non-recurring activities, to a loss of €111 million from income of €99 million in 2016,
  - the €20 million decrease in other financial income and expenses, to 0 in 2017 from income of €20 million in 2016.

3.4 CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

(in € millions)	December 31, 2017	December 31, 2016	Total change	Currency effect	Movement
Goodwill	1,092	963	+129	-104	+233
Intangible assets	785	630	+155	-41	+196
Property, plant and equipment	10,883	11,053	-170	-647	+476
Non-current financial assets and other assets	479	323	+156	-18	+174
Investments in associates	356	309	+47	-18	+65
Deferred tax assets	890	1,191	-301	-48	-253
Non-current assets	**14,485**	**14,469**	**+16**	**-875**	**+891**
Inventories	4,508	4,480	+28	-298	+326
Trade receivables	3,084	3,042	+42	-171	+213
Current financial assets	285	303	-18	-2	-16
Other current assets	1,132	1,202	-69	-9	-60
Cash and cash equivalents	1,773	1,826	-53	-15	-39
Current assets	10,782	**10,853**	**-71**	**-495**	**+424**
TOTAL ASSETS	**25,267**	**25,322**	**-55**	**-1,370**	**+1,315**

EQUITY AND LIABILITIES

(in € millions)	December 31, 2017	December 31, 2016	Total change	Currency effect	Movement
Share capital	359	360	-1	-	-1
Share premiums	2,942	3,024	-82	-	-82
Reserves	7,925	7,215	+710	-528	+1,238
Non-controlling interests	35	47	-11	-4	-7
Equity	**11,261**	**10,646**	**+615**	**-532**	**+1,148**
Non-current financial liabilities	2,366	1,773	+592	-29	+621
Employee benefit obligations	3,969	4,763	-794	-180	-614
Provisions and other non-current liabilities	1,676	1,604	+72	-79	+150
Deferred tax liabilities	113	117	-3	-10	+7
Non-current liabilities	**8,124**	**8,257**	**-133**	**-297**	**+164**
Current financial liabilities	493	1,320	-827	-218	-609
Trade payables	2,501	2,364	+137	-121	+258
Reverse factoring contracts	503	339	+163	-45	+208
Other current liabilities	2,385	2,396	-11	-130	+118
Current liabilities	**5,882**	**6,419**	**-537**	**-513**	**-24**
TOTAL EQUITY AND LIABILITIES	**25,267**	**25,322**	**-55**	**-1,342**	**+1,287**

3.4.1 GOODWILL

Excluding the negative €104 million impact of translation adjustments, **goodwill** rose by €233 million to €1,092 million at December 31, 2017, primarily due to the recognition of goodwill on NexTraq, a leading US telematics solutions provider, and Levorin, Brazil's largest two-wheel tire manufacturer.

3.4.2 INTANGIBLE ASSETS

Intangible assets amounted to €785 million, a €196 million increase from December 31, 2016 before the €41 million negative translation adjustment. The increase was primarily due to the consolidation of the intangible assets of NexTraq, Levorin and Sascar Mexico.

3.4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment amounted to €10,883 million, a €476 million increase from December 31, 2016 before taking into account negative translation adjustments of €647 million, The increase was primarily led by the ongoing investment in new capacity in fast growing markets (the premium Passenger car segment, North America and Asia), and in products for the premium and entry-level segments. Additions to property, plant and equipment exceeded depreciation expense for the year.

3.4.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

Non-current financial assets and other assets stood at €479 million, an increase of €174 million excluding the €18 million negative currency effect that was mainly due to:

- a €10 million increase from fair value adjustments to available-for-sale financial assets;
- a €112 million increase in available-for-sale financial assets, including among others the equity interests held in Smartdrive, Lehigh Technologies, PTG and Téléflow;
- €55 million in premium payments and fair value adjustments to the derivatives on the non-dilutive, cash-settled convertible bonds issued in the first quarter;
- a €23 million increase from fair value adjustments to other derivative instruments;
- a €35 million decrease due to the consolidation of Levorin and Restaurantes, whose shares had been recognized in available-for-sale financial assets at December 31, 2016;
- a €9 million increase from other movements.

3.4.5 INVESTMENTS IN ASSOCIATES

Excluding the €18 million negative translation adjustment, **investments in associates** increased by €65 million in 2017, reflecting the Group's raised stake in SIPH, as well as a number of equity investments in such companies as Robert Parker Wine Advocate, T&W Tire and Le Fooding. This impact was partially offset by the disposal of the Group's interest in the Warrior joint venture in China and a €10 million reduction in dividends received.

3.4.6 DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2017, the Group held a net **deferred tax asset of €777 million,** representing a decrease of €260 million compared with the amount reported at end-2016 (before taking into €38 million in negative translation adjustments). The decrease was mainly attributable to (i) the actuarial gains recognized during the year on employee benefit obligations, particularly in the United Kingdom and the United States; (ii) timing differences, essentially on property, plant and equipment in the United States; and (iii) the first-time consolidation of Levorin and NexTraq.

3.4.7 TRADE WORKING CAPITAL REQUIREMENT

(in € millions)	December 31, 2017	December 31, 2016	Change	2017 *(as a % of net sales)*	2016 *(as a % of net sales)*
Inventories	4,508	4,480	+27	20.5%	21.4%
Trade receivables	3,084	3,042	+42	14.0%	14.6%
Trade payables	(2,501)	(2,364)	-137	11.4%	11.3%
Reverse factoring contracts	(503)	(339)	-163	2.3%	1.6%
TRADE WORKING CAPITAL REQUIREMENT	**4,588**	**4,819**	**-232**	**20.9%**	**23.1%**

Trade working capital requirement decreased by €232 million compared with December 31, 2016, chiefly due to the €304 million currency effect. Excluding that effect, trade working capital requirement rose by €72 million over the year, in line with the growth in business, as the increase in trade payables only partially offset the increase in receivables and inventories. It represented 20.9% of net sales at December 31, compared with 23.1% at year-end 2016.

Inventories amounted to €4,508 million, representing 20.5% of net sales for 2017. Excluding translation adjustments, they were €326 million up on year-end 2016, primarily due to the higher prices of their raw materials component and the 4% increase in raw material and semi-finished tonnages, with finished product tonnages remaining unchanged over the year.

Excluding translation adjustments, **trade receivables** rose by €213 million year-on-year to €3,084 million at December 31, 2017, primarily as a result of the increase in net sales in the final quarter. As a percentage of net sales, they declined by 0.6 point, to 14.0% from 14.6% a year earlier.

The growth in net sales, particularly in the final months of the year, also had the effect of increasing **trade payables,** which ended the year up €467 million at €3,004 million (including €503 million in reverse factoring contracts but before €166 million in translation adjustments).

3.4.8 CASH AND CASH EQUIVALENTS

Excluding the currency effect, **cash and cash equivalents** declined by €39 million year-on-year to €1,773 million, reflecting the net impact of the following factors:

- increases from:
  - the €662 million in free cash flow, after the investment of €476 million in acquisitions (mainly all outstanding shares of NexTraq),
  - the €35 million in proceeds from the issue of new shares on the exercise of stock options, the granting of performance shares and the repayment in 2017 of loans granted to Group employees in 2016 under the Employee Share Ownership Plan,
  - other factors in an amount of €63 million;
- decreases from:
  - the payment of €612 million in dividends, including tax on the distribution of cash dividends,
  - the outlay of €101 million for share buybacks during the year,
  - the acquisition of cash management instruments for €18 million,
  - the €68 million reduction in debt during the year.

3.4.9 EQUITY

Including the negative €532 million in translation adjustments, **consolidated equity** increased by €615 million to €11,261 million at December 31, 2017 from the €10,646 million reported a year earlier, primarily as a result of the following factors:

- increases:
  - €1,304 million in comprehensive income for the year, including:
    - net income of €1,693 million,
    - the €131 million favorable impact of actuarial gains and losses, after deferred taxes,
    - €13 million in unrealized gains on available-for-sale financial assets, net of deferred tax,
    - the €532 million negative impact from the translation of foreign currencies,
    - an aggregate €1 million net decrease from other factors,
  - €17 million in proceeds from the issue of 348,063 new shares on the exercise of stock options and the grant of performance shares,
  - €7 million in service costs on performance share-based payment plans;
- decreases:
  - €612 million in dividends and other distributions,
  - €101 million committed to the buyback and cancellation of 893,197 Michelin shares under the shareholder-approved plan.

At December 31, 2017, the **share capital** of Compagnie Générale des Établissements Michelin stood at €359,041,974, comprising 179,520,987 shares corresponding to 247,029,830 voting rights.

3.4.10 NET DEBT

Net debt stood at €716 million at December 31, 2017, down €229 million year-on-year, primarily as a result of the following factors:

- €11 million in net cash flow, corresponding to:
  - €662 million in free cash flow generated during the year, less
  - €651 million in dividends, net share buybacks and other outlays;
- €227 million in positive translation adjustments;
- €193 million in capitalized interest expense on the zero-coupon OCEANE convertible bonds;
- €203 million in other factors increasing net debt, of which:
  - €135 million corresponding to new finance leases,
  - €51 million arising on changes in the scope of consolidation,
  - €17 million in other factors increasing net debt.

CHANGES IN NET DEBT

(in € millions)	2017	2016
At January 1	**944**	**1,008**
Free cash flow[1]	-662	-1,024
Distributions and other	+651	+780
Interest expense on the zero-coupon convertible bonds	-193	+34
Translation adjustments	-227	+107
Other	+203	+39
AT DECEMBER 31	**+716**	**+944**
CHANGE	**-229**	**-64**

(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 declined to 6% at December 31, 2017, from 9% at year-end 2016, reflecting the strong generation of free cash flow over the year and the favorable impact of currency movements on net debt.

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 €1,676 million, *versus* €1,604 million at December 31, 2016. Excluding the currency effect, they increased by €150 million over the year, primarily due to the commitments undertaken as part of the reorganization and alignment of the Group's operations in Europe, along with a 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	2017	2016
At January 1	**2,742**	**2,021**	**4,763**	**4,888**
Translation adjustments	(79)	(101)	(180)	1
Contributions paid to the funds	(190)	-	(190)	(74)
Benefits paid directly to the beneficiaries	(32)	(122)	(154)	(156)
Changes in scope of consolidation	-	-	-	(55)
Net cost recognized in operating expenses				
Current service cost	58	62	120	127
Actuarial (gains) or losses recognized on other long term benefit obligations	-	-	-	-
Past service cost arising from plan amendments	(20)	(36)	(56)	(262)
Past service cost arising from plan curtailments and settlements	-	-	-	(19)
Employee benefit costs included in provisions for the reorganization and adaptation of activities	(88)	(95)	(183)	(19)
Other items	-	-	-	(1)
Costs recognized below the line				
Net interest on the net defined benefit obligation (asset)	60	55	115	139
Costs recognized in other comprehensive income				
Actuarial (gains) or losses	(332)	36	(296)	377
Portion of unrecognized asset due to the application of the asset ceiling	30	-	30	(183)
NET OBLIGATION AT DECEMBER 31	**2,149**	**1,820**	**3,969**	**4,763**

The net defined benefit obligation recognized in the consolidated balance sheet at December 31, 2017 stood at €3,969 million, a decrease of €794 million that was led by the following main factors:

- actuarial gains of €(296) million, mainly due to:
  - an actual rate of return on plan assets that was higher than the discount rate, for €(415) million,
  - the change in actuarial assumptions, for €189 million, and experience gains for €(72) million;
- a €239 million decrease from plan amendments, curtailments or settlements, primarily consisting of the €(24) million gain on amendments to the pension scheme in the United Kingdom, a €(39) million gain on a change in the health coverage plan in the United States, and a €(182) million gain relating to the early retirement plan in France;
- translation adjustments for €(180) million, linked to the rise in the euro against the Canadian and US dollars and the pound sterling.

The amount recognized in the income statement in respect of defined benefit plans represented a gain of €4 million in 2017, *versus* a gain of €35 million in 2016.

The amount recognized in operating income came to €120 million, compared to €174 million in 2016. Net interest on the net defined benefit obligation, reported below the line, represented €115 million in 2017, *versus* €139 million in 2016.

The cost recognized in respect of defined contribution plans amounted to €220 million in 2017, up €7 million year on year, mainly due to increases in plan costs in North America.

Total payments under defined benefit plans amounted to €344 million in 2017, *versus* €230 million the year before, including:

- contributions paid to fund management institutions for €190 million, up €116 million from €74 million in 2016, mainly due to the payment during the year of €124 million in pension fund front-loading contributions in the United Kingdom and United States;
- benefits paid directly to employees for €154 million, *versus* €156 million in 2016.

Total payments under defined contribution plans amounted to €220 million in 2017, *versus* €213 million the previous year.

Actuarial gains recorded in 2017 in the amount of €(296) million corresponded to:

- €372 million in actuarial losses on defined benefit obligations, resulting mainly from reductions in discount rates;
- €(181) million in actuarial gains on defined benefit obligations, mainly resulting from revised mortality tables;
- €(72) million in experience gains on defined benefit obligations;
- €(415) million in actuarial gains on plan assets, due to an actual rate of return on plan assets that was higher than the discount rate.

3.5 CONSOLIDATED CASH FLOW STATEMENT REVIEW

3.5.1 CASH FLOWS FROM OPERATING ACTIVITIES

(in € millions)	2017	2016	Change
EBITDA from recurring activities	4,087	**4,084**	**+3**
Change in inventories	(311)	(83)	-228
Change in trade receivables and prepayments	(317)	(319)	+2
Change in trade payables and prepayments	404	289	+115
Restructuring cash costs	(100)	(99)	-1
Other changes in provisions	(246)	(107)	-139
Tax and interest paid	(936)	(911)	-25
Other operating working capital	160	(89)	+249
CASH FLOWS FROM OPERATING ACTIVITIES	**2,741**	**2,765**	**-24**

At €4,087 million, **EBITDA** from recurring activities was unchanged year-on-year, as the growth in operating income from recurring activities, to €2,742 million from €2,692 million in 2016, offset the decline in depreciation and amortization charges for the year.

Cash flows from operating activities fell by €24 million, to €2,741 million from €2,765 million in 2016, primarily as a result of:

- the firm EBITDA performance (up €3 million);
- the negative impact of the increase in trade working capital requirement, which rose by €224 million in 2017 after rising by €113 million in 2016, reflecting:
  - the €311 million increase in inventories, *versus* an €83 million increase in 2016, primarily due to the rise in raw materials prices and, to a lesser extent, the growth in raw materials and semi-finished product tonnages,
  - the €317 million increase in trade receivables, compared to a €319 million increase in 2016, reflecting in particular the growth in net sales in the final quarter of the year,
  - the €404 million decline in trade payables, compared to a €289 million decrease in 2016, primarily due to the €164 million increase in payables covered by reverse factoring contracts;
- the increase in costs related to the reorganization and realignment of business operations, to €100 million from €99 million in 2016;
- the increase in tax and interest paid during the year, from €911 million in 2016 to €936 million in 2017, including the payment of interests on the zero-coupon 2017 OCEANE convertible bonds at maturity ;
- The variation in the other operating working capital generated a positive impact of €249 million mainly due to one-time effects relating to the deferred payment or reimbursement of various taxes and social debts.

3.5.2 CAPITAL EXPENDITURE

(in € millions)	2017	2016	2017/2016	2017 *(as a % of net sales)*	2016 *(as a % of net sales)*
Gross purchases of intangible assets and PP&E	**1,771**	**1,811**	**-40**	**8.1%**	**8.7%**
Investment grants received and change in capital expenditure payables	(103)	4	-107	0.5%	0.0%
Proceeds from sales of intangible assets and PP&E	(65)	(89)	+24	0.3%	0.4%
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**1,603**	**1,726**	**-123**	**7.3%**	**8.3%**

Additions to **intangible assets and property, plant and equipment** amounted to €1,771 million during the year, compared with €1,811 million in 2016. As a result, total capital expenditure represented 8.1% of net sales *versus* 8.7% the year before. Growth investments accounted for €739 million of the total for the year.

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

Passenger car and Light truck tires:

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

Truck tires:

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

Specialty products:

- Agricultural tires,
- Aircraft tires.

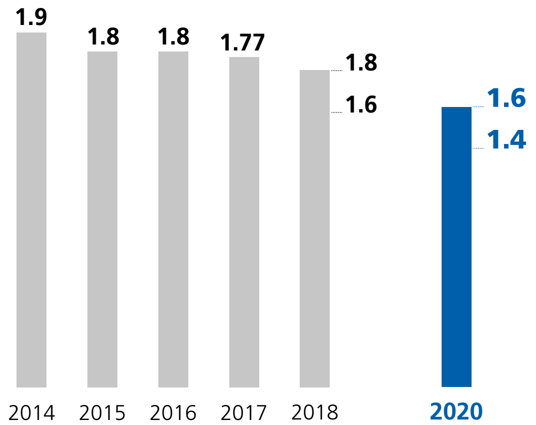
In addition, Michelin is actively investing in the following areas:

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

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

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

(in € billions)



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

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)	2017	2016
Cash flows from operating activities	**2,741**	**2,765**
Routine capital expenditure (maintenance, IT, dealerships, etc.)	(1,032)	(985)
AVAILABLE CASH FLOW	**1,709**	**1,780**
Growth investments	(739)	(826)
Acquisitions	(476)	(16)
Other	168	86
FREE CASH FLOW	**662**	**1,024**

After deducting €1,032 million in routine capital expenditure, available cash flow was strongly positive in 2017, at €1,709 million.

Lifted by the available cash flow, free cash flow ended the year at €662 million, after €739 million in growth investments and €476 million in acquisitions, primarily in such areas as materials (SIPH, Lehigh Technologies), solutions (NexTraq and Copiloto Satelital) and Experiences (40% of Robert Parker Wine Advocate and 40% of Le Fooding).

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)	2017	2016
FREE CASH FLOW	**662**	**1,024**
Acquisitions	476	16
FREE CASH FLOW EXCLUDING ACQUISITIONS & DISPOSALS	**1,138**	**1,040**
Impact of raw materials costs on working capital requirement	178	(79)
Interest paid at maturity on the zero-coupon OCEANE 2017 convertible bonds	193	0
STRUCTURAL FREE CASH FLOW	**1,509**	**961**

3.6 RETURN ON CAPITAL EMPLOYED (ROCE)

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

ROCE is measured as:

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

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

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

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

(in € millions)	2017	2016
Operating income from recurring activities	2,742	2,692
Average standard income tax rate used for ROCE calculation	31%	31%
Net operating profit after tax (NOPAT)	**1,892**	**1,857**
Intangible assets and property, plant and equipment	12,760	12,646
Loans and deposits	74	70
Investments in associates and joint ventures	356	309
Total non-current financial assets	13,191	13,025
Working capital requirement	2,708	2,873
Economic assets at December 31	15,899	15,898
Average economic assets	**15,898**	**15,405**
Consolidated ROCE	**11.9%**	**12.1%**
Passenger car/Light truck tires & related distribution ROCE	12.5%	12.9%
Truck tires & related distribution ROCE	6.7%	8.1%
Specialty businesses ROCE	22.2%	17.9%

Given the evolutions so far known in the US tax law, the standard tax rate is reduced to 28%, and the ROCE thus measured is 12.4%.

3.7 OUTLOOK

In 2018, the Passenger car/Light truck and Truck tire markets are expected to experience modest growth over the year, while the mining tire, agricultural original equipment and earthmover original equipment markets should remain buoyant.

Given the market conditions, price management will make it possible to generate a net positive effect from changes in the price mix and raw materials costs, assuming an estimated €50 to €100 million increase in raw materials prices. Based on January 2018 exchange rates, the currency effect would reduce full-year operating income from recurring activities by around €300 million.

In this environment, Michelin's objectives for 2018 are volume growth in line with global market trends, operating income from recurring activities exceeding the 2017 figure at constant exchange rates, and structural free cash flow of more than €1.1 billion.

3.8 SHARE INFORMATION

3.8.1 THE MICHELIN SHARE

Traded on the NYSE Euronext Paris stock exchange

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

Market capitalization

- €21,452 million at December 31, 2017.

Average daily trading volume

- 503,534 shares since January 1, 2017.

Indices

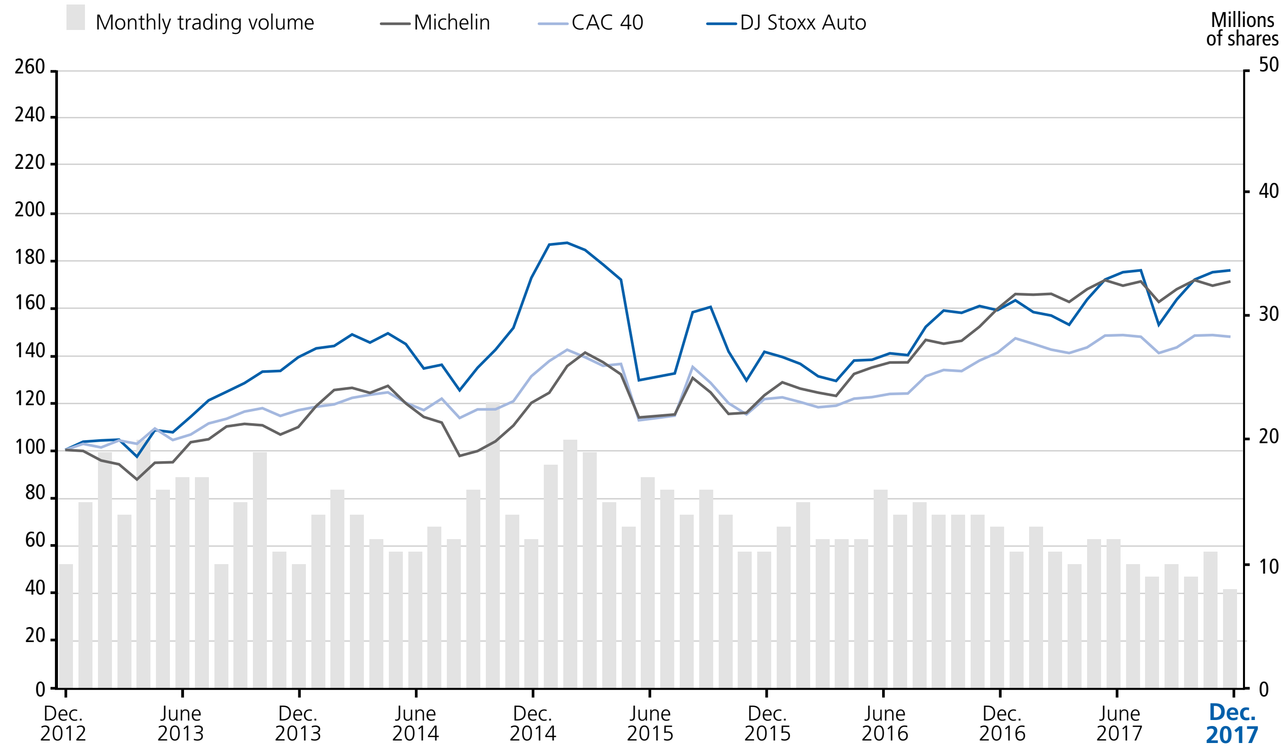
The Michelin share is included in two leading stock market indices. As of December 31, 2017, it represented:

- 1.87% of the CAC 40 index;
- 0.82% of the Euronext 100 index.

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

- Dow Jones Sustainability Index (DJSI) Stoxx for European sustainability leaders and DJSI World for global sustainability leaders;
- Ethibel Sustainability Index (ESI) Europe.

SHARE PERFORMANCE
(Closing price at December 31, 2017)



3.8.2 SHARE DATA

Share price *(in €)*	2017	2016	2015	2014	2013	2012
High	128.40	106.80	103.90	94.33	84.71	72,58
Low	98.93	77.40	71.60	65.10	57.23	45,32
High/low ratio	1.30	1.38	1.45	1.45	1.48	1,60
Closing price, end of period	119.55	105.70	87.90	75.27	77.25	71,59
Average share price over the period	115.65	91.97	90.26	82.10	72.28	57.15
Change over the period	13.10%	+20.3%	+16.8%	-2.6%	+7.9%	+ 56,74 %
Change in the CAC 40 index over the period	*9.26%*	*+4.9%*	*+8.5%*	*-0.5%*	*+18.0%*	*+ 15,23 %*
Market value *(at end of period, in € billion)*	**21.45**	**19.03**	**15.98**	**13.98**	**14.35**	**13,07**
Average daily trading volume over the period	503,534	554,262	719,709	662,063	719,464	913,167
Average shares outstanding	182,212,806	182,122,667	185,960,394	185,954,390	184,901,269	181,099,501
Volume of shares traded over the period	128,401,095	142,445,218	184,245,619	168,826,055	183,463,371	233,770,814
Share turnover ratio	**71%**	**78%**	**99%**	**91%**	**99%**	**129%**

3.8.3 PER-SHARE DATA

(in € per share, except ratios)	2017	2016	2015	2014	2013
Net assets per share	62.7	59.1	52.5	51.3	49.8
Basic earnings per share	9.39	9.21	6.28	5.52	6.08
Diluted earnings per share(1)	9.34	9.03	6.19	5.45	5.98
Price-earnings ratio	**12.7**	**11.5**	**14.0**	**13.6**	**12.7**
Dividend for the year	3.55*	3.25	2.85	2.50	2.50
Pay-out ratio	36.0%	36.5%	37.0%	40.6%	35.0%
Yield(2)	3.0%	3.1%	3.2%	3.3%	3.2%

(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 18, 2018.*

The goal of the Group's dividend policy is to pay out at least 35% of consolidated net income excluding non-recurring items for the year.

3.8.4 CAPITAL AND OWNERSHIP STRUCTURE

At December 31, 2017, Michelin's share capital amounted to €359,041,974.

	At December 31, 2017			At December 31, 2016		
	Number of shareholders	Shares outstanding	Voting rights outstanding	Number of shareholders	Shares outstanding	Voting rights outstanding
French institutional investors	2,923	25.3%	27.3%	5,023	22.7%	25.4%
Non-resident institutional investors		60.3%	60.3%		63.1%	61.4%
Individual shareholders	94,337	12.4%	9.7%	109,410	12.1%	10.6%
Employee Shareholder Plan	74,397	2.0%	2.7%	79,284	2.1%	2.6%
TOTAL	**171,657**	**179,520,987 ACTIONS***	**247,029,830 VOTING RIGHTS**	**193,717**	**180,066,121 SHARES***	**241,849,548 VOTING RIGHTS**

** All fully paid up.*

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

3.9 HIGHLIGHTS

3.9.1 PERFORMANCE

Michelin has purchased NexTraq, a telematics solution for utility vehicles

(June 14, 2017) – Michelin has purchased NexTraq, a subsidiary of Fleetcor Technologies. NexTraq provides solutions which improve driver safety, fuel management and fleet productivity. It has around 7,000 fleet management customers and 116,000 private subscribers in North America. This purchase bolsters our presence in fleet services, currently a flourishing market.

A global reorganization project to better serve our customers

(June 22, 2017) – On March 16, 2017 Michelin launched a new organization project to reinforce its growth. The objective is to meet new customer expectations, improve satisfaction, simplify our operating methods and accelerate the Group's digital technology. This new organization will encourage close relations with our customers all over the world and will focus on recruiting highly skilled professionals in high-tech and digital equipment.

Michelin and Robert Parker's Wine Advocate join forces

(July 5, 2017) – Michelin purchased 40% of Robert Parker's Wine Advocate (RPWA), world leader in wine tasting and scoring. Founded by American Robert Parker in 1978, RPWA is today the international reference for wine reviews with its famous scoring system from 50 to 100 points. With this purchase, Michelin is bolstering its position on the fine food market, beginning with the Asian and North American markets.

The MICHELIN brand: trust and progress

(July 27, 2017) – For the third consecutive year, the Reputation Institute, which ranks the world's brands according to their reputation, has put Michelin at the head of the French rankings and 13th worldwide.

Our reputation is based on several cornerstones: the quality of our products, the fruit of our innovation, the many services designed to make our customers' lives easier and our commitments to a responsible future.

Capital reduction

(December 14, 2017) – In 2017, Michelin continued its share buyback programme for €101 million.

The redeemed shares have been cancelled in full. On December 15, 2017, the share capital was reduced to 179,438,277 shares.

Michelin and Sumitomo Corporation to form second largest wholesaler in US and Mexico

(January 3, 2018) – To ensure better availability of their products and improved delivery to their customers in the United States and Mexico, Michelin and Sumitomo Corporation of Americas are announcing the merger of their wholesale and retail activities. This will create the second largest tire wholesaler on North American soil, in a joint venture held in equal parts. The entity will operate under a new identity, NTW.

Success for the non-dilutive convertible bond issue by Michelin

(January 5, 2018) – Michelin announced the launch of another non-dilutive convertible bond issue maturing January 10, 2023 for a nominal amount of USD 600 million. They will be redeemable in cash only, and will therefore not give rise to the issue of new shares or the hand-over of existing Michelin shares.

3.9.2 PRODUCTS – INNOVATION – SERVICES

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

MICHELIN Pilot Sport 4S: a premium tire in every sense

(January 19, 2017) – Designed on the back of our competition experience and partnerships with manufacturers, the MICHELIN Pilot Sport range is now a benchmark for sports sedans. Today it is joined by a new model, the MICHELIN Pilot Sport 4S, which is ahead of all its rivals in track trials. This is a premium tire right down to its look and is available in 35 different sizes.

MICHELIN CrossClimate+: better performance every season, for longer

(February 27, 2017) – Like its predecessor, the new MICHELIN CrossClimate+ tire provides the qualities of a summer tire plus greater traction on snow-covered ground thanks to innovative rubber, a unique tread and high performance siping. But is its performance consistent from the first to the last kilometre? The answer is yes!

Concept tires: our Vision for the future

(June 13, 2017) – Michelin presented its Vision wheel concept for future tires at Movin'On. This wheel was designed using our latest innovations (3D metal printing, bio-materials and smart solutions). It is an airless wheel, completely connected, with a "rechargeable" tread, produced on demand by 3D printing.

MICHELIN ACORUS: a wheel that bends but won't break

(September 27, 2017) – Our engineers have developed the MICHELIN ACORUS technology to make tires safer and more resistant. Rubber expanders are fitted to a slightly narrower wheel. In partnership with Maxion, world leader in wheels, today we are offering a new "flexible" wheel. It means the wheel-tire block is more shock-resistant and reduces the risks of puncture.

MICHELIN sells its stake in Double Coin (Anhui) Warrior Tire Co. Ltd.

(November 20, 2017) – In order to strengthen their respective brands, Michelin and Huayi Group have decided to separate and terminate the joint venture Double Coin (Anhui) Warrior Tire Co. Ltd, established in 2011, to help the Warrior brand improve its competitiveness in the market. This transaction is in the best interests of Michelin, Double Coin and Warrior Tire Co. Ltd and will contribute to the sustainable growth of each.

3.9.2 b) Truck tires and related distribution

MICHELIN X® FORCE™ ZL: the new, genuinely tough all-terrain tire.

(February 14, 2017) – Designed for light civilian and military vehicles (fire trucks, tactical vehicles, etc.), the new MICHELIN X® FORCE™ ZL 335/80R20 tire is the toughest of its kind. More damage-resistant, it can drive flat over 100 km and can support up to 3,350 kg of load per tire, or 775 kg more than its predecessor at identical performance levels!

Michelin Sascar Expands its Fleet Services in Mexico

(March 2017) – Following the acquisition of the commercial fleet management assets of Copiloto Satelital, Michelin Sascar Mexico has become the service provider for Copiloto's fleet management customers.

Based in Mexico, Copiloto offers fleet management solutions such as surveillance, accident prevention, cost control and other services to commercial fleet customers in Mexico, primarily through its proprietary Internet platform.

MICHELIN X® MULTI™: a new generation of heavy truck tires to go even further

(May 22, 2017) – The MICHELIN X® MULTI™ range of heavy truck tires for short and mid-distance transport companies offers tires designed to combine the lowest cost per mile with exceptional grip in all weather conditions. Equipped with an RFID chip, MICHELIN X® MULTI™ tires provide access to a range of digital services for tracking operations carried out on each tire.

Michelin solutions launches four digital services, revolutionizing fleet management

(November 23, 2017) – At Solutrans 2017, MICHELIN solutions presented four innovative digital services designed to help drivers and fleet managers get the most out of their assets and their businesses. MyBestRoute chooses the best route; MyInspection digitizes and standardizes vehicle inspections; MyTraining facilitates driver training; MyRoadChallenge makes driving fun and motivates drivers to drive safely.

3.9.2 c) Specialty businesses

/ Earthmover tires

MICHELIN unveils its new generation of civil engineering tire management systems

(October 4, 2017) – Michelin presents the latest generation of its tire management system for the mining industry: MEMS®4. Michelin is transforming its current offering into a comprehensive monitoring and reporting platform for tires and trucks integrating vehicle cycle analysis. Based on an approved data capture tool (readable by Android mobile devices) that interfaces with a new web-based software platform, this improvement was made feasible by the addition of real-time accelerometer and GPS data.

MICHELIN® X®TRA LOAD: record productivity for rigid dump trucks

(July 3, 2017) – Productivity is the number one challenge for rigid dump truck users. With the new MICHELIN® X®TRA LOAD range, we offer an increase in load capacity and an extended lifespan. Operators in quarries and mines can therefore transport a tonnage rate never reached before, continuously.

/ Agricultural tires

MICHELIN ROADBIB: the farming tire fond of road

(June 13, 2017) – Michelin has co-designed its new agricultural tire with contractors to meet their specific requirements. The new MICHELIN ROADBIB tire, unique in its category, takes into account the fact that tractors travel on the road 50% of the time for those customers. Its revolutionary tread increases of 60% the footprint on the road compared to a traditional agricultural lugs' tire. This tire provides stability, comfort and 25% more longevity.

MICHELIN acquires PTG and Teleflow

(November 13, 2017) – Michelin announces the acquisition of PTG and Teleflow, two industry leaders in the field of central tire inflation systems (CTIS), enabling farmers to manage their tire pressures depending on the terrain and conditions of use. With these acquisitions, Michelin is becoming the leader of CTIS, with a huge challenge in terms of soils protection and productivity for agriculture. The first concrete fruit of this collaboration is MICHELIN ZEN@TERRA solution, presented during Agritechnica fair in Hannover.

/ Two-wheel tires

Four new MICHELIN mountain bike tire ranges

(March 13, 2017) – In terms of mountain bike tires, our philosophy of "one use, one terrain, one tire" has led us to design four new ranges, two dedicated to cross-country and two to all mountain. Developed with competition riders, these two type-of-use ranges cutting-edge technology and make sure that everyone can find the best performing and most suitable tire for how they ride their mountain bike.

MICHELIN Enduro: a new range with more grip for the long-term

(August 28, 2017) – Rocks, sand, grass... The Enduro is torture for tires. To cope with these tests, Michelin has developed a new range of Enduro bike tires, making good use of our latest innovations. The result: better grip, of course, but also an improved lifespan and greater robustness. Available in medium and hard to adapt to different terrains, they will take you even further.

/ Aircraft tires

Michelin and Safran develop the first smart tire for planes

(June 20, 2017) – Inspection operations for plane tires have always been complex. PresSense, a pressure sensor integrated in the tire developed by Michelin and Safran, is changing everything. The tire's pressure information can now be seen on a reader connected to a smartphone and a database. PresSense helps accelerate and simplify all the necessary maintenance operations.

/ Michelin Travel Partner

Michelin in the Fooding® era

(September 1, 2017) – Since 2000, the Guide du Fooding® has offered a different approach to gastronomy, which complements the Michelin Guide. Today, Michelin has acquired a 40% share in the Guide du Fooding®, establishing a natural partnership. We can now recommend exclusive and diverse gastronomic experiences to our customers.

3.9.3 SUSTAINABLE DEVELOPMENT

General Motors and Michelin: a shared vision of sustainable rubber cultivation

(May 18, 2017) – General Motors has published guidelines to make sure that tire suppliers privilege responsible rubber cultivation. We praise this decision which reflects our own commitments: implementation of a responsible and natural rubber policy, assessment of our suppliers' CSR performance, mapping operators in the sector's value chain, reforestation project in partnership with the WWF... Our approaches converge to lead all of the industry towards virtuous practices.

Rubberway: an app for mapping good practices in the natural rubber industry

(September 7, 2017) – Michelin promotes responsible and sustainable natural rubber throughout the world. To measure the application of good practices throughout the value chain - production, processing, transport - we have developed the Rubberway phone app. It picks up information on working methods from all involved in the industry, in complete transparency, encouraging genuine traceability of rubber from plantation to factory.

3.9.4 COMPETITION

Roborace: a race for intelligence

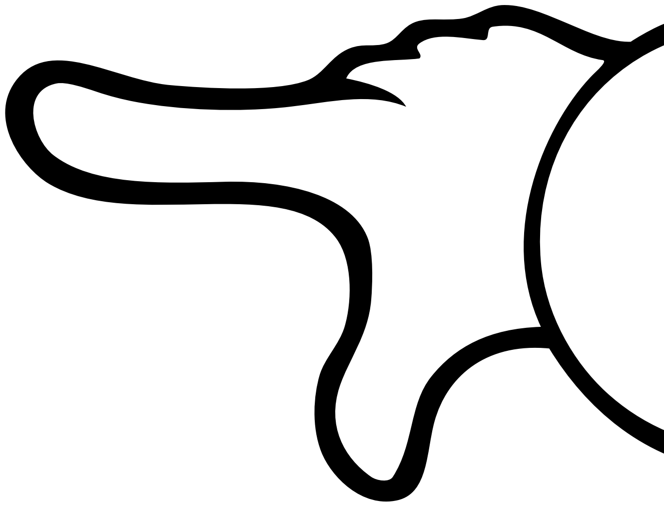
(January 25, 2017) – This year there will be autonomous electric vehicle races in parallel with the Formula-E championship. Michelin is one of the three official partners to the competition called "Roborace". Competition vehicles must use tires that can be fitted to mass-produced vehicles, making this new championship a laboratory for vehicles of the future.

24 Hours of Le Mans: 20/20

(June 19, 2017) – With its victory in the 2017 edition of 24 Hours of Le Mans, the No. 2 Hybrid Porsche 919 gave Michelin its 20th consecutive win in Sarthe. 20 years of victories testifying to our Motorsports teams' ability to adapt to the constant changes in regulations and vehicles. As it is every year, the 24 Hours of Le Mans race was a forum for successfully testing the latest tire innovations which will be transferred from track to road over the coming years.

FIM Moto-e World Cup joins forces with Michelin

(December 14, 2017) – After MotoGP comes Formula-E... Michelin becomes the official tire supplier of the FIM (International Motorcycle Federation) Moto-e World Cup, the first sports discipline for fully electric motorcycles with zero emissions and which will kick off in 2019. This will be a valuable development laboratory for innovations that will be found in the standard Michelin tires of tomorrow.

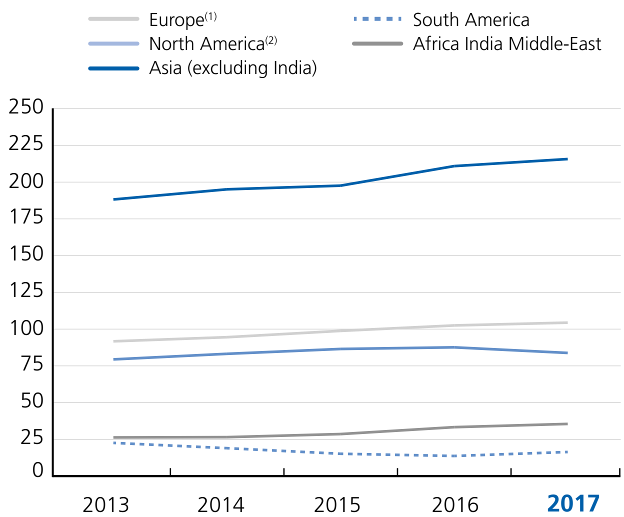


4 FINANCIAL HIGHLIGHTS

4.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

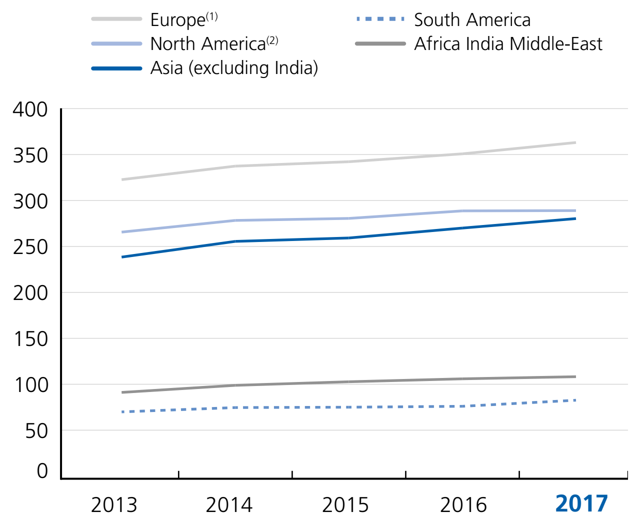
(in millions of tires)



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

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

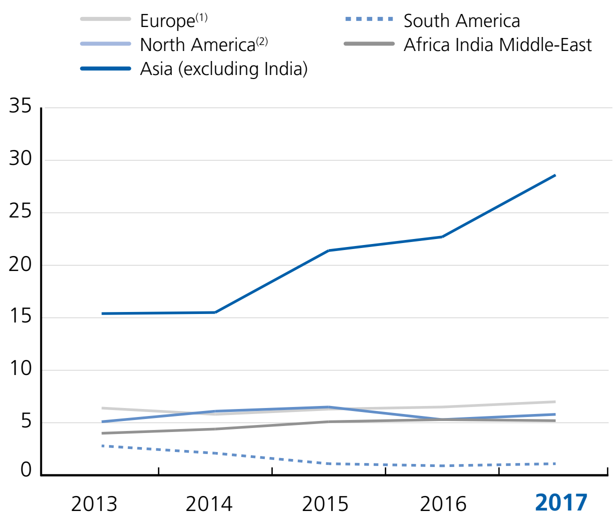
(in millions of tires)



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

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

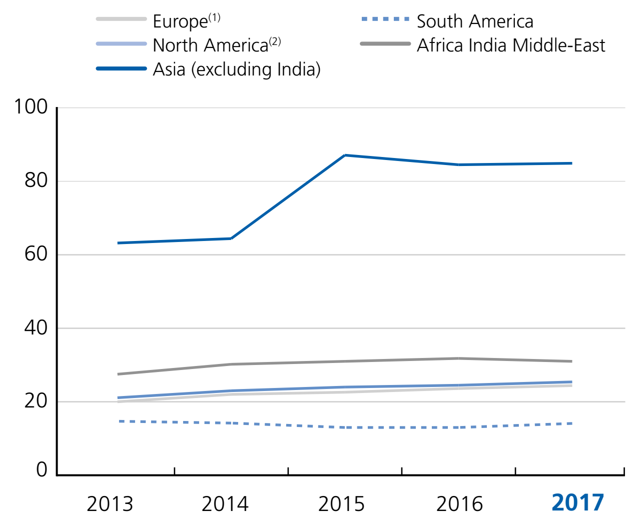
(in millions of new tires)



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

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

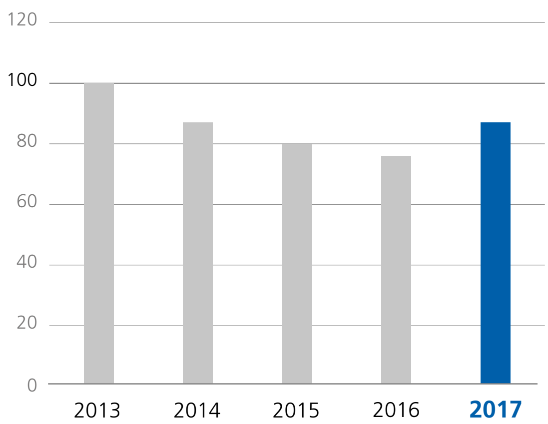
(in millions of new tires)



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

THE EARTHMOVER MINING TIRE MARKET

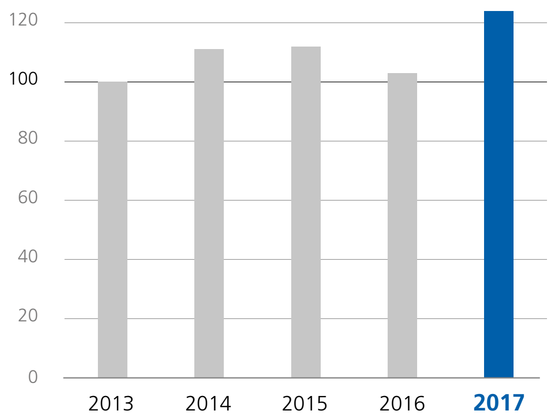
(base 100 in 2013 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

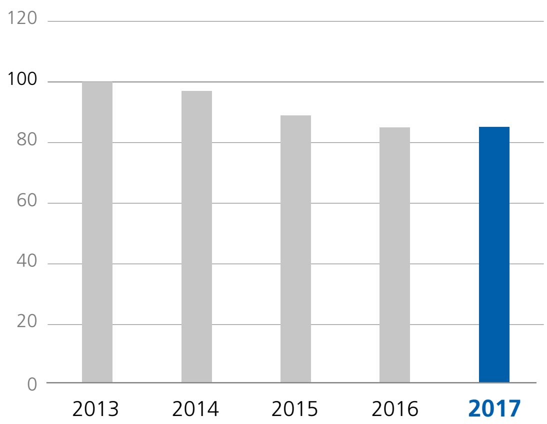
(base 100 in 2013 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

(base 100 in 2013 in number of tires in Europe and North America)

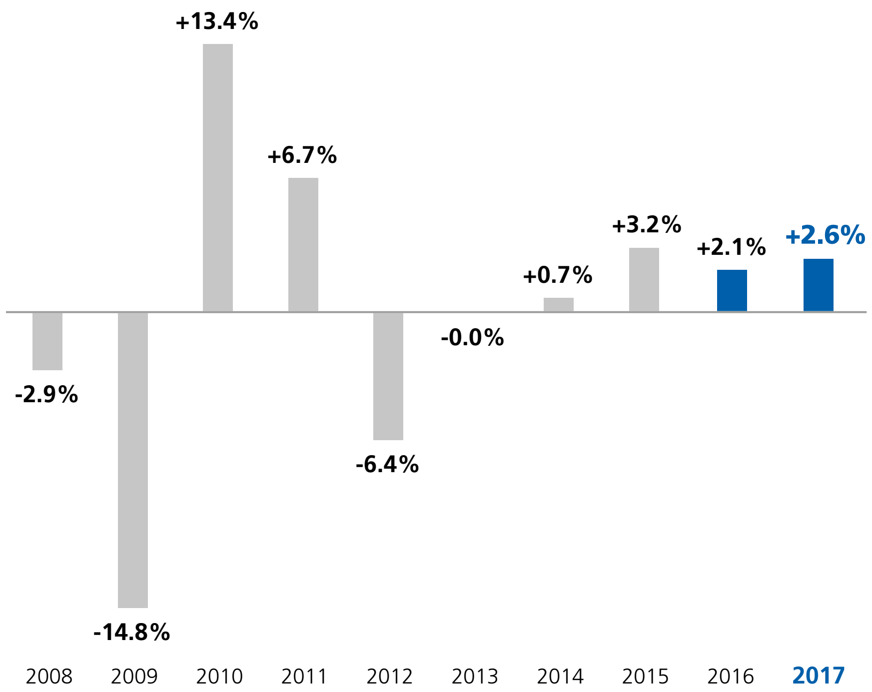


Michelin estimates.

4.2 SALES

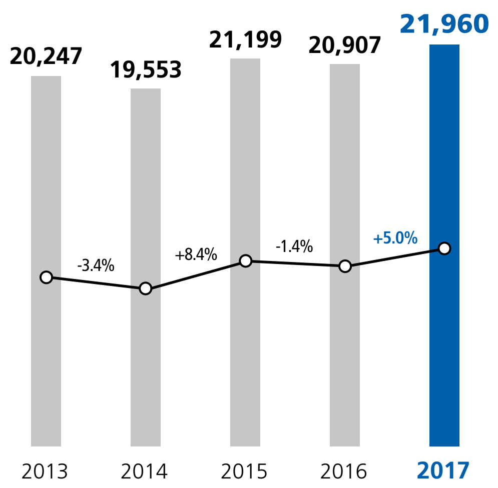
SALES VOLUME

(in tons)



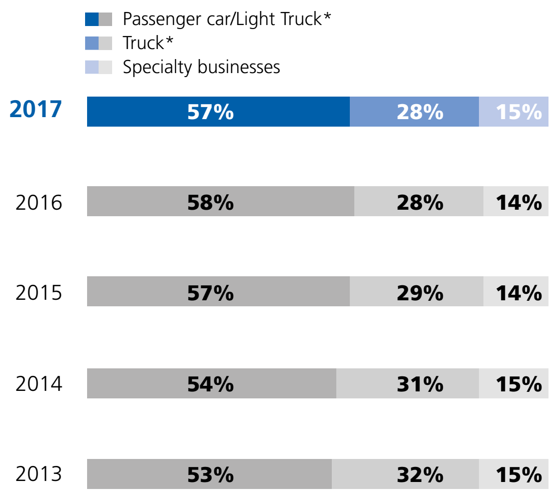
NET SALES

(in € million)



NET SALES BY REPORTING SEGMENT – BREAKDOWN

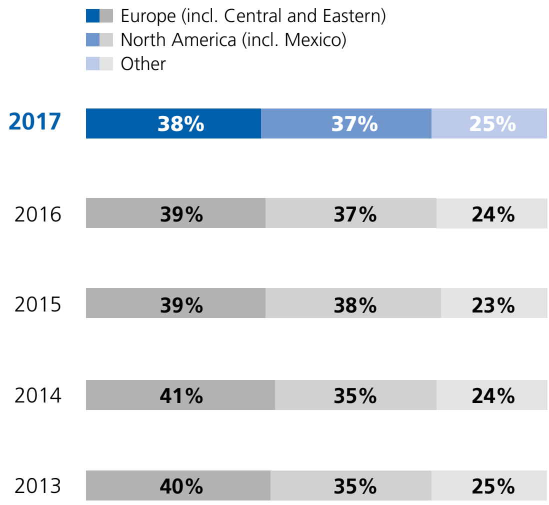
(in value)



* *And related distribution.*

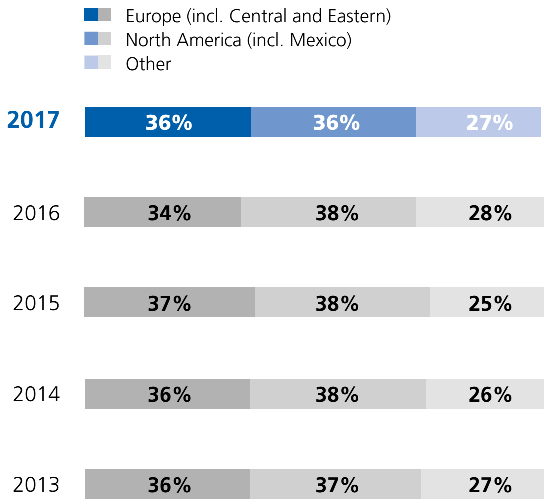
NET SALES BY REGION – BREAKDOWN

(in value)



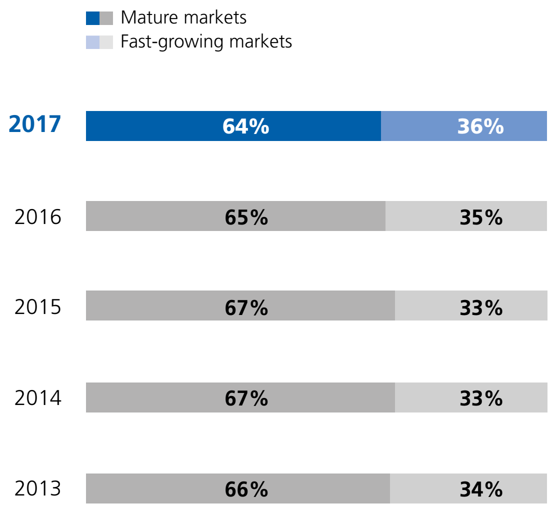
SALES BY REGION – BREAKDOWN

(in tons)



BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

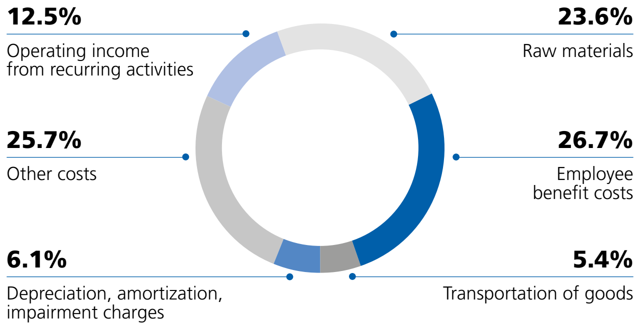


* *Mature markets: United States, Canada, Western Europe and Japan.*

4.3 EARNINGS

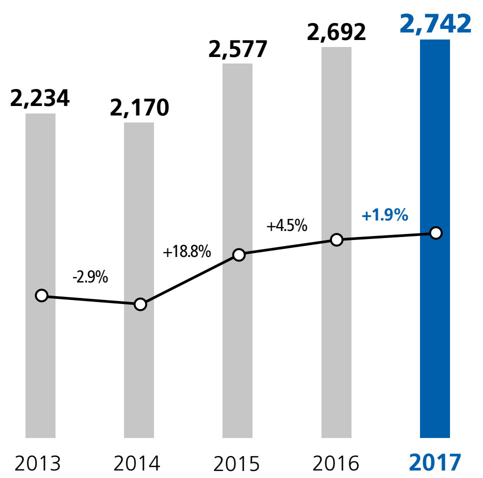
ANALYSIS OF OPERATING EXPENSES

(as a % of 2017 net sales)



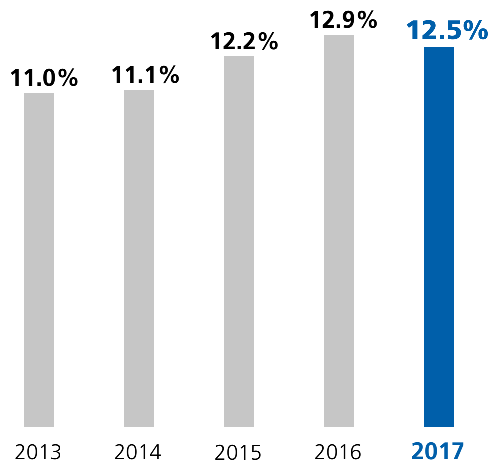
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



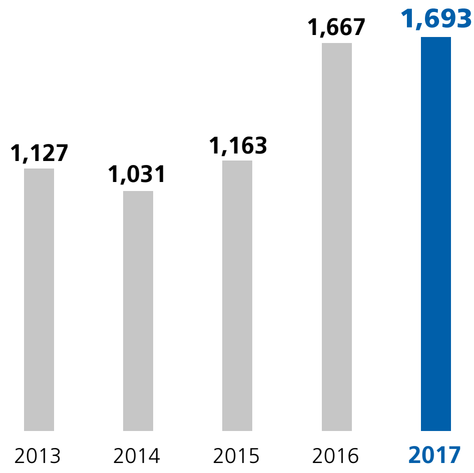
OPERATING MARGIN FROM RECURRING ACTIVITIES

(as a % of net sales)



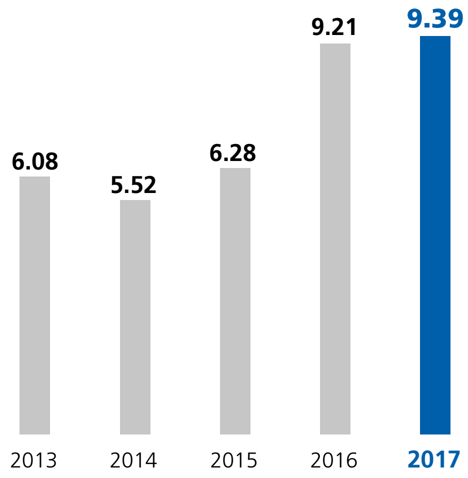
NET INCOME

(in € million)



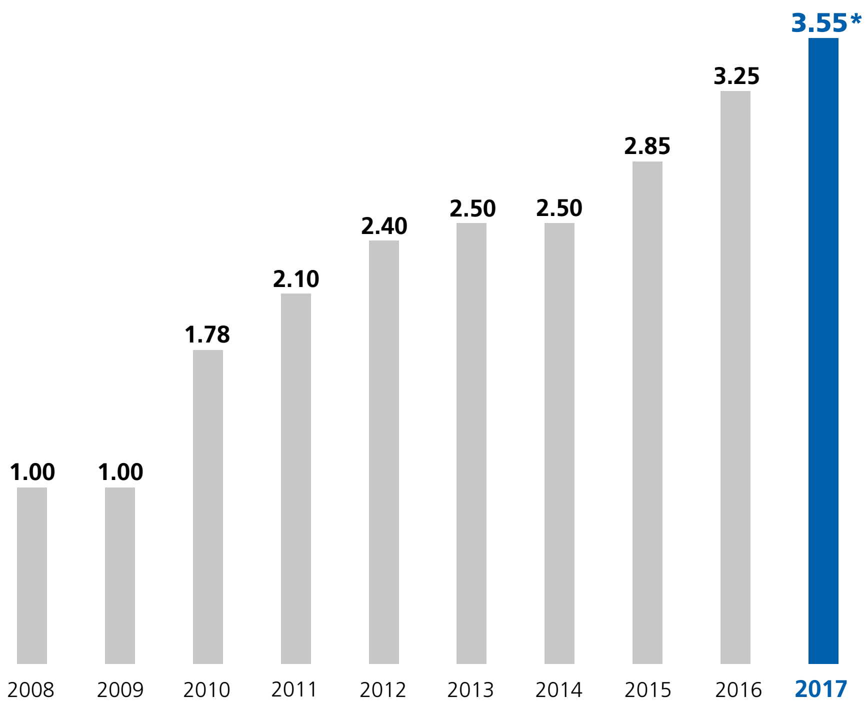
BASIC EARNINGS PER SHARE

(in €)



DIVIDEND PER SHARE

(in €)



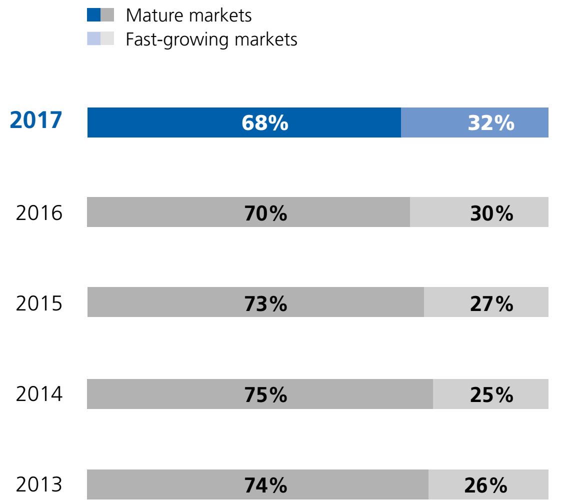
* *Subject to approval by the Annual Meeting of May 18, 2018.*

4.4 REPORTING SEGMENTS

4.4.1 PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

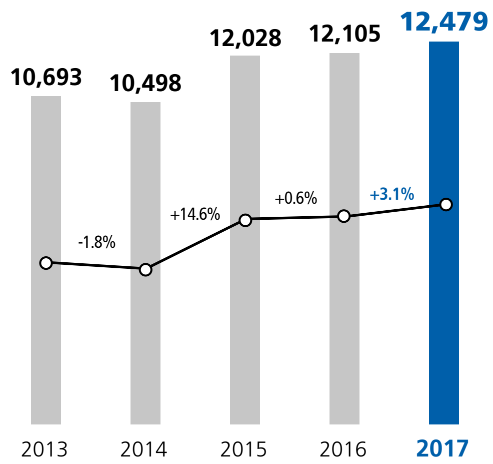
(in tons)



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

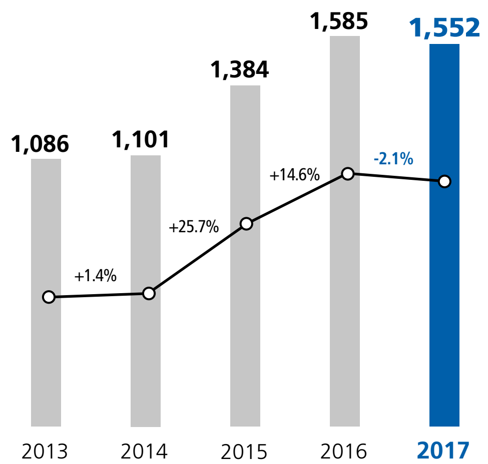
NET SALES

(in € million)



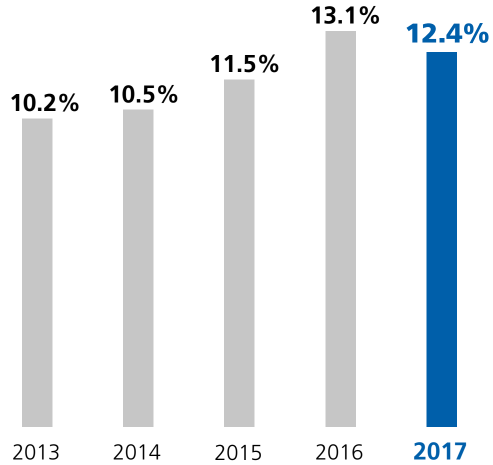
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

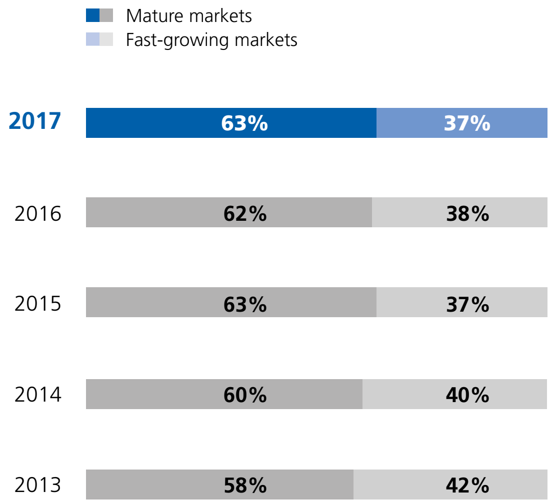
(as a % of net sales)



4.4.2 TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

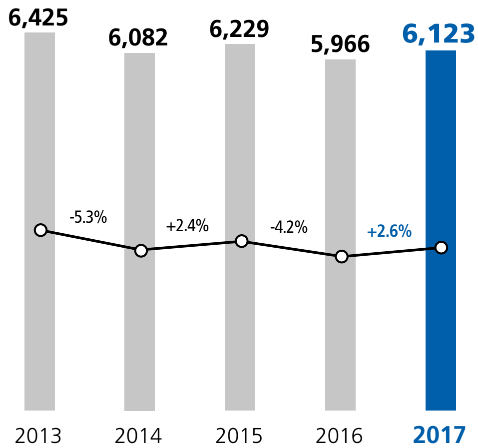
(in tons)



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

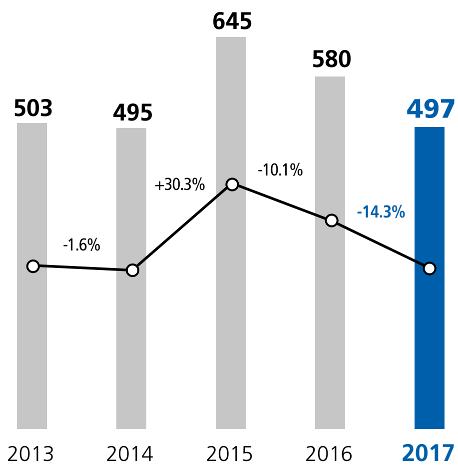
NET SALES

(in € million)



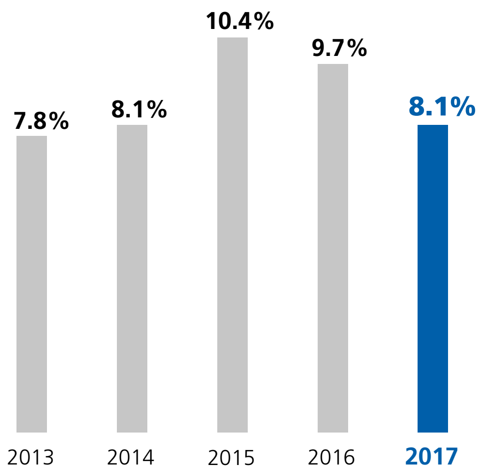
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

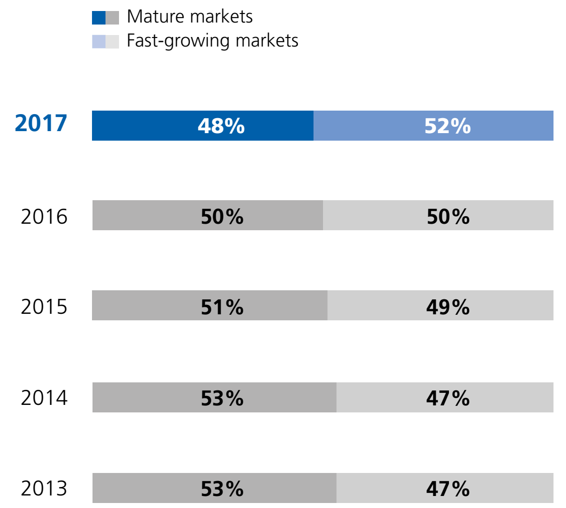
(as a % of net sales)



4.4.3 SPECIALTY BUSINESSES

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

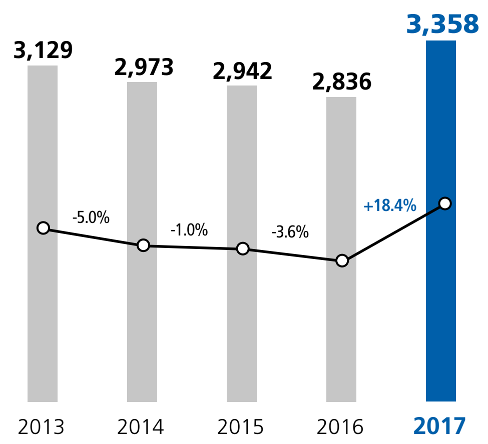
(in tons)



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

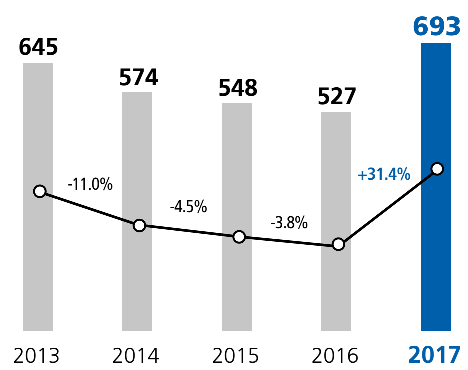
NET SALES

(in € million)



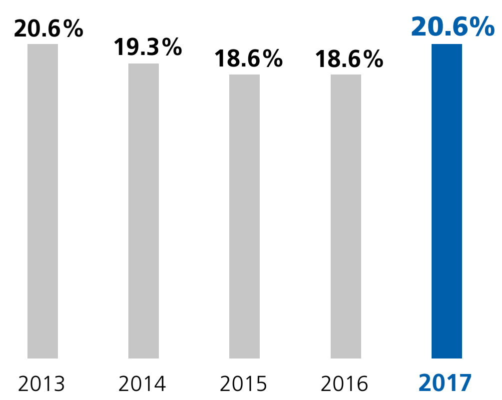
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

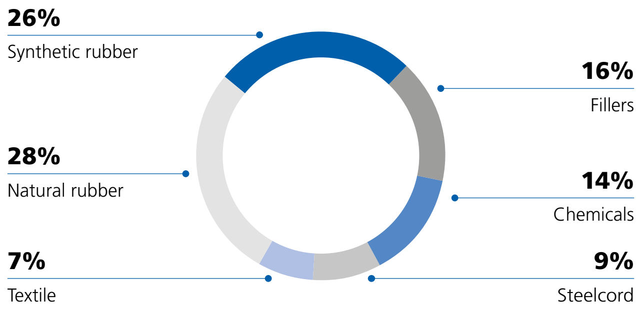
(as a % of net sales)



4.5 COST STRUCTURE

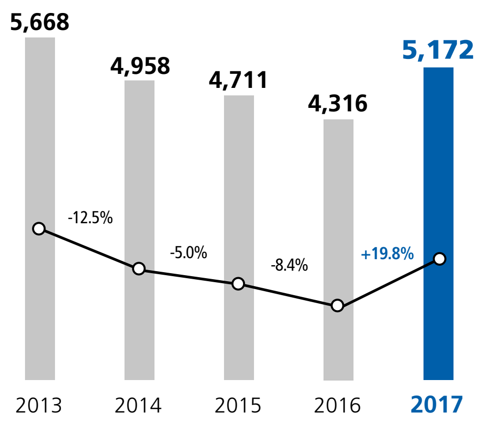
RAW MATERIAL COST

(in €, in 2017)



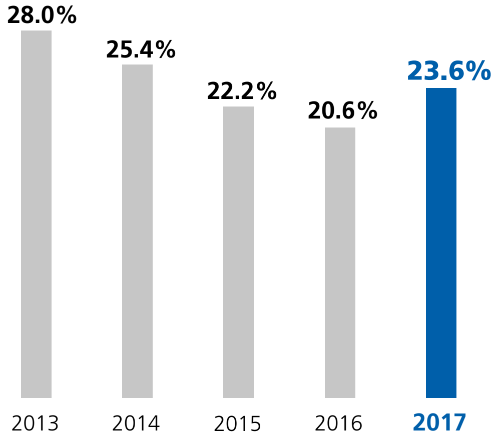
RAW MATERIAL COST

(in € million)



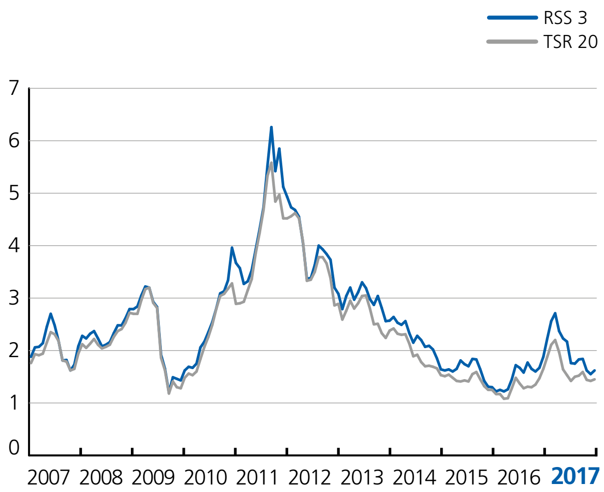
RAW MATERIAL COST

(as a % of net sales)



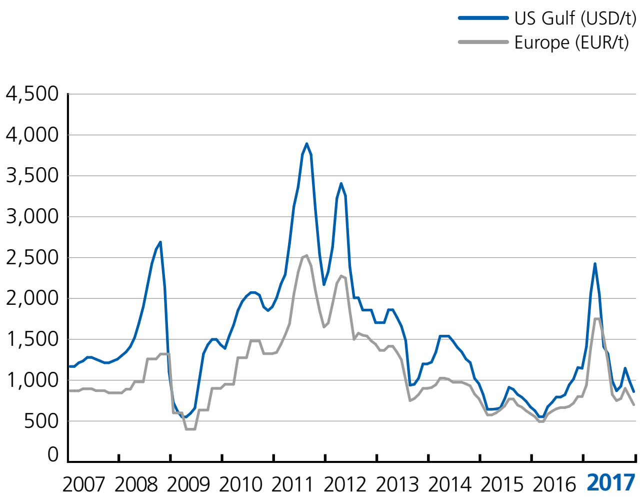
NATURAL RUBBER PRICES*

(in $/kg)



* *Monthly average.*

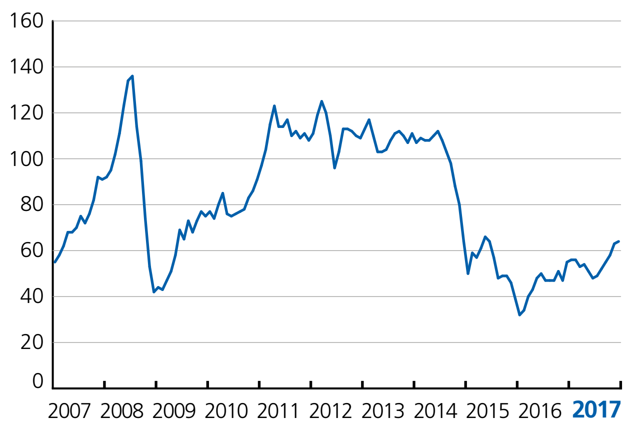
BUTADIENE PRICES*



* *Monthly average.*

BRENT OIL PRICES*

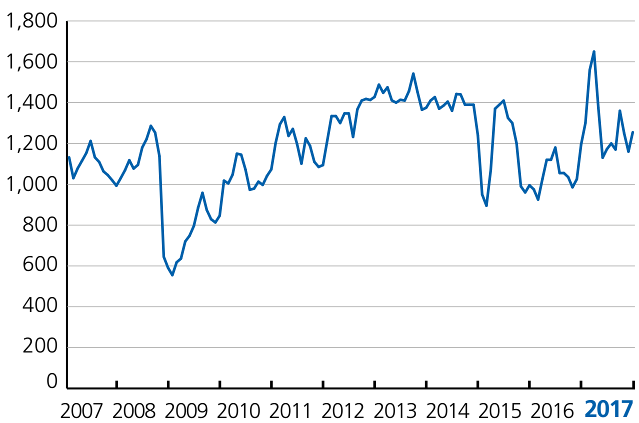
(in $/bbl)



* *Monthly average.*

STYRENE PRICES*

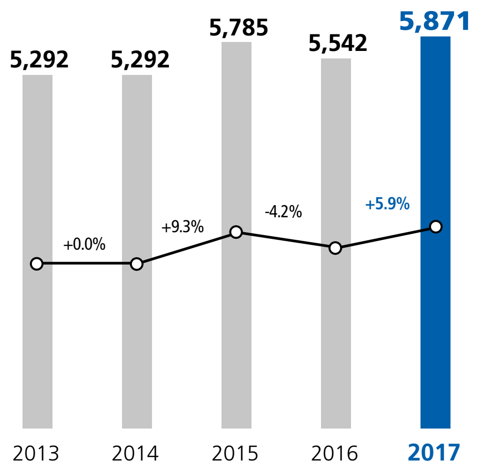
(in €/ton)



* *Monthly average.*

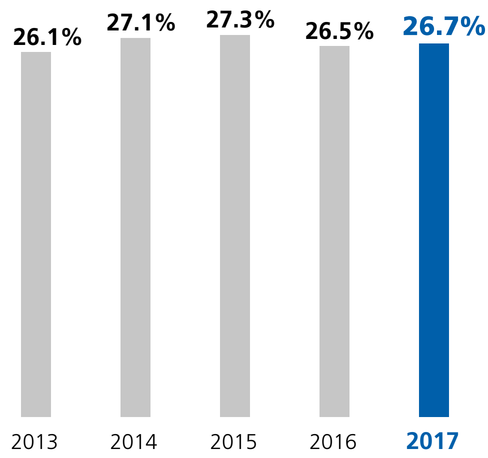
EMPLOYEE BENEFIT COSTS

(in € million)



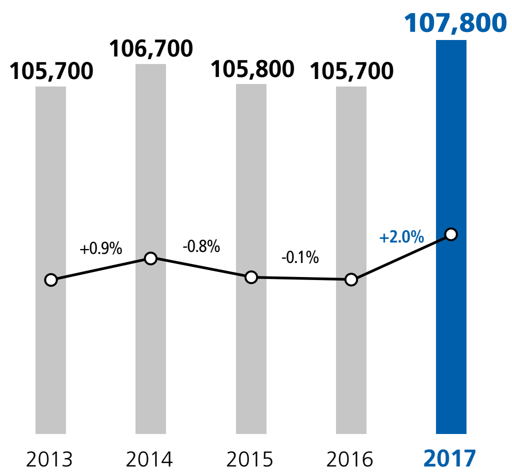
EMPLOYEE BENEFIT COSTS

(as a % of net sales)



NUMBER OF EMPLOYEE

(full-time equivalent employees at December 31)



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

	2017	2016	2015	2014	2013
Europe	61,900	61,200	61,400	61,300	62,100
North America	21,800	22,000	21,700	21,900	21,300
Asia (excluding India)	15,000	14,800	15,000	15,400	15,400
South America	7,400	6,000	6,000	6,300	5,100
Africa India Middle-East	1,700	1,700	1,700	1,800	1,800
TOTAL	**107,800**	**105,700**	**105,800**	**106,700**	**105,700**
including mature countries[(1)]	*64%*	*67%*	*67%*	*66%*	*68%*
including fast-growing countries	*36%*	*33%*	*33%*	*34%*	*32%*

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

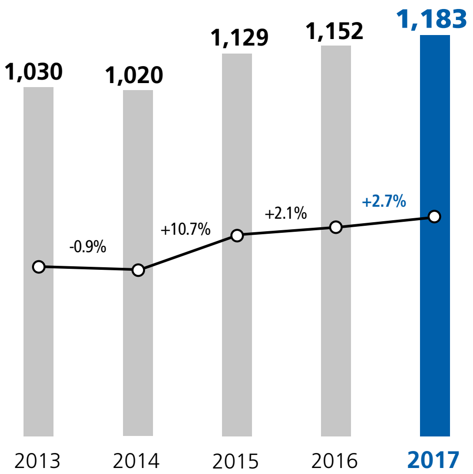
EMPLOYEES BY JOB CATEGORY

(total workforce at December 31)

	2017	2016	2015	2014	2013
Production workers	61.9%	61.5%	61.5%	62.4%	61.4%
Administrative and technical staff	29.4%	30.0%	30.3%	30.0%	31.0%
Managers	8.7%	8.5%	8.2%	7.6%	7.6%

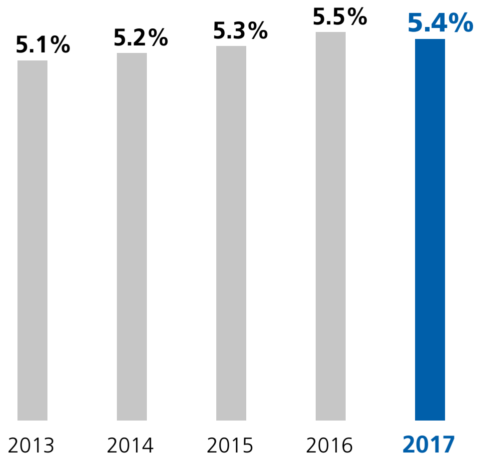
TRANSPORTATION COSTS

(in € million)



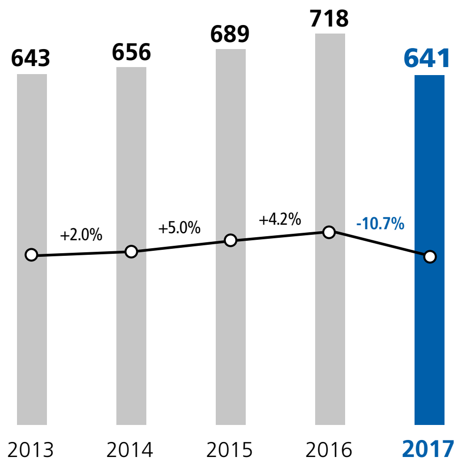
TRANSPORTATION COSTS

(as a % of net sales)



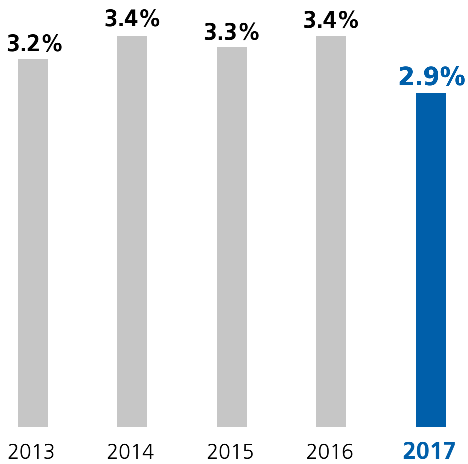
RESEARCH AND DEVELOPMENT COSTS

(in € million)



RESEARCH AND DEVELOPMENT COSTS

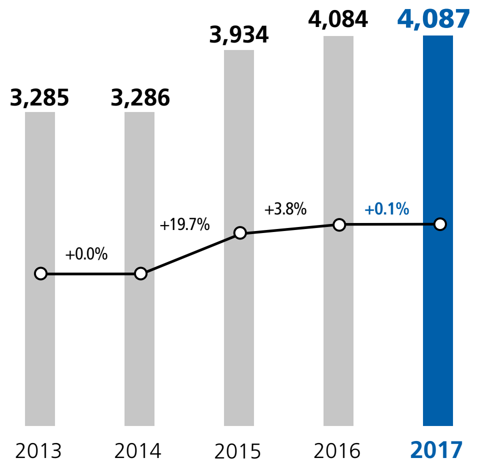
(as a % of net sales)



4.6 CASH FLOW AND BALANCE SHEET

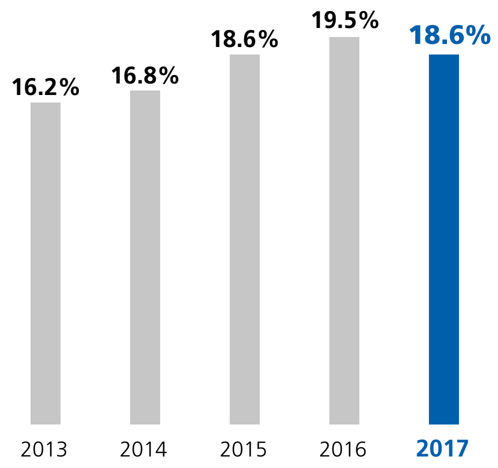
EBITDA FROM RECURRING ACTIVITIES[1]

(in € million)



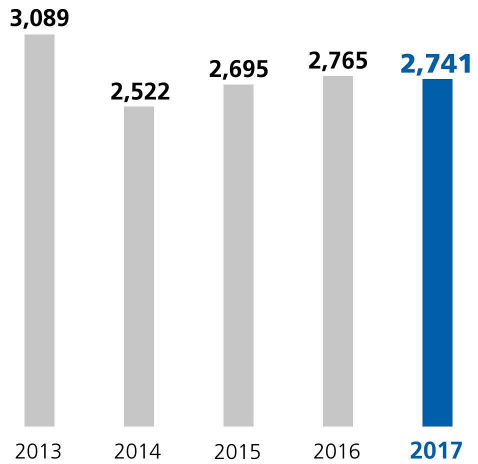
EBITDA FROM RECURRING ACTIVITIES[1]

(as a % of net sales)



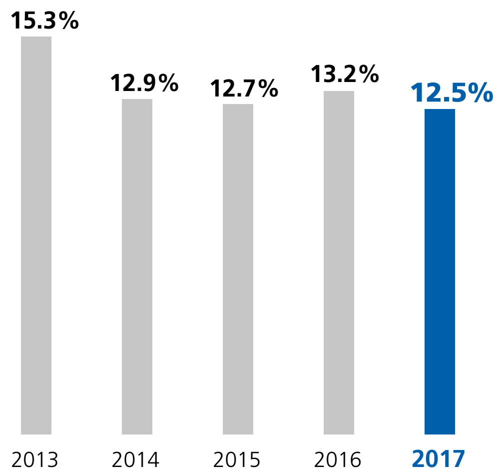
CASH FLOWS FROM OPERATING ACTIVITIES

(in € million)



CASH FLOWS FROM OPERATING ACTIVITIES

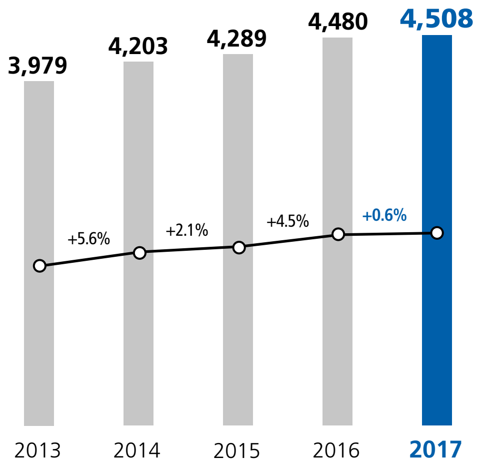
(as a % of net sales)



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

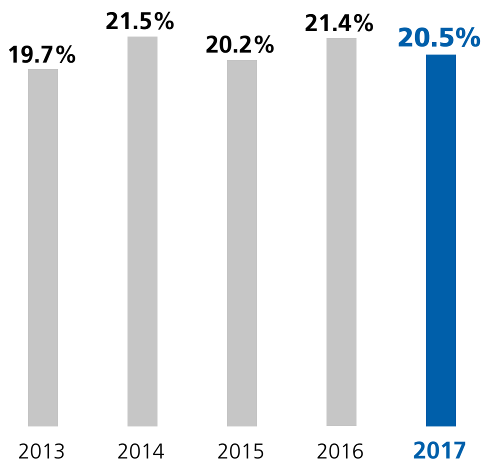
INVENTORIES

(in € million)



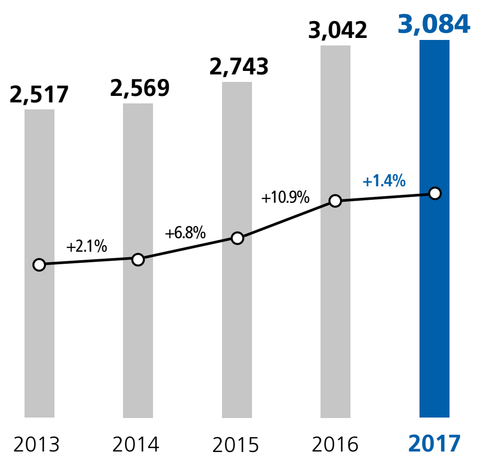
INVENTORIES

(as a % of net sales)



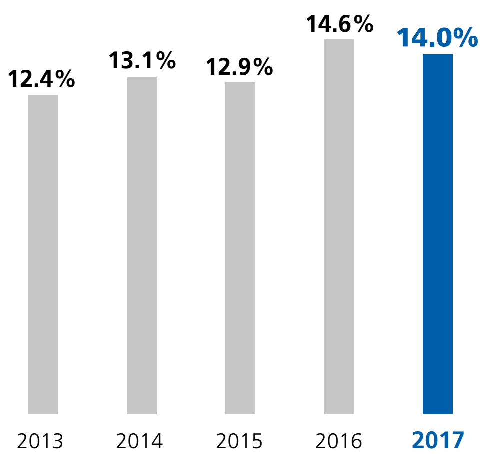
TRADE RECEIVABLES

(in € million)



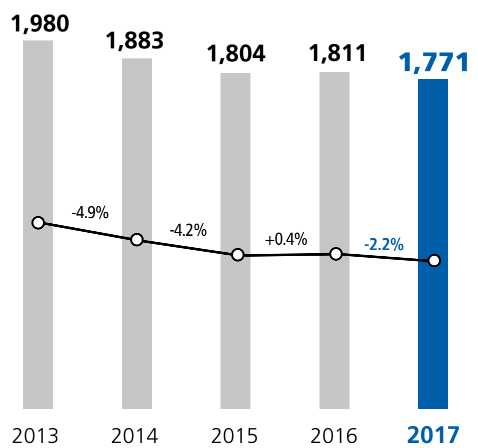
TRADE RECEIVABLES

(as a % of net sales)



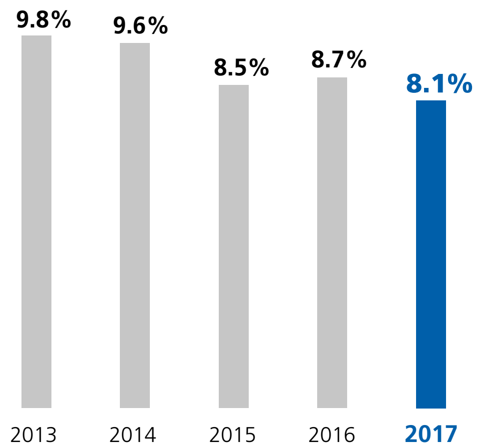
CAPITAL EXPENDITURE

(in € million €)



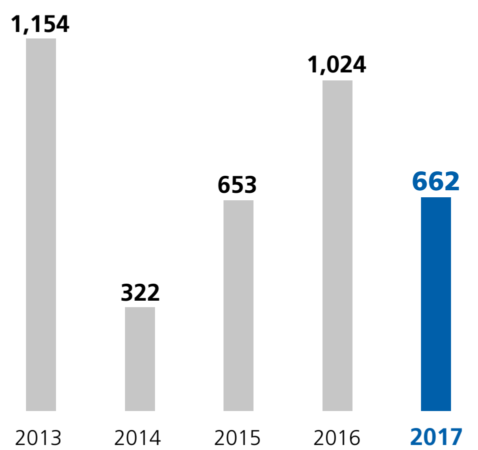
CAPITAL EXPENDITURE

(as a % of net sales)



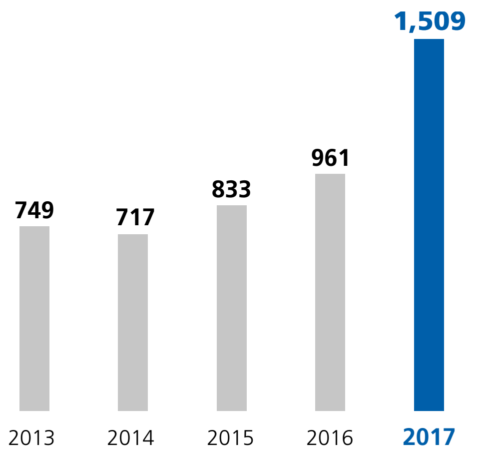
FREE CASH FLOW[1] (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)

(in € million)



STRUCTURAL FREE CASH FLOW[1]

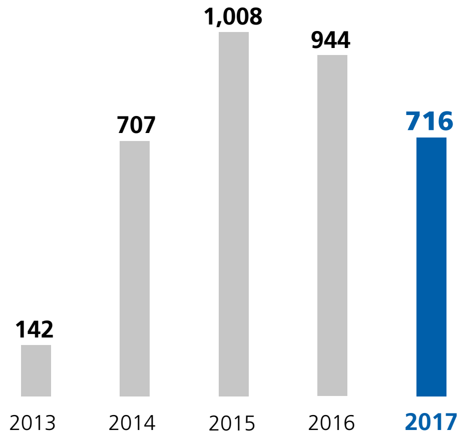
(in € million)



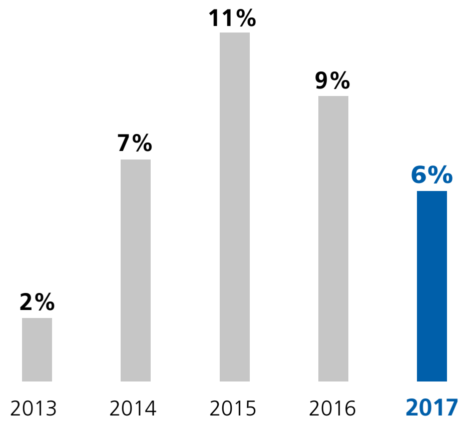
(1) This indicator is defined in section 3.5.3 of the present document.

NET DEBT[1]

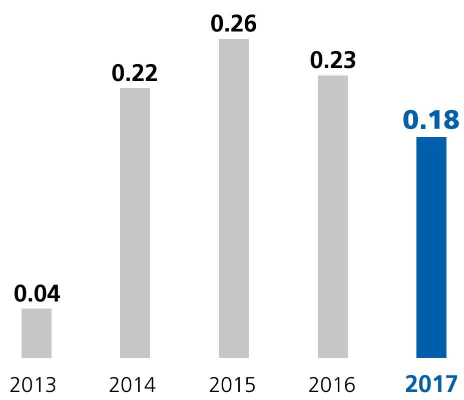
(in € million)



NET DEBT-TO-EQUITY RATIO[1]

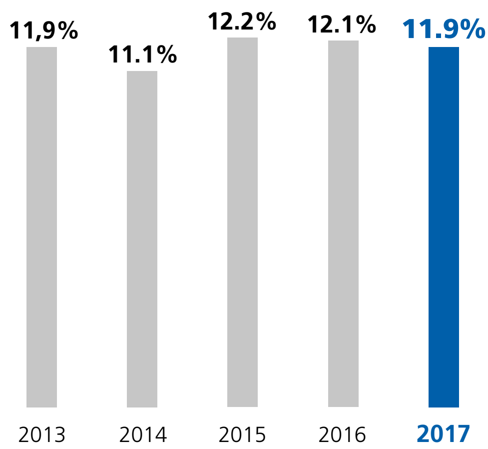


NET DEBT[1]-TO-EBITDA RATIO[2]



RETURN ON CAPITAL EMPLOYED[3]

(after tax)

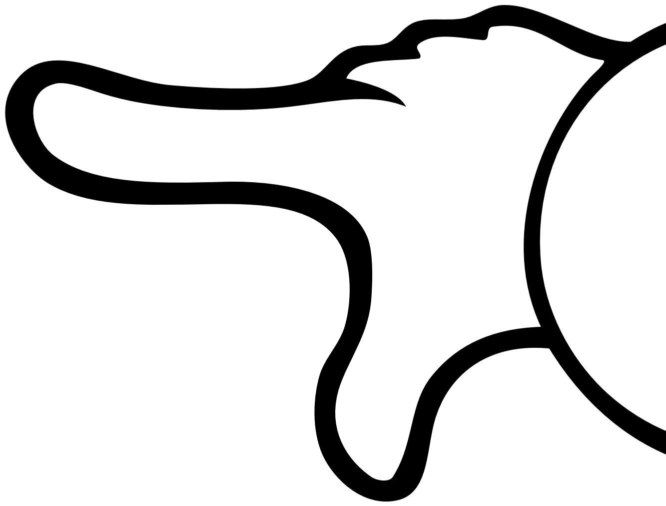


(1) This indicator is defined in note 26 to the consolidated financial statements.
(2) This indicator is defined in note 3.7.2 to the consolidated financial statements.
(3) This indicator is defined in section 3.6 of the present document.

4.7 CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2017	2016	2015	2014	2013
Net sales	21,960	20,907	21,199	19,553	20,247
% change	+5.0%	-1.4%	+8.4%	-3.4%	-5.7%
Total employee benefit costs	5,871	5,542	5,785	5,292	5,292
as a % of sales	26.7%	26.5%	27.3%	27.1%	26.1%
Number of employees *(full time equivalent)*	107,800	105,700	105,800	106,700	105,700
Research and development expenses	641	718	689	656	643
as a % of sales	2.9%	3.4%	3.3%	3.4%	3.2%
EBITDA from recurring activities [1]	4,087	4,084	3,934	3,286	3,285
Operating income from recurring activities	2,742	2,692	2,577	2,170	2,234
Operating margin from recurring activities	12.5%	12.9%	12.2%	11.1%	11.0%
Operating income	2,631	2,791	2,207	1,991	1,974
Operating margin	12.0%	13.3%	10.4%	10.2%	9.7%
Cost of net debt	176	203	184	130	94
Other financial income and expenses	(0)	20	(30)	(43)	(15)
Income before taxes	2,354	2,464	1,869	1,651	1,702
Income tax	661	797	706	620	575
Effective tax rate	28.1%	32.3%	37.8%	37.5%	33.8%
Net income	1,693	1,667	1,163	1,031	1,127
as a % of sales	7.7%	8.0%	5.5%	5.3%	5.6%
Dividends[2]	585	522	463	464	438
Cash flows from operating activities	**2,741**	**2,764**	**2,695**	**2,522**	**3,089**
as a % of sales	12.5%	13.2%	12.7%	12.9%	15.3%
Gross purchases of intangible assets and PP&E	1,771	1,811	1,804	1,883	1,980
as a % of sales	8.1%	8.7%	8.5%	9.6%	9.8%
Net debt [3]	716	944	1,008	707	142
Equity	11,261	10,646	9,542	9,523	9,256
Gearing	6%	9%	11%	7%	2%
Net debt[3] / EBITDA[1]	0.18	0.23	0.26	0.22	0.04
Cash flows from operating activities / Net debt[3]	NS	NS	NS	NS	NS
Operating income from recurring activities / Net interest charge[4]	15.9	13.3	12.8	16.0	15.7
Free cash flow[5]	662	1,024	653	322	1,154
ROE[6]	15.0%	15.7%	12.2%	10.8%	12.2%
ROCE[7]	11.9%	12.1%	12.2%	11.1%	11.9%
Per share data *(in €)*					
Net assets per share[8]	62.7	59.1	52.5	51.3	49.8
Basic earnings per share	9.39	9.21	6.28	5.52	6.08
Diluted earnings per share	9.34	9.03	6.19	5.45	5.98
Price-earnings ratio[9]	12.7	11.5	14.0	13.6	12.7
Dividend for the year[10]	3.55	3.25	2.85	2.50	2.50
Pay-out ratio[11]	36.0%	36.5%	37.0%	40.6%	35.0%
Yield[12]	3.0%	3.1%	3.2%	3.3%	3.2%
Share turnover rate[13]	71%	78%	99%	91%	99%

(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: Net Operating Profit After Tax (NOPAT)/capital employed (intangible assets and PP&E + long-term financial assets + working capital requirement), as defined in section 3.6.
(8) Net assets per share: net assets/number of shares outstanding at the end of the period.
(9) P/E: Share price at the end of the period/basic earnings per share.
(10) Subject to approval at the Annual Shareholders Meeting on May 18, 2018.
(11) Distribution rate: Dividend/Net income.
(12) Dividend yield: dividend per share/share price at December 31.
(13) Share turnover rate: number of shares traded during the year/average number of shares outstanding during the year.



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CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

DETAILED SUMMARY OF THE NOTES OF THE CONSOLIDATED STATEMENTS

CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2017	Year ended December 31, 2016
Net sales	5	21,960	20,907
Cost of sales		(14,815)	(13,810)
Gross income		**7,145**	**7,097**
Sales and marketing expenses		(1,861)	(1,907)
Research and development expenses		(641)	(718)
General and administrative expenses		(1,866)	(1,759)
Other operating income and expenses from recurring activities	8	(35)	(21)
Operating income from recurring activities	5	**2,742**	**2,692**
Operating income/(loss) from non-recurring activities	9	(111)	99
Operating income/(loss)		**2,631**	**2,791**
Cost of net debt	10	(176)	(203)
Other financial income and expenses	10	-	20
Net interest on employee benefit obligations	27.1	(115)	(139)
Share of profit/(loss) from associates		14	(5)
Income/(loss) before taxes		**2,354**	**2,464**
Income tax	11	(661)	(797)
NET INCOME/(LOSS)		**1,693**	**1,667**
▶ Attributable to the shareholders of the Company		1,700	1,676
▶ Attributable to the non-controlling interests		(7)	(9)
Earnings per share *(in €)*	12		
▶ Basic		9.39	9.21
▶ Diluted		9.34	9.03

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, 2017	Year ended December 31, 2016
Net income/(loss)		**1,693**	**1,667**
Post-employment benefits	27.1	266	(194)
Tax effect – Post-employment benefits	18	(135)	(8)
Other items of comprehensive income that will not be reclassified to income statement		**131**	**(202)**
Available-for-sale financial assets – Change in fair values	15.1	10	57
Tax effect – Available-for-sale financial assets – Change in fair values	18	3	(9)
Available-for-sale financial assets – Gain)/loss recognized in income statement		-	-
Currency translation differences		(532)	317
Other		(1)	-
Other items of comprehensive income that may be reclassified to income statement		**(520)**	**365**
Other comprehensive income		**(389)**	**163**
COMPREHENSIVE INCOME		**1,304**	**1,830**
▶ Attributable to the shareholders of the Company		1,315	1,838
▶ Attributable to the non-controlling interests		(11)	(8)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in € million)	Note	December 31, 2017	December 31, 2016
Goodwill	13	1,092	963
Intangible assets	13	785	630
Property, plant and equipment (PP&E)	14	10,883	11,053
Non-current financial assets and other assets	15	479	323
Investments in associates	17	356	309
Deferred tax assets	18	890	1,191
Non-current assets		**14,485**	**14,469**
Inventories	19	4,508	4,480
Trade receivables	20	3,084	3,042
Current financial assets	21	285	303[(1)]
Other current assets	22	1,132	1,202
Cash and cash equivalents	23	1,773	1,826[(1)]
Current assets		**10,782**	**10,853**
TOTAL ASSETS		**25,267**	**25,322**
Share capital	24	359	360
Share premiums	24	2,942	3,024
Reserves	25	7,925	7,215
Non-controlling interests		35	47
Equity		**11,261**	**10,646**
Non-current financial liabilities	26	2,366	1,773
Employee benefit obligations	27.1	3,969	4,763
Provisions and other non-current liabilities	29	1,676	1,604
Deferred tax liabilities	18	113	117
Non-current liabilities		**8,124**	**8,257**
Current financial liabilities	26	493	1,320
Trade payables		2,501	2,364
Trade payables under factoring contracts	3.26	503	339
Other current liabilities	30	2,385	2,396
Current liabilities		**5,882**	**6,419**
TOTAL EQUITY AND LIABILITIES		**25,267**	**25,322**

(1) See note 21.

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, 2016	**364**	**3,222**	**5,903**	**53**	**9,542**
Net income/(loss)	-	-	1,676	(9)	**1,667**
Other comprehensive income	-	-	162	1	**163**
Comprehensive income	**-**	**-**	**1,838**	**(8)**	**1,830**
Issuance of shares	3	96	-	-	**99**
Purchase of shares	-	-	(301)	-	**(301)**
Cancellation of shares	(7)	(294)	301	-	**-**
Dividends and other allocations	-	-	(538)	-	**(538)**
Share-based payments – Cost of services rendered	-	-	5	-	**5**
Other	-	-	7	2	**9**
At December 31, 2016	**360**	**3,024**	**7,215**	**47**	**10,646**
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**

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, 2017	Year ended December 31, 2016
Net income		1,693	1,667
Adjustments			
▶ Cost of net debt	10	176	203
▶ Other financial income and expenses	10	-	(20)
▶ Net interest on benefits	27.1	115	139
▶ Income tax	11	661	797
▶ Amortization, depreciation and impairment of intangible assets and PP&E	6	1,345	1,392
▶ Operating income/(loss) from non-recurring activities	9	111	(99)
▶ Share of loss/(profit) from associates		(14)	5
EBITDA from recurring activities	3.7.2	**4,087**	**4,084**
Operating income and expenses from non-recurring activities (cash) and change in provisions	31	(346)	(206)
Cost of net debt and other financial income and expenses paid	31	(373)	(146)
Income tax paid	18.2	(563)	(765)
Change in working capital, net of impairments	31	(64)	(202)
Cash flows from operating activities		**2,741**	**2,765**
Purchases of intangible assets and PP&E	31	(1,668)	(1,815)
Proceeds from sale of intangible assets and PP&E		65	89
Equity investments in consolidated companies, net of cash acquired		(396)	(2)
Disposals of equity investments in consolidated companies, net of cash sold		28	-
Purchases of available-for-sale financial assets		(91)	(25)
Proceeds from sale of available-for-sale financial assets		5	11
Cash flows from other financial assets	31	(3)	(159)[(1)]
Cash flows from investing activities		**(2,060)**	**(1,901)**
Proceeds from issuances of shares	24	17	99
Purchase of shares	24	(101)	(301)
Dividends paid to the shareholders of the Company	24	(584)	(515)
Cash flows from financial liabilities	31	(68)	(19)
Other cash flows from financing activities		17	(63)
Cash flows from financing activities		**(719)**	**(799)**
Effect of changes in exchange rates		**(15)**	**4**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**(53)**	**69**
Cash and cash equivalents at January 1		**1,826**	**1,757**[(1)]
Cash and cash equivalents at December 31	23	**1,773**	**1,826**[(1)]

(1) See note 21.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

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

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

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

After a review by the Supervisory Board, these consolidated financial statements were authorized for issue by the Managing Chairman on February 9, 2018.

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

NOTE 2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements:

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

2.2 Accounting policies

The accounting policies applied in the preparation of the Group consolidated financial statements are set out in note 3 "Accounting policies". These policies have been consistently applied to all the years presented with the exception of the change in estimate described in note 2.6.

2.3 New standards, amendments and interpretations to existing standards effective from January 1, 2017 in the European Union

The Group adopted IAS 7's amendments, which require more detailed disclosures of the evolution of financial liabilities included in the financing activities of the cash-flow statement. This information is presented in note 26 "Financial liabilities".

There are no other new standards or major amendments, applicable for the accounting periods beginning on January 1, 2017 having an effect on the consolidated financial statements of the Group.

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

/ 2.4.1 IFRS 9

IFRS 9, "Financial instruments", published in July 2014, endorsed by the European Union in November 2016, is applicable from accounting period beginning on January 1, 2018 and replaces IAS 39. The new standard contains the requirements for the classification and measurement of financial assets, including the introduction of a new expected loss impairment model for financial assets. For financial liabilities, the standard retains most of the requirements of IAS 39. IFRS 9 also sets new principles for the use of hedge accounting. For the Group the changes will impact mainly the accounting of Equity instruments and the evaluation of the trade receivable impairments.

According to the analysis performed, the implementation of IFRS 9 will not have any significant impact on the consolidated financial statements of the Group.

The Group will classify its financial assets in the "fair value" or "amortized cost" categories according to the business model used to manage those financial assets and their contractual cash flows.

Non-consolidated investments in equity instruments need to be measured at fair value through Profit and Loss. However, there is an irrevocable option, for each investment, to account for the fair value variations in the other comprehensive income. At transition date, the Group will choose this option for most of the non-consolidated equity investments.

Due to the restrictive investment criteria used by the Group and as described in the note 4 "financial risk management", the implementation of the expected credit loss model will not generate any significant change in value on the financial assets of the Group.

For the trade receivables, due to the risk management procedures put in place by the Group, the implementation of the expected loss model will not have any significant impact.

Finally, the implementation of the new hedge accounting model will not have any impact as the operations qualifying for hedge accounting under IAS39 will continue to be qualified for hedge accounting under IFRS 9.

/ 2.4.2 IFRS 15

IFRS 15, "Revenue from Contracts with Customers", published in May 2014 and endorsed by the European Union in October 2016 as well as the amendment "Clarifications to IFRS 15" are applicable from accounting period beginning on January 1, 2018. Their scope includes all the contracts with customers, except leases, insurance contracts and financial instruments, which are covered by other standards. The standard defines new revenue recognition principles and disclosure requirements. It establishes the fundamental principle that the revenue recognition must depict the transfer of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group prepared to apply the standard from January 1, 2018 and kept following the structured approach started in 2016 with the objective of assessing the potential impacts of the standard on the consolidated financial statements. Based on 2016 net sales total amount, a typology of activities and contracts with customers has been drawn up. The analysis has allowed splitting the contracts contributing to the Group net sales into several categories with common characteristics for the purpose of this standard. For each category, a representative sample of contracts has been defined and each contract has been analysed using a tool that reflects the five steps of the comprehensive model outlined by the standard. The objective was to identify potential differences with the current accounting policies, assess them, and define the new accounting principles.

Sales of tires on the replacement market or to vehicle manufacturers constitute the major part of the revenue for the Group. In this kind of commercial relationship, the Group is acting as a principal and not as an agent. Furthermore, supply of tires constitutes the single or the main performance obligation in these contracts. As sales conditions include payment terms which are less than one year, promised amounts of consideration will not need to be adjusted for the effects of a significant financing component. The warranties provided to buyers of tires and the management of deferred rebates granted notably to tires dealers on the replacement market were also assessed under the requirements of the standard.

Thus, the analysis for sales of tires on the replacement market or to vehicle manufacturers is completed and the Group concluded that the implementation of the standard will not have any significant impact.

The other categories of revenue include mainly management of tires for fleets of vehicles and provision of telematics solutions for commercial fleets, improving fuel management and enhancing fleet productivity. For these categories of clients, the Group has not identified any provision of the standard that might have a significant impact on the revenue recognition.

As a consequence, the Group considers that the implementation of IFRS 15 will not have any significant impact on the consolidated financial statements.

With regard to the transition requirements, the Group will apply IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognized as at January 1, 2018 as an adjustment to the opening balance of retained earnings.

/ 2.4.3 IFRS 16

IFRS 16 "Leases", published in January 2016, endorsed by the European Union in November 2017, is applicable at the latest from accounting period beginning on January 1, 2019. It provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretative guidance.

The new standard applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting model are introduced as the current distinction between operating and finance leases will disappear. The lessee must recognize an asset, corresponding to the right of use, and a liability corresponding to the lease commitment. Limited exceptions for short-term leases and/or leases of low value assets are allowed. The Group will adopt it from the accounting period beginning on January 1, 2019.

The project launched in 2016 to assess the impacts of this standard and manage all aspects of the transition will continue until the end of 2018. The Group is progressing with the identification and analysis of its contracts in order to collect the necessary information, to be ready to comply with the requirements of the new standard.

/ 2.4.4 IFRIC 22

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, subject to its adoption by the European Union. Its implementation is not expected to have a significant impact on the Group's consolidated financial statements.

/ 2.4.5 IFRIC 23

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 is applicable for financial years beginning on January 1, 2019, subject to its adoption by the European Union and subject to retrospective application, with or without comparative information restatement for the first year of application. Studies are underway to analyze the possible impacts of this interpretation.

There are no other new standards, updates and interpretations published but not yet effective whose impact could be significant for the Group.

2.5 Critical accounting estimates and judgments

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

The main critical accounting estimates requiring key assumptions and judgments are the impairment of non-financial assets, the employee benefit obligations and the income taxes.

/ 2.5.1 Impairment of non-financial assets

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

Quantitative information is provided in note 13.2 "Goodwill".

/ 2.5.2 Employee benefit obligations

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

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

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

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

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

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

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

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

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

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

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

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

/ 2.5.3 Income taxes

Significant judgment and estimates are required in determining the income tax expense.

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

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

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

Quantitative information is provided in note 18 "Taxes".

2.6 Change in accounting estimates

The Group has changed in 2017 the expected useful life of the curing molds. These pieces of equipment are used in the final stage of production, during which the tires acquire their final shape and technical properties.

Recent and gradual technological improvements in the design and manufacturing process of the curing molds have contributed to increasing the useful life of this type of equipment. Conversely, the economic life of tires ranges, in particular for Passenger Car tires, is becoming shorter. Consequently, the life cycle of the different ranges of tire products is becoming a key factor in assessing the useful life of curing molds assets.

From January 1, 2017, based on the studies carried out in light of economic factors described above, the useful life of the curing molds has been increased from two to three, five or seven years, depending on the type of tires to which they are destined.

The Group assesses this change as a change in accounting estimate, as defined by IAS8, and therefore recognizes its impacts prospectively.

The effect, for the year 2017, represents a reduction in depreciation costs of around €80 million.

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.

3.2 Segment reporting

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

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

3.3 Foreign currency

/ 3.3.1 Presentation and functional currency

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

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

/ 3.3.2 Transactions

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

Exchange differences on equity investments classified as available-for-sale financial assets are included in other items of comprehensive income until the investment is sold.

/ 3.3.3 Translation

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

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

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

/ 3.3.4 Exchange rates of major currencies

	Closing rates		Average rates	
Against €:	**2017**	**2016**	**2017**	**2016**
US dollar (USD)	1.193	1.046	1.129	1.107
Canadian dollar (CAD)	1.505	1.415	1.465	1.466
Mexican peso (MXN)	23.502	21.628	21.307	20.615
Brazilian real (BRL)	3.956	3.436	3.601	3.841
British pound (GBP)	0.888	0.854	0.877	0.816
Chinese yuan (CNY)	7.808	7.275	7.631	7.351
Indian rupee (INR)	76.579	71.225	73.522	74.389
Thai baht (THB)	38.917	37.614	38.311	39.070

3.4 Derivative financial instruments

Derivative financial instruments are used to manage financial exposures.

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

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

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

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

3.5 Hedging

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

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

Some other derivatives, while providing effective economic hedges under the Group financial policies, cannot qualify or have not been designated for hedge accounting (see derivatives policy above).

Fluctuations of these derivatives' fair values are therefore accounted for in the income statement. For example, foreign currency derivatives that are used to hedge the currency exposure of financial assets and liabilities are not designated as hedging instruments.

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

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

/ 3.5.1 Fair value hedges

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

/ 3.5.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognized in other items of comprehensive income. The ineffective portion of the gain or loss is recognized immediately in the income statement. Amounts accumulated in other items of comprehensive income are recycled in the income statement in the period when the hedged item affects the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other items of comprehensive income at the time is immediately recognized in the income statement.

3.6 Fair value of financial instruments

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

- Level 1: Quoted prices in active markets. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the consolidated statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments (essentially cash and cash equivalents as well as quoted available-for-sale financial assets) are included in level 1.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value these instruments are observable, these instruments (essentially cash management financial assets and derivative instruments) are included in level 2.
- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument (essentially non-quoted available-for-sale financial assets) is included in level 3.

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

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

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

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

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

3.7 Definition of certain indicators presented in the consolidated financial statements

/ 3.7.1 Net debt

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

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

/ 3.7.2 EBITDA from recurring activities

The Group defines EBITDA from recurring activities as operating income from recurring activities less depreciation of property, plant and equipment and amortization of intangible assets.

3.8 Revenue recognition

Revenue is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts allowed by the Group entities or any commercial incentives linked to sales. Deferred rebates are accrued based on past experience and expected payments.

Sales are recognized as follows:

- Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and will receive the economic benefits associated with the transaction. Due to the nature of the products, the general sales conditions, the logistics incoterms and the insurance contracts, revenue is usually recognized when the goods leave the Group premises.
- Revenue from sales of services is recognized by reference to the stage of completion of the transaction at the date of the consolidated statement of financial position, to the extent that this stage can be measured reliably and the economic benefits associated with the transaction will flow to the Group.

Financial income is recognized as follows:

- Interest income is recognized on an accrual basis using the effective interest method.
- Dividend income is recognized when the right to receive payment is established.

3.9 Cost of sales

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

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

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

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

3.10 Research and development

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

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

3.11 Operating income from recurring activities

In order to improve the understanding and the analysis of its operational performance, the Group has decided in 2016 to display the "Operating income from recurring activities" balance. It includes all the incomes and expenses which are directly related to the recurring activity of the Group.

3.12 Operating income/(loss) from non-recurring activities

"Operating income/(loss) from non-recurring activities" includes unusual, abnormal or non-frequent significant items of income and expenses that are not considered inherent to the Group's recurring activity. The balance includes, in particular, costs for reorganizations and adaptation of activities and costs relating to major litigations (as well as adjustments in the corresponding provisions), in addition to impairment of goodwill. Furthermore, are included gain/loss on disposals and changes in impairment of tangible and intangible assets, acquisition price adjustments as well as the cost of benefits for retired personnel. They are detailed in note 9 "Operating income/(loss) from non-recurring activities".

3.13 Income tax

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

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

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

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

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

Deferred tax is calculated on temporary differences arising from investments in subsidiaries, joint ventures, and associates: deferred tax assets are 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.

Goodwill is carried at cost less any accumulated impairment losses.

Costs directly attributable to the business combination are expensed as incurred and booked as other operating income and expenses from recurring activities in the consolidated income statement.

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

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

3.15 Intangible assets

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

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment. Those with finite useful lives are amortized on a straight-line basis over their estimated useful life. Software are amortized over three or seven 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 operating income/(loss) from non-recurring activities.

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

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

3.17 Impairment of non-financial assets

When there is any indication that the recoverable amount of an asset (goodwill, intangible assets or property, plant and equipment) may be lower than its carrying amount, the recoverable amount of the asset is measured and if needed, an impairment is 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 at the lowest level for which there are separately identifiable cash flows (Cash Generating Units – CGUs).

The CGUs are defined according to the way the Group operations are managed: it could be the crossings of Product Lines and Geographic Zones (for example: CGU North America Passenger car and light truck), the Distribution Networks (for example: CGU Euromaster) or the Business Subsidiaries (for example: CGU Michelin Travel Partner). This approach allows having CGUs with cash flows that are separately identifiable from cash flows of other CGUs.

CGUs to which goodwill have been allocated are tested annually or more frequently if events or changes in circumstances indicate a potential impairment. Those without goodwill are tested if there is a specific indication of impairment.

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

For most CGUs or group of CGUs, recoverable amount is based on value in use, which is equal to future discounted cash flows using the Weighted Average Cost of Capital (WACC) as a discount rate. Future cash flows are mainly based on the CGU's five-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 operating income/(loss) from non-recurring activities.

3.18 Non-derivative financial assets

/ 3.18.1 Asset categories

The Group classifies its non-derivative financial assets in one of the following categories: loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss. The classification depends on the purpose for which the assets are acquired as well as its nature. The Group determines the classification of its non-derivative financial assets at initial recognition and reviews this designation at every reporting date.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the date of the consolidated statement of financial position.
- Available-for-sale financial assets are usually non-monetary securities. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the consolidated statement of financial position.
- Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of being sold in the short term or if it is so designated by the Group. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the date of the consolidated statement of financial position.

/ 3.18.2 Transactions

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

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

When securities classified as available-for-sale are sold, the accumulated fair value gains or losses, including the fair value adjustments previously recognized in other comprehensive income, are included in the income statement.

/ 3.18.3 Measurement

Available-for-sale financial assets are measured at fair value determined essentially by reference to a published price quotation in an active market. Loans and receivables are measured at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other items of comprehensive income unless these assets are part of fair value hedges and therefore included in the income statement for the hedged risk in the period in which they arise.

/ 3.18.4 Impairment

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other items of comprehensive income and recognized in the income statement. Impairment losses on equity instruments recognized in the income statement cannot be reversed.

3.19 Inventories

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

The cost of raw material, supplies and purchased finished goods includes the purchase price and other costs directly attributable to the acquisition. The cost of work in progress and manufactured finished goods comprises direct labor cost, other direct costs and production overheads based upon normal capacity of production facilities. Borrowing costs are expensed as incurred. The measurement of inventories and of cost of sales with the standard cost method put in place by the Group is close, 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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment.

When payment terms are shorter than one year, the initial fair value and the subsequent amortized cost are considered as being equal to the nominal amount.

An impairment loss is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bankruptcy, legal creditor protection processes, manifest insolvency of the debtor, disappearance of the debtor, more than six months overdue, economic or political risk in the debtor country, adverse change in the debtor's credit situation are considered indicators that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Prior to recognizing an impairment loss, the quality of any guarantees, as well as the ability to realize them, have to be assessed. The impairment charge is recognized under sales and marketing expenses.

When a trade receivable is uncollectible, it is written off against the corresponding previously recognized impairment. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

3.21 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less. 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 equity, net of income tax effects.

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

3.24 Employee benefits

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

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

/ 3.24.1 Pension and other post-employment benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

/ 3.24.2 Share based payments

Employee share option plans

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

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

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

Benefits are spread over the period during which the services are rendered. They are recognized in Other operating income and expenses from recurring activities.

Performance share plans

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

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

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

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

The total compensation cost is based on the fair value of the performance shares and the estimated number of shares that will finally be issued. This cost is recognized over the vesting period and is booked in Other operating income and expenses from recurring activities.

Employee share purchase plans

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

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

The benefit granted to the employees is immediately expensed by the Group, as no vesting period applies, and is booked under Employee benefit costs – Share-based payments, within the Operating income from recurring activities.

3.25 Provisions

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

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

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

3.26 Trade payables

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

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

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

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

NOTE 4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk management policy

/ 4.1.1 Organization of financial risk management

Financial risk control, measurement and supervision are carried out under the responsibility of the Corporate Financing Department, at the subsidiary, geographic zone level as well as at the Group level. It reports directly to the Group Financial Department.

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

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

A Financial Risks Committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The Financial Risks Committee meets on a monthly basis and includes members of the Group Financial Department and of the Corporate Financing Department.

/ 4.1.2 Liquidity risk

4.1.1.1 Risk factors

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

4.1.1.2 Risk management processes

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

Except in the case of particular obligations related to the specific features of local financial markets, the Group companies are financed in accordance with the following model:

- cash pooling with the Group for the management of day to day liquidity requirements;
- intercompany credit lines and loans to meet medium and long term requirements.

Short term financing for subsidiaries that do not participate in the cash pooling is under the responsibility of the local treasurer.

The management of liquidity risk is supported by a forecasting system of short and long term financing requirements based on business forecasts and the strategic plans of the operating entities.

As a matter of prudent financial policy, the Group guards against the inclusion in its financial contracts of covenants providing for ratios or "material adverse change" clauses that could affect its ability to mobilize credit lines or affect their term. At closing date no such clause featured in Group loan agreements. With regard to clauses in financial contracts relating to default or acceleration, the probability of such circumstances arising is low and their possible impact on the financial situation of the Group is not significant.

/ 4.1.3 Currency risk

4.1.3.1 Risk factors

Currency risk is defined as the impact on financial indicators of fluctuations in the exchange rates of foreign currencies used in the normal course of business. The Group is exposed to currency risks on its foreign currency transactions (transaction risk) and also on the translation of its net investment in foreign subsidiaries (translation risk).

Foreign currency transaction risk arises from the monetary assets and liabilities of the Group and its subsidiaries (mainly cash and cash equivalents, receivables, payables and borrowings) that are denominated in foreign currencies. It corresponds to the risk of a change in the exchange rate between the date when these monetary assets and liabilities are recorded in the accounts and the date when they are recovered or settled.

Foreign currency translation risk arises from the Group's net investment in foreign subsidiaries. It corresponds to the risk of a change in the exchange rate used to translate the net investment in the foreign subsidiary into Euros during the consolidation process.

4.1.3.2 Risk management processes

Currency transaction risk

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

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

Foreign currency payables and receivables of the same type and with equivalent maturities are netted off and only the net exposure is hedged. This is normally carried out through the financial holding company, or, alternatively, through a bank. The financial holding company in turn assesses its own resulting exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts. The structural part of the exposure is hedged with long term instruments (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.

/ 4.1.4 Interest rate risk

4.1.4.1 Risk factors

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

4.1.4.2 Risk management processes

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

Interest rate exposure is analyzed and monitored by the financial risks committee using monthly performance indicators and management reports.

The interest rate position is centralized by currency by the Corporate Financing Department that is the only department permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies. The Financial Risk Committee determines the limits for hedging by currency, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

/ 4.1.5 Equity risk

4.1.5.1 Risk factors

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

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

4.1.5.2 Risk management processes

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

/ 4.1.6 Counterparty risk

4.1.6.1 Risk factors

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

4.1.6.2 Risk management processes

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

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

In order to mitigate the counterparty risk on its derivatives instruments, the Group realizes exchange of collaterals with its main banks.

/ 4.1.7 Credit risk

4.1.7.1 Risk factors

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

4.1.7.2 Risk management processes

The Credit Department, which is part of the Group Financial Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for credit and collection. The main policies and procedures are defined at Group level and are monitored and controlled at both the geographical zone and Group level. A monthly credit reporting system operates within the Group.

4.2 Financial risk data

/ 4.2.1 Liquidity risk

At December 31, 2017, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2018	2019	2020	2021	2022	2023	2024 and beyond
Bonds	199	415	16	16	780	14	832
Loans from financial institutions and other	286	3	7	6	5	91	117
Obligation under finance lease	20	29	29	29	29	29	83
Derivative instruments	-	(12)	(9)	-	56	(1)	(2)
Repayment schedule of financial debts	**505**	**435**	**43**	**51**	**870**	**133**	**1,030**
Long-term undrawn confirmed credit lines	**-**	**-**	**-**	**1,500**	**-**	**-**	**-**

This table shows debt principals plus interests according to their payment date, as projected with available market data at closing date (interests are computed in each currency on the basis of the market rates, and converted in Euros at closing rates). Thus displayed amounts are not discounted.

The refinancing risk of the Group short term debt is covered by the amount of the undrawn confirmed credit lines (€1,500 million), cash available (€1,773 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.

/ 4.2.2 Currency risk

Transactional currency risk

The following table set forth the Group transactional foreign currency accounting exposures (when a monetary asset or liability is denominated in a currency other than the functional currency), before and after hedging:

	December 31, 2017						December 31, 2016					
(in € million)	AUD	EUR	SEK	HUF	CNY	Other	AUD	EUR	SEK	HUF	CNY	Other
Monetary assets	223	659	148	26	774	6,243	226	719	121	6	869	6,418
Monetary liabilities	(105)	(1,681)	(117)	(38)	(113)	(5,347)	(117)	(1,687)	(79)	(4)	(102)	(5,420)
Net position before hedging	**118**	**(1,022)**	**31**	**(12)**	**661**	**896**	**109**	**(968)**	**42**	**2**	**767**	**998**
Hedges	(104)	1,032	(39)	(4)	(679)	(926)	(106)	857	(49)	(1)	(766)	(1,082)
NET POSITION AFTER HEDGING	**14**	**10**	**(8)**	**(16)**	**(18)**	**(30)**	**3**	**(111)**	**(7)**	**1**	**1**	**(84)**

At December 31, 2016, a subsidiary had net exposure in EUR for €107 million, due to the change of its functional currency as of January 1, 2017. This exposure is being hedged from the beginning of January 2017.

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 (2016: €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 4.1.3 "Currency risk".

Because of the low volume of cash flow hedge derivatives (note 16 "Derivative financial instruments"), the equity sensitivity to currency risk is not significant.

Currency translation risk

A breakdown of equity by currency is provided in the following table:

(in € million)	December 31, 2017	December 31, 2016
EUR	6,400	5,429
USD	1,962	1,760
BRL	979	1,063
THB	526	661
CNY	407	430
CAD	333	417
INR	236	252
GBP	121	(137)
Other	297	771
TOTAL	**11,261**	**10,646**

/ 4.2.3 Interest rate risk

Net debt at December 31, 2017 by type of hedges and currencies can be detailed as follows:

	Net debt before hedging			Currency hedging	Net debt after currency hedging but before interest rate hedging			Interest rate hedging		Net debt after hedging		
(in € million)	Fixed	Variable	Total		Fixed	Variable	Total	Fixed	Variable	Fixed	Variable	Total
EUR	1,155	(1,267)	**(112)**	(2,044)	1,658	(3,814)	**(2,156)**	(354)	354	1,304	(3,460)	**(2,156)**
CNY	-	(37)	**(37)**	885	-	848	**848**	380	(380)	380	468	**848**
USD	465	143	**608**	(171)	(38)	475	**437**	323	(323)	285	152	**437**
THB	-	68	**68**	329	-	397	**397**	226	(226)	226	171	**397**
BRL	6	44	**50**	307	6	351	**357**	225	(225)	231	126	**357**
MXN	-	(1)	**(1)**	168	-	167	**167**	-	-	-	167	**167**
Other currencies	16	92	**108**	526	16	618	**634**	146	(146)	162	472	**634**
Total before derivatives	**1,642**	**(958)**	**684**	**-**	**1,642**	**(958)**	**684**	**946**	**(946)**	**2,588**	**(1,904)**	**684**
Fair value of derivatives included in net debt			**32**				**32**					**32**
NET DEBT (NOTE 26)			**716**				**716**					**716**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2017:

		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	(19)	(26)	(2)	113	**85**
1-point upward shift	19	25	2	(113)	**(86)**

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.
(2) For derivatives qualifying for hedge accounting (cash flow hedges).
(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

/ 4.2.4 Equity risk

Equity risk is the risk of a 10% unfavorable change in the price of the Group investment portfolio.

(in € million)	December 31, 2017	December 31, 2016
Carrying amount (note 15.1)	285	208
Impact on equity of a 10% unfavorable change in the price of the Group investment portfolio	**(20)**	**(13)**

/ 4.2.5 Counterparty risk

At December 31, 2017, 54% of cash and cash equivalents (including cash management financial assets) is invested in money market or short term bond funds to allow for a maximum diversification of the counterparty risk. The balance is invested directly in international bank institutions which meet the counterparty risk management criteria defined by the Group.

Furthermore, most of the derivatives are contracted with the same banking groups.

/ 4.2.6 Credit risk

At December 31, 2017, net receivable balances from the ten largest customers amounted to €543 million (2016: €572 million). Seven of these customers are located in Europe and three in North America.

At the same date, 67 customers (2016: 64) have been granted credit limits in excess of €10 million. Out of these, 32 are located in Europe, 20 in North America, 4 in Asia, 10 in Africa, India or Middle-East and 1 in South America. There was no significant collateral received to limit credit risk. In 2017, credit losses represented 0.09% of sales (2016: 0.07%).

/ 4.2.7 Commodities derivatives

In 2017, the Group did not have any significant hedges of commodities purchases (note 16.3 "Derivative contractual amounts").

4.3 Capital risk management

The Group's objectives when managing its capital is to safeguard its ability to continue as a going concern and to ensure its development, so that it can provide returns for shareholders and benefits for other stakeholders.

The Group monitors its capital on the basis of the gearing ratio, corresponding to the ratio of net debt to total equity.

(in € million)	December 31, 2017	December 31, 2016
Net debt (note 26)	716	944
Total equity	11,261	10,646
GEARING RATIO	**0.06**	**0.09**

4.4 Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2017 and 2016 by level of the fair value measurement hierarchy:

(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
Available-for-sales financial assets (note 15.1)	32	-	253	285
TOTAL ASSETS	**1,397**	**148**	**253**	**1,798**
Derivatives (note 16.2)	-	180	-	180
TOTAL LIABILITIES	**-**	**180**	**-**	**180**

(in € million)	Level 1	Level 2	Level 3	Total 2016
Cash and cash equivalents[(1)]	1,293	-	-	1,293
Deposits borrowing collaterals	77	-	-	77
Derivatives (note 16.1)	-	84	-	84
Available-for-sales financial assets (note 15.1)	43	-	165	208
TOTAL ASSETS	**1,413**	**84**	**165**	**1,662**
Derivatives (note 16.2)	-	181	-	181
TOTAL LIABILITIES	**-**	**181**	**-**	**181**

(1) See note 21.

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, 2017	**165**
Additions[1]	118
Disposals[2]	(41)
Transfers from other level to level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in net income	1
Gains or losses for the year included in other comprehensive income	21
Others	(11)
AT DECEMBER 31, 2017	**253**

(1) Of which €55 million correspond to the acquisitions described in note 33.1.2.
(2) Of which €12 million correspond to the 2016 acquisitions consolidated in 2017 (note 13.1).

NOTE 5 SEGMENT REPORTING

The Group is organized into Product Lines, each one dedicated to an area of activity, with its own marketing, development, production and sales resources. The Group has three operating segments as follows:

- Passenger car and Light truck tires and related distribution;
- Truck tires and related distribution; and
- Specialty businesses.

Specialty businesses include the Specialty tire business activities (Earthmover, Agricultural, Two-wheel and Aircraft tires) and the activities Michelin Travel Partner, Michelin Lifestyle and BookaTable.

The operating segments performance is measured on operating income from recurring activities and it is based on the same principles applied to the Group's consolidated income statement.

This measurement basis excludes the effects of income and expenses from non-recurring activities from the operating segments. Group financing (including the cost of net debt and other financial income and expenses), result sharing from associates and income tax are managed on a Group basis and are not allocated to operating segments.

Segment assets consist of goodwill, intangible assets, property, plant and equipment, trade receivables and finished products inventories. Corporate intangible assets and property, plant and equipment are allocated to each segment in proportion of directly attributed assets. The amounts provided to the Managing Chairman with respect to segment assets are measured in a manner consistent with that of the consolidated financial statements. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

No operating liabilities are allocated to the segments in the Group internal reporting.

The segment information is as follows:

	2017				2016			
(in € million)	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	Specialty businesses	Total	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	Specialty businesses	Total
Profit and loss information								
Net sales	12,479	6,123	3,358	**21,960**	12,105	5,966	2,836	**20,907**
Operating income from recurring activities	1,552	497	693	**2,742**	1,585	580	527	**2,692**
In percentage of net sales	*12.4%*	*8.1%*	*20.6%*	***12.5%***	*13.1%*	*9.7%*	*18.6%*	***12.9%***
Depreciation and amortization	(760)	(362)	(223)	**(1,345)**	(778)	(383)	(231)	**(1,392)**
Segment assets								
Goodwill, Intangible assets and PP&E	6,974	3,821	1,965	**12,760**	6,935	3,648	2,063	**12,646**
Finished products inventories	1,495	896	490	**2,881**	1,508	839	477	**2,824**
Trade receivables	1,653	998	433	**3,084**	1,666	1,048	328	**3,042**
Total of segment assets	**10,122**	**5,715**	**2,888**	**18,725**	**10,109**	**5,535**	**2,868**	**18,512**
Other information								
Capital expenditure	1,080	476	215	**1,771**	1,080	520	211	**1,811**

In 2017, the impairment recognized in the operating income amounts to €54 million (2016: €158 million), of which €10 million (2016: €27 million) pertaining to the Passenger car and Light trucks tires and related distribution operating segment, €5 million (2016: €66 million) to the Truck tires and related distribution operating segment and €39 million (2016: €65 million) to the Specialty businesses. Note 9 provides further details on these impairments.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	December 31, 2017	December 31, 2016
Segment assets	**18,725**	**18,512**
Non-current financial assets and other assets	479	323
Investments in associates and joint ventures	356	309
Deferred tax assets	890	1,191
Other net inventories (raw materials and supplies, work in progress)	1,627	1,656
Current financial assets	285	303[(1)]
Other current assets	1,132	1,202
Cash and cash equivalents	1,773	1,826[(1)]
TOTAL GROUP ASSETS	**25,267**	**25,322**

(1) See note 21.

The geographic information is broken down by zone hereunder:

	2017				2016			
(in € million)	Europe	North America	Other	Total	Europe	North America	Other	Total
Net sales	8,315	8,056	5,589	**21,960**	8,101	7,792	5,014	**20,907**
Goodwill, Intangible assets and PP&E	5,804	3,217	3,739	**12,760**	5,674	3,036	3,936	**12,646**
Capital expenditure	866	533	372	**1,771**	943	413	455	**1,811**

Europe includes western and eastern European countries. North America includes Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in Other.

The Group sales information is based on the location of the customer.

The net sales in France amounted to €1,984 million (2016: €1,917 million). The intangible assets and PP&E located in France amounted to €2,298 million (2016: €2,164 million).

Approximately 80% of the North American net sales are done in the United States of America during these two years.

No single external customer amounted to 10% or more of the Group net sales in 2017 and 2016.

NOTE 6 EXPENSES BY NATURE

The following operating costs from recurring activities are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Raw materials and consumables used and changes in finished products inventories	(8,072)	(7,130)
Employee benefit costs	(5,909)	(5,814)
Transportation of goods	(1,183)	(1,152)
Depreciation and amortization	(1,345)	(1,392)
Other expenses	(2,709)	(2,727)
EXPENSES BY NATURE	**(19,218)**	**(18,215)**

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, 2017	Year ended December 31, 2016
Wages and salaries	(4,617)	(4,529)
Payroll taxes	(963)	(950)
Defined benefit plan costs (note 27.1)	(64)	155
Defined contribution plan costs (note 27.2)	(220)	(213)
Share-based payments – Cost of services rendered (note 25)	(7)	(5)
EMPLOYEE BENEFIT COSTS	**(5,871)**	**(5,542)**

The average number of employees in 2017 is 114,438 (2016: 112,088).

NOTE 8 OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES

Other operating income and expenses from recurring activities are recognized within in the income statement:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Acquisition costs linked to business combinations	(10)	-
Employee shareholder plan cost	-	(16)
Share-based payments – Cost of services rendered (note 25)	(7)	(5)
Other operating income/(expenses)	(18)	-
OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES	**(35)**	**(21)**

NOTE 9 OPERATING INCOME/(LOSS) FROM NON-RECURRING ACTIVITIES

The income and expenses from non-recurring activities are detailed in the table below:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Reorganization and adaptation of activities (note 9.1)	(55)	(80)
Impairment of fixed assets (note 9.2)	(54)	(129)
Retiree benefit costs (note 9.3)	37	272
Other operating income/(expenses) (note 9.4)	(39)	36
NON-RECURRING INCOME AND EXPENSES	**(111)**	**99**

9.1 Reorganizations and adaptation of activities

On June 22, 2017, the Group announced the project of the new global organization to better serve its customers. In France, the implementation of this new organization will have repercussions on the workforce headcount, especially within the Clermont-Ferrand sites. A voluntary pre-retirement scheme for managers and employees of the sites concerned has been proposed and has been agreed with the unions. In addition, for those employees who cannot 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 is 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 has been announced in December 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 have been put in place which resulted in a provision of €16 million.

In 2016, the Group announced the reorganization of the Process engineering function and the closure, before the end of 2017, of a retreading facility in Clermont-Ferrand. A provision covering the social costs as well as the impairment of non-reusable equipment had been recorded for a total amount of €45 million.

A three-year agreement, known as the GPEC, was concluded in September 2016 with the unions, in anticipation of a large number of employees' retirements in the coming years within some of the Group's French subsidiaries. In return for better visibility provided by the employees on the expected date of their retirement, the companies concerned will grant them specific benefits. A provision of €30 million had been set aside to cover the cost of this agreement.

9.2 Impairment of fixed assets

Impairment losses on previously recognized goodwill totaled €36 million in 2017. They concern mainly the BookaTable CGU.

Impairment losses on non-reusable assets, due to the competitiveness improvement plan in Germany and the ongoing restructuring in Italy, amount to €12 million.

In 2016, the fixed assets impairments were mainly due to the equipment of the Tweel CGU for €45 million, some semi-finished production capacity of the Chennai site in India for €54 million and the land right-of-use, as well as the site preparation investments already undertaken, in China for an amount of €25 million.

9.3 Retiree benefit costs

In 2017, an income amounting to €62 million is generated by evolution of provisions for employee benefits and is related to the pension plans in the United Kingdom and the healthcare plan in the United States of America.

Additional disclosure on this topic is provided in note 27. The income is 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.

In 2016, a change in the American medical cover for the Group's retired employees has reduced significantly the present value of the obligation, allowing a provision reversal for €271 million.

9.4 Other operating income and expenses

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).

The claims not accepted for which a provision had not been set aside by the Group as of December 31, 2016 amounted to €34 million for which appeals or litigation were initiated. A first adverse judgment was rendered in September 2017. The Group pursues its recourse but has recognized the risks related to these claims in the consolidated financial statements at December 31, 2017, for an amount of €39 million.

In 2016, an agreement was reached, with the local authorities of Shenyang in China, to return a land in exchange for a payment of €34 million.

NOTE 10 COST OF NET DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

Cost of net debt and other financial income and expenses are broken down in the table below:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Interest expenses	(177)	(209)
Interest income	5	6
Interest rate derivatives	(16)	(7)
Fees on credit lines	(5)	(5)
Capitalized borrowing costs	17	12
COST OF NET DEBT	**(176)**	**(203)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	19	21
Currency remeasurement (including currency derivatives)	(14)	(18)
Other	(5)	17
OTHER FINANCIAL INCOME AND EXPENSES	**-**	**20**

10.1 Derivatives not accounted for using hedge accounting

As described in the financial risk management policy, the Group financing activities are mostly centralized (note 4.1.2 "Liquidity risk") and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (note 4.1.4 "Interest rate risk"). As a consequence:

- borrowings are essentially raised in Euros (note 26 "Financial liabilities");
- part of these borrowings is subsequently swapped into foreign currencies to finance the foreign subsidiaries; and
- derivatives are contracted to manage the foreign currency interest rates (note 16 "Derivative financial instruments").

This process is described in the summary table in note 4.2.3 "Interest rate risk".

Although these transactions provide effective economic hedges, they do not qualify for hedge accounting under IFRS (and therefore they cannot be recognized as cash flow hedges as described in note 3.5 "Hedging"). Fluctuations in the derivatives' fair values are therefore accounted for in the income statement. The decrease in fair value during the year amounted to €17 million (2016: decrease of €8 million) and is included in "Interest rate derivatives (Cost of net debt)".

10.2 Ineffective hedges

As in 2016, no ineffective portion of fair value hedges was recognized in the income statement in "Interest rate derivatives (Cost of net debt)" nor cash flow hedge ineffectiveness was recognized in the income statement.

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Current tax expense (note 18.2)	(559)	(749)
Deferred tax income/(expense) (note 18.1)	(102)	(48)
INCOME TAX	**(661)**	**(797)**

Current tax includes €81 million of withholding tax on royalties and distribution of retained earnings between Group companies (2016: €84 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Income before tax	**2,354**	**2,464**
Tax calculated using domestic tax rates applicable to income in the respective countries	**(631)**	**(669)**
Tax effect from:		
▶ untaxed transactions	(9)	15
▶ deferred tax assets not recognized during the year	(36)	(81)
▶ net change in unrecognized deferred tax assets	8	5
▶ changes in tax rates	25	(2)
▶ taxes with no tax base (tax credits, withholding tax, etc.)	(52)	(76)
▶ other items	34	11
INCOME TAX	**(661)**	**(797)**

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 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. This outstanding amount stems mainly from taxable temporary differences relating to the depreciation of property, plant and equipment and recognition at fair value at the date of acquisition of assets acquired during business combinations.

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.

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, 2017, 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"). On December 31, 2016, the Company had a third dilutive instrument: bonds convertible in existing or new shares (OCEANEs). They expired on January 1, 2017 as detailed in note 26.1. 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, 2017	Year ended December 31, 2016
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,700	1,676
▶ Less, estimated grants to the General Partners	(11)	(12)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,689**	**1,664**
▶ Plus, interest expenses on convertible bonds	-	28
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,689**	**1,692**
Weighted average number of shares *(in thousands of shares)* **outstanding used in the calculation of basic earnings per share**	**179,889**	**180,685**
▶ Plus, adjustment for share option plans	257	422
▶ Plus, adjustment for convertible bonds	-	5,598
▶ Plus, adjustment for performance shares	689	729
Weighted average number of shares used in the calculation of diluted earnings per share	**180,835**	**187,434**
Earnings per share *(in €)*		
▶ Basic	9.39	9.21
▶ Diluted	9.34	9.03

Taking into account the evolution of the average share price in 2017, 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 2017 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, 2016	**832**	**1,795**	**2,627**
Translation adjustments	58	28	**86**
Additions (including new emission rights: €4 million)	-	162	**162**
Disposals	-	(54)	**(54)**
Changes in scope of consolidation	104	20	**124**
Transfers and other	(1)	5	**4**
Gross carrying amounts at December 31, 2016	**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**
Amortization and impairment at January 1, 2016	**(29)**	**(1,174)**	**(1,203)**
Translation adjustments	-	(19)	**(19)**
Amortization	-	(144)	**(144)**
Net impairment	(2)	(6)	**(8)**
Disposals	-	17	**17**
Changes in scope of consolidation	-	-	**-**
Transfers and other	1	-	**1**
Amortization and impairment at December 31, 2016	**(30)**	**(1,326)**	**(1,356)**
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)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2017	**1,092**	**785**	**1,877**
Net carrying amounts at December 31, 2016	**963**	**630**	**1,593**

13.1 2016 Acquisitions

On December 15, 2016 the Group acquired Levneo, the holding of a group of Brazilian companies producing and commercializing motorbike and bicycle tires under the Levorin trademark. The company is specialized in the "commuting" segment and operates in the Brazilian market.

At December 31, 2016, this acquisition was provisionally reported as "Non-current financial assets and other assets" in the consolidated statement of financial position.

At the acquisition date, the fair value of the consideration transferred amounted to €9 million.

During 2017, the Group has finalized the price allocation and the related acquisition accounting entries.

The assets acquired and liabilities assumed measured at fair value are detailed in the following table:

(in € million)	**At acquisition date**
Intangible assets[1]	26
Property, plant and equipment (PP&E)	51
Non-current financial assets and other assets	-
Deferred tax assets	14
Non-current assets	**91**
Inventories	13
Trade receivables and other current assets[2]	15
Cash and cash equivalents	4
Current assets	**32**
Non-current financial liabilities	-
Provisions and other non-current liabilities	(31)
Non-current liabilities	**(31)**
Current financial liabilities	(46)
Trade payables and other current liabilities	(70)
Current liabilities	**(116)**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**(24)**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for the trademark while using an income approach for the customer relationships. The Levorin trademark has been valued at €17 million and its useful life is indefinite. The fair value of the customer relationships has been measured at €9 million. It will be amortized over its remaining useful life of seven years.
(2) At the acquisition date, the trade receivables amounted to €8 million and they have been kept at the same value.

The purchase price allocation, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for an amount of €33 million, calculated as follows:

(in € million)	**At acquisition date**
Fair value of consideration transferred (1)	9
Fair value of net liabilities assumed (2)	24
GOODWILL (1) + (2)	**33**

With this acquisition, Michelin is consolidating its presence in Brazil and reinforcing the global development of its two-wheel tire ranges. In particular, the Group is strengthening its position in the "Commuting" segment, a significant and expanding market, and is extending the range of tires currently offered, historically oriented to the high-end two-wheel leisure market. These aspects led to the decision to test the goodwill, amounting to €33 million, together with the Two-wheel CGU.

In 2017, Levorin has contributed to the Group's net sales for an amount of €101 million, to the operating result for -€7 million and to the net result for -€15 million.

Levorin is allocated to the operating segment Specialty businesses.

Furthermore, the Group completed the price allocation for Reservas de Restaurantes, S.L.; a Spanish company operating in the online restaurant reservation business acquired in December 2016. The business combination has been accounted for in 2017 by applying the acquisition method. No identifiable intangible asset and no goodwill was recognized in the consolidated statement of financial position as at December 31, 2017.

13.2 Goodwill

The amounts allocated to the CGUs are as follows:

(in € million)	December 31, 2017	December 31, 2016
CGU Passenger car and light truck tires Southeast Asia / Australia	121	125
CGU Passenger car and light truck tires North America	115	128
CGU Passenger car and light truck tires Europe	112	113
Group of CGUs Truck tires South America(1)	202	233
Group of CGUs Truck tires North America(1)(2)	273	88
Group of CGUs Truck tires Europe(1)	109	115
CGU BookaTable	61	88
Other CGUs	99	73
GOODWILL	**1,092**	**963**

(1) In 2015, the synergies identified at Sascar's acquisition, reflecting the opportunity for Sascar to have access to the Group's customers in Brazil and to expand its service offering in other geographical zones led the Group to allocate the goodwill to three groups of CGUs (comprising Truck tire, fleet services and digital activities) in South America, in North America and in Europe.

(2) At December 31, 2017, the goodwill recognized in relation to the acquisition of Nextraq is allocated to this group of CGUs (note 33.1.1).

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 2017 for the valuation of the terminal value are presented in the table below:

(in percent)	After-tax WACC	Perpetual growth rate
Cash Generating Units Tires – Europe	6.3	1.5
Cash Generating Units Tires – North America	7.2	1.5
Cash Generating Units Tires – South America	12.3	3.0
Cash Generating Units Tires – Asia	8.3-12.0	3.0
Cash Generating Unit BookaTable	13.4	2.8
Cash Generating Units Digital activities – South America(1)	14.3	4.5

(1) Mainly Brazil.

The results of the test carried out on the CGU BookaTable led the Group to recognize an impairment of goodwill for an amount of €24 million.

As the recoverable amount of the other CGUs and group of CGUs is in excess of their assets value, no sensitivity analysis is disclosed, with the exception of the group of CGU Truck tires South America for which a WACC increase of 100 basis points would lead to an impairment of €56 million.

13.3 Intangible assets

In 2017, additions to intangible assets, amounting to €190 million (2016: €162 million) break down into the following categories:

- Software €175 million
- Emission rights – allowances granted €4 million
- Other €11 million

/ 13.3.1 Software

The net carrying amount of software at December 31, 2017 was €511 million (2016: €455 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, 2017 the net carrying amount of trademarks was €77 million (2016: €61 million), of which €42 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, 2017 amounts to 1.9 million metric tons (2016: 1.9 million metric tons) representing a value of €11 million (2016: €12 million). The liability related to actual emissions in 2017 amounts to 0.9 million metric tons (2016: 0.8 million metric tons) representing a value of €5 million (2016: €5 million). It will be offset by the delivery of the allowances granted.

/ 13.3.4 Development costs

In 2017 and 2016, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfil six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

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, 2016	**6,287**	**17,745**	**1,462**	**25,494**
Translation adjustments	128	468	34	**630**
Additions (including finance leases: €42 million)	470	1,119	106	**1,695**
Disposals	(199)	(471)	(68)	**(738)**
Changes in scope of consolidation	-	-	1	**1**
Transfers and other	5	(10)	-	**(5)**
Gross carrying amounts at December 31, 2016	**6,691**	**18,851**	**1,535**	**27,077**
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**
Depreciation and impairment at January 1, 2016	**(2,789)**	**(11,176)**	**(997)**	**(14,962)**
Translation adjustments	(49)	(281)	(20)	**(350)**
Depreciation	(175)	(997)	(76)	**(1,248)**
Net impairment	(53)	(78)	(16)	**(147)**
Disposals	155	465	65	**685**
Changes in scope of consolidation	-	-	(1)	**(1)**
Transfers and other	1	(1)	(1)	**(1)**
Depreciation and impairment at December 31, 2016	**(2,910)**	**(12,068)**	**(1,046)**	**(16,024)**
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)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2017	**3,815**	**6,588**	**480**	**10,883**
Net carrying amounts at December 31, 2016	**3,781**	**6,783**	**489**	**11,053**

PP&E under construction amounted to €2,186 million (2016: €2,027 million).

Accumulated impairment losses amounted to €332 million (2016: €355 million).

The borrowing costs capitalized in 2017 in PP&E amounted to €17 million (2016: €12 million).

PP&E held under finance leases amounted to €263 million (2016: €165 million). The gross carrying amounts of these assets totaled €325 million (2016: €222 million).

The future minimum payments under finance leases by maturity are shown in the following table:

	December 31, 2017		December 31, 2016	
(in € million)	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	20	24	16	19
Between one and five years	116	125	61	73
More than five years	112	120	70	77
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**248**	**269**	**147**	**169**

The minimum future payments increase between the two years is due mainly to the introduction in 2017 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, 2017	December 31, 2016
Available-for-sale financial assets (note 15.1)	285	208
Loans and deposits (note 15.2)	71	62
Derivative instruments (note 16.1)	119	45
Other	4	8
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**479**	**323**

15.1 Available-for-sale financial assets

Available-for-sale financial assets consist essentially of a portfolio of shares of non-listed companies (note 4.4).

Movements in the portfolio during the year are broken down in the table below:

(in € million)	2017	2016
At January 1	**208**	**243**
Translation adjustments	(11)	3
Additions[(1)(2)]	118	25
Exit[(1)]	(41)	(116)
Impairment reversal	1	(4)
Fair value changes	10	57
AT DECEMBER 31	**285**	**208**

(1) Available-for-sale financial assets at December 31, 2016 included €12 million related to the acquisition on December 15, 2016 of Levorin and on December 29, 2016 of Reservas de Restaurantes, which have been consolidated in 2017 (note 13.1).
(2) Available-for-sale financial assets at December 31, 2017 include €55 million related to acquisitions performed in the last months of 2017 which will be consolidated in 2018 (note 33.1.2).

15.2 Loans and deposits

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2017	December 31, 2016
Gross loans and deposits	111	102
Impairments	(40)	(40)
TOTAL	**71**	**62**

The balance includes loans to employees and customers.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note 3.5 "Hedging", some derivatives, while complying with the Group financial risk management policies, do not qualify or have not been designated as hedging instruments for hedge accounting purposes.

16.1 Derivatives recognized in assets

	December 31, 2017		December 31, 2016	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	14	383	18	383
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	5	80	4	61
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	45	587	23	170
▶ Interest-rate derivatives	-	20	-	-
▶ Other derivatives[1]	55	503	-	-
Non-current derivative instruments (note 15)	**119**	**1,573**	**45**	**614**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	2	36	-	16
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	5	1	3
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	27	1,682	38	1,765
▶ Interest-rate derivatives	-	42	-	143
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 21)	**29**	**1,765**	**39**	**1,927**
TOTAL ASSETS	**148**	**3,338**	**84**	**2,541**

(1) Corresponds to the financial instruments acquired to hedge the optional component of convertibles 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 €42 million as of December 31, 2017 (December 31, 2016: €77 million).

16.2 Derivatives recognized in liabilities

	December 31, 2017		December 31, 2016	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	59	531	4	65
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	37	393	94	663
▶ Interest-rate derivatives	-	200	2	198
▶ Other derivatives[(1)]	55	503	-	-
Non-current derivative instruments (note 26)	**151**	**1,627**	**100**	**926**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	2	36	7	65
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	1	3	1	5
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	26	1,900	73	1,968
▶ Interest-rate derivatives	-	167	-	199
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 26)	**29**	**2,106**	**81**	**2,237**
TOTAL LIABILITIES	**180**	**3,733**	**181**	**3,163**

(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 €15 million as of December 31, 2017 (2016: €7 million).

16.3 Derivative contractual amounts

The Group concluded long term currency derivative contracts with maturities between one and ten years for a total amount of €1,591 million (2016: €958 million). The nominal amounts by major currencies sold against the euro are denominated in USD for €326 million (2016: €147 million), in BRL for €135 million (2016: €145 million), in CNH and CNY for €270 million (2016: €365 million) and in THB for €270 million (2016: €220 million). The currencies bought forward against the euro with a more than one year maturity are denominated in USD for €506 million (2016: nil).

The maturity of the other currency derivative contracts does not generally exceed one year.

The contractual amounts of the currency derivatives are presented by currency in the table below:

	December 31, 2017							December 31, 2016						
	Currencies purchased forward							Currencies purchased forward						
(in € million)	EUR	USD	THB	CAD	BRL	Other	Total	EUR	USD	THB	CAD	BRL	Other	Total
Currencies sold forward														
EUR	-	919	34	161	4	198	**1,316**	-	72	29	213	6	746	**1,066**
USD	694	-	180	2	51	49	**976**	382	-	195	4	78	35	**694**
CNY	872	8	-	-	-	13	**893**	1,051	23	-	-	-	24	**1,098**
THB	485	59	-	-	-	5	**549**	279	49	-	-	-	2	**330**
BRL	354	7	-	-	-	-	**361**	363	15	-	-	-	-	**378**
MXN	137	11	-	17	-	-	**165**	69	-	-	20	-	-	**89**
GBP	143	-	-	-	-	-	**143**	30	-	-	-	-	-	**30**
Other	706	132	4	-	-	-	**842**	982	91	2	-	-	13	**1,088**
TOTAL	**3,391**	**1,136**	**218**	**180**	**55**	**265**	**5,245**	**3,156**	**250**	**226**	**237**	**84**	**820**	**4,773**

Currency hedges in CNY include off-shore derivatives denominated in CNH.

The contractual amounts of other derivative financial instruments are presented by currency and by maturity in the table below:

	December 31, 2017				December 31, 2016			
(in € million)	Less than 1 year	Between 1 and 3 years	More than 3 years	Total	Less than 1 year	Between 1 and 3 years	More than 3 years	Total
EUR	100	583	-	**683**	100	483	-	**583**
INR	42	20	-	**62**	24	24	-	**48**
THB	26	-	-	**26**	27	26	-	**53**
USD	41	-	-	**41**	191	48	-	**239**
Interest-rate derivatives	**209**	**603**	**-**	**812**	**342**	**581**	**-**	**923**
EUR	5	-	-	**5**	7	-	-	**7**
USD	2	1	-	**3**	1	-	-	**1**
Other	-	-	1,006	**1,006**	-	-	-	**-**
Other derivatives	**7**	**1**	**1,006**	**1,014**	**8**	**-**	**-**	**8**
TOTAL	**216**	**604**	**1,006**	**1,826**	**350**	**581**	**-**	**931**

At December 31, 2017, the Group has outstanding short term futures contracts on natural rubber with a liability market value of €1 million (2016: asset of €4 million) which has been fully cashed in through the daily margin calls. The contractual values of these futures are €15 million (2016: €15 million).

NOTE 17 EQUITY METHOD INVESTMENTS

Investments in joint ventures and associates amounts to €356 million (2016: €309 million). These include essentially Allopneus SAS in France, E.A. Juffali & Brothers for Tyres in Saudi Arabia, MC Projects B.V. in the Netherlands, Royal Lestari Utama in Indonesia, Wine Advocate Pte. Ltd in Singapore and SIPH Group in France, where the Group's shareholding percentage has changed in 2017 following the public tender offer detailed in note 33.2.

On November 20, 2017, the 40% stake that the Group held in the Chinese joint venture Double Coin Group (Anhui) Warrior Tire Co., Ltd. was sold to the two companies Huayi Group (Hong Kong) Limited and Double Coin Tire Group Ltd. This disposal had no significant effect on the Group's consolidated financial statements.

The financial statements of equity method investments include the following amounts:

(in € million)	2017	2016
Assets	1,440	1,259
Liabilities	734	646
Net sales	1,530	1,374
Net income	32	(23)

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the consolidated statement of financial position are as follows:

(in € million)	December 31, 2017	December 31, 2016
Deferred tax assets	890	1,191
Deferred tax liabilities	(113)	(117)
NET DEFERRED TAX ASSET	**777**	**1,074**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2017	December 31, 2016
Employee benefits	783	1,084
Inventories	115	186
Financial instruments	62	109
Provisions	70	97
Unused tax losses	90	68
Unused tax credits	7	9
Goodwill & Intangible assets	4	26
Property, plant and equipment	(450)	(631)
Other	96	126
NET DEFERRED TAX ASSET	**777**	**1,074**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2017	2016
At January 1	**1,074**	**1,141**
Translation adjustments	(38)	1
Deferred tax income/(expense) (note 11)	(102)	(48)
Tax recognized in other comprehensive income	(132)	(17)
Changes in scope of consolidation	(26)	(3)
Other	1	-
AT DECEMBER 31	**777**	**1,074**

In 2017, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset is due essentially to variations of temporary differences on fixed assets and the impact of the US tax reform.

In 2016, 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 employee benefits.

The deferred income tax recognized in other items of comprehensive income is as follows:

(in € million)	December 31, 2017	December 31, 2016
Post-employment benefits	431	566
Available-for-sale financial assets	(21)	(24)
Financial instruments	1	(13)
TOTAL DEFERRED TAX INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**411**	**529**

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 in other comprehensive income.

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2017	December 31, 2016
Deductible temporary difference	**106**	**123**
Tax losses		
▶ of which expiring in less than one year	16	10
▶ of which expiring between one to five years	112	111
▶ of which expiring in more than five years	30	57
▶ of which no expiration	274	296
Total tax losses	**432**	**474**
Tax credits	**2**	**1**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**540**	**598**

18.2 Current taxes

Current taxes in the consolidated statement of financial position are as follows:

(in € million)	2017	2016
Taxes receivables (note 22)	438	360
Taxes payables (note 30)	(188)	(126)
Net total at January 1	**250**	**234**
Current tax expense (note 11)	(559)	(749)
Income tax paid	563	765
Translation adjustments and other	(14)	-
Total changes	**(10)**	**16**
Taxes receivables (note 22)	426	438
Taxes payables (note 30)	(186)	(188)
NET TOTAL AT DECEMBER 31	**240**	**250**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2017	December 31, 2016
Raw materials and supplies	1,158	1,227
Work in progress	512	474
Finished goods	2,923	2,879
Total gross inventory	**4,593**	**4,580**
Write-downs on raw materials and supplies	(42)	(44)
Write-downs on work in progress	(1)	(1)
Write-downs on finished goods	(42)	(55)
Total write-downs	**(85)**	**(100)**
NET INVENTORY	**4,508**	**4,480**

Movements in inventory write-downs were as follows:

(in € million)	2017	2016
At January 1	**(100)**	**(93)**
Translation adjustments and other	6	(2)
Write-downs of inventories recognized as an expense in the period	(28)	(42)
Reversals of write-downs	37	37
AT DECEMBER 31	**(85)**	**(100)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2017	December 31, 2016
Gross trade receivables	3,188	3,156
Impairment	(104)	(114)
TRADE RECEIVABLES	**3,084**	**3,042**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2017:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,785**	**(23)**	**2,762**
Overdue			
▸ from less than three months	265	(3)	262
▸ between three and six months	32	(3)	29
▸ from more than six months	106	(75)	31
Overdue trade receivables	**403**	**(81)**	**322**
TRADE RECEIVABLES	**3,188**	**(104)**	**3,084**

Movements in impairment are broken down in the table below:

(in € million)	2017	2016
At January 1	**(114)**	**(112)**
Translation adjustments	6	(4)
Impairment charges	(39)	(44)
Impairment reversals	45	46
Changes in scope of consolidation	(2)	-
AT DECEMBER 31	**(104)**	**(114)**

Impairment reversals in 2017 include write-offs of €19 million (2016: €14 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, 2017	December 31, 2016
Loans and deposits	76	102
Cash management financial assets (note 26)	180	162
Derivative instruments (note 16.1)	29	39
CURRENT FINANCIAL ASSETS	**285**	**303**

In 2017, bank deposits that have maturities greater than three months, but provide for early withdrawal clauses of less than three months with guaranteed capital and negligible withdrawal costs, have been reclassified from "Current financial assets" to "Cash and cash equivalents". Balances at December 31, 2016 have been restated for comparative purposes for an amount of €330 million.

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 €42 million (2016: €77 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, 2017	December 31, 2016
Suppliers – Advances	137	173
Current tax – Advance payments	426	438
Other taxes receivable	296	304
Other	278	293
Less impairment	(5)	(6)
OTHER CURRENT ASSETS	**1,132**	**1,202**

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, 2017	December 31, 2016
Cash at bank and in hand	250	287
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)[1]	1,523	1,539
CASH AND CASH EQUIVALENTS	**1,773**	**1,826**

(1) See note 21.

The average effective interest rate on short-term bank deposits was 0.28% in 2017 (2016: 0.38%).

Cash and cash equivalents are essentially held in Euros (2017: 93% after hedge, 2016: 90%).

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 (2017: €81 million, 2016: €83 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2016	**364**	**3,222**	**3,586**
Issuance of shares from the exercise of share options and performance shares	3	96	**99**
Cancellation of shares	(7)	(294)	**(301)**
Other	-	-	**-**
At December 31, 2016	**360**	**3,024**	**3,384**
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**

(number of shares)	Share issued	Treasury shares	Shares outstanding
At January 1, 2016	**181,902,182**	**-**	**181,902,182**
Issuance of shares from the exercise of share options and performance shares	1,503,749	-	1,503,749
Purchase of shares	-	(3,347,040)	(3,347,040)
Disposal of shares	-	-	-
Reduction in capital	(3,347,040)	3,347,040	-
Other	7,230	-	7,230
At December 31, 2016	**180,066,121**	**-**	**180,066,121**
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**

The par value per share amounts to €2 (unchanged from 2016). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2017, the dividend payable for the year 2016 to the shareholders was €3.25 per share (2016: €2.85 per share). It has been fully settled in cash for a net amount of €584 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €3.55 per share in 2018 for the year 2017.

NOTE 25 RESERVES

(in € million)	Translation reserve	Treasury shares	Other reserves	Retained earnings	Total
At January 1, 2016	**(308)**	**-**	**120**	**6,091**	**5,903**
Dividends and other allocations	-	-	-	(538)	**(538)**
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	-	5	**5**
Purchase of shares	-	(301)	-	-	**(301)**
Cancellation of shares	-	301	-	-	**301**
Other	3	-	(1)	5	**7**
Transactions with the shareholders of the Company	**3**	**-**	**(1)**	**(528)**	**(526)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,676	**1,676**
Post-employment benefits	-	-	-	*(194)*	***(194)***
Tax effect – Post-employment benefits	-	-	-	*(8)*	***(8)***
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(202)	**(202)**
Available-for-sale financial assets – Change in fair values	-	-	*57*	-	***57***
Tax effect – Available-for-sale financial assets – Change in fair values	-	-	*(9)*	-	***(9)***
Available-for-sale financial assets – (Gain)/loss recognized in income statement	-	-	-	-	**-**
Currency translation differences	*314*	-	*2*	-	***316***
Other	-	-	*3*	*(3)*	**-**
Other items of comprehensive income that may be reclassified to income statement	314	-	53	(3)	**364**
Comprehensive income	**314**	**-**	**53**	**1,471**	**1,838**
At December 31, 2016	**9**	**-**	**172**	**7,034**	**7,215**
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**
Available-for-sale financial assets – Change in fair values	-	-	*10*	-	***10***
Tax effect – Available-for-sale financial assets – Change in fair values	-	-	*3*	-	***3***
Available-for-sale financial assets – (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**

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 (note 26 "Financial debts") for €65 million (2016: €65 million) after-tax was reclassified from other reserves to retained earnings.

Under the share buyback program authorized at the May 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.

In April 2015, the Group announced a share buyback program of €750 million over a period of 18 to 24 months.

During 2016, the Group concluded with an investment services provider two payback conventions that committed the Group to repurchase a variable number of shares within the limit of a total amount of €300 million before December 15, 2016.

The average purchase price of the 3,347,040 shares acquired during 2016 was €89.63. All the shares were cancelled during 2016.

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2017	December 31, 2016
Bonds	1,770	1,310
Loans from financial institutions and other	217	232
Finance lease liabilities	228	131
Derivative instruments	151	100
Non-current financial liabilities	**2,366**	**1,773**
Bonds and commercial paper	172	903
Loans from financial institutions and other	272	320
Finance lease liabilities	20	16
Derivative instruments	29	81
Current financial liabilities	**493**	**1,320**
FINANCIAL LIABILITIES	**2,859**	**3,093**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2017	December 31, 2016
Financial liabilities	2,859	3,093
Derivatives recognized as assets (note 16.1)	(148)	(84)
Borrowing collaterals (note 32.3.2)	(42)	(77)
Cash management financial assets (note 21)	(180)	(162)[1]
Cash and cash equivalents (note 23)	(1,773)	(1,826)[1]
NET DEBT	**716**	**944**

(1) See note 21.

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, 2017	December 31, 2016
Bonds	1,848	1,388
Loans from financial institutions and other	217	232
Finance lease liabilities	228	131
Derivative instruments	151	100
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**2,444**	**1,851**

Changes in financial liabilities and derivatives are detailed by flow in the table below:

(in € million)	At January 1, 2017	Cash flows from financial liabilities	Non-cash variations		At December 31, 2017
			Translation adjustments	Other	
Bonds, loans from financial institutions and other	1,542	464	(16)	(3)	1,987
Finance lease liabilities	131	(18)	(10)	125	228
Derivative instruments	100	43	(2)	10	151
Non-current financial liabilities	**1,773**	**489**	**(28)**	**132**	**2,366**
Bonds, loans from financial institutions and other	1,223	(421)	(216)	(142)	444
Finance lease liabilities	16	(6)	(1)	11	20
Derivative instruments	81	(60)	(1)	9	29
Current financial liabilities	**1,320**	**(487)**	**(218)**	**(122)**	**493**
FINANCIAL LIABILITIES	**3,093**	**2**	**(246)**	**10**	**2,859**
Derivatives recognized as assets	(84)	(70)	5	1	(148)
Net impact net in the consolidated cash flow statement		**(68)**			

26.1 Bonds and commercial paper

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

(in € million)	December 31, 2017 Current	December 31, 2017 Non-current	December 31, 2016 Current	December 31, 2016 Non-current
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €302 million (2016: €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%	-	316	-	316
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 Michelin Luxembourg SCS ▶ nominal value of €300 million ▶ issued in May 2015 and due in May 2022 ▶ nominal interest rate of 1.125% ▶ effective interest rate of 1.17%	-	299	-	299
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 at par) and April 2017 ($100 million at 103.5%) 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, 2017 of €133.51	-	464	-	-
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €383 million (2016: €383 million) ▶ issued in June 2012 and due in June 2019 ▶ nominal interest rate of 2.75% (1.09% after hedging) ▶ hedged through a €383 million interest rate swaps (2016: €383 million) expiring in June 2019 (fair value hedge) (note 16)	-	394	-	398
Liability component of zero-coupon convertible bonds (OCEANEs) issued by Compagnie Générale des Établissements Michelin ▶ net proceeds received of €694 million ▶ annual gross yield of 3.07% ▶ effective interest rate of 4.76% ▶ conversion and/or exchange ratio of 1 bond for 1.036 ordinary share ▶ issued in March 2007 and reimbursed in January 2017 ▶ amount reimbursed at maturity date: €753 million	-	-	753	-
Commercial paper issued by Compagnie Générale des Établissements Michelin ▶ nominal value in € equivalent: €110 million, £28 million, $34 million (2016: €74 million, £23 million, $53 million) ▶ effective interest rate of 0.16% at December 31, 2017	172	-	150	-
TOTAL	**172**	**1,770**	**903**	**1,310**

At December 31, 2017, the weighted average nominal interest rate for bonds and commercial paper is 2.00% (1.10% after hedging).

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.

In January 2017, the Group issued exclusively cash-settled five year convertible bonds with a total face value of 500 million USD. These bonds were issued at par.

In April 2017, the Group issued additional convertible bonds with a total face value of 100 million USD. These bonds were issued at 103.50% of their face value.

Those bonds are redeemable at par (if they are not converted) and do not bear interest.

In addition to these issues, the Group subscribed to financial instruments with the same maturity, enabling it to fully hedge its exposure to any positive or negative changes in the share price.

This set of transactions, which were hedged by euro-denominated swaps, provides the Group with the equivalent of classic euro-denominated bond financing at an advantageous cost.

These operations have been accounted for in accordance with the accounting policies described in sections 3.4 to 3.6 of note 3 of the consolidated financial statements.

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".

26.2 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".

Loans from financial institutions and other at December 31, 2017 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	BRL	Other	Total
Fixed rates	-	-	32	-	32
Floating rates	245	73	20	119	457
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**245**	**73**	**52**	**119**	**489**
Average effective interest rate paid in 2017	**0.56%**	**1.79%**	**8.68%**	**10.17%**	**4.25%**

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-2016; (ii) Canada: 95% of CPM 2014 Private – Scale B; (iii) UK: Generational S2PA CMI_2016 with a 1.5% p.a. long term rate of improvement with a weighting of 116% for males and 102% for females and (iv) Germany: Heubeck RT 2005 G.

	December 31, 2017				December 31, 2016			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	19.2	22.1	21.1	18.8	19.4	22.0	22.1	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	20.3	22.9	22.3	20.7	20.7	22.9	23.1	20.7
Life expectancy for females at 65 at the end of the reporting period	21.1	24.5	24.0	22.8	21.4	24.5	24.8	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.2	25.2	25.4	24.8	22.7	25.2	26.1	24.8

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2017	December 31, 2016
Present value of fully or partly funded obligations	7,444	-	7,444	8,203
Fair value of plan assets	(6,367)	-	(6,367)	(6,520)
Funded status deficit/(surplus)	**1,077**	**-**	**1,077**	**1,683**
Present value of unfunded obligations	999	1,820	2,819	3,034
Unrecognized asset due to application of asset ceiling	73	-	73	46
NET DEFINED BENEFIT OBLIGATION	**2,149**	**1,820**	**3,969**	**4,763**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			3,969	4,763
NET LIABILITY	**2,149**	**1,820**	**3,969**	**4,763**

At December 31, 2017, the present value of the defined benefit obligation is made up of €4,098 million relating to active employees, €1,210 million relating to deferred members and €4,955 million relating to members in retirement (2016: respectively €4,450 million, €1,263 million and €5,524 million).

At December 31, 2017, the present value of the defined benefit obligation is made up of €8,050 million relating to vested benefits and €2,213 million relating to non-vested benefits (2016: respectively €8,772 million and €2,465 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	2017	2016
At January 1	**2,742**	**2,021**	**4,763**	**4,888**
Contributions paid to the funds	(190)	-	(190)	(74)
Benefits paid directly to the beneficiaries	(32)	(122)	(154)	(156)
Other movements	-	-	-	(55)
Items recognized in operating income				
Current service cost	58	62	120	127
Actuarial (gains) or losses recognized on other long term benefit plans	-	-	-	-
Past service cost resulting from plan amendments	(20)	(36)	(56)	(262)
Effect of plan curtailments or settlements	-	-	-	(19)
Effect of plan curtailments recognized within reorganizations and adaptation of activities	(88)	(95)	(183)	(19)
Other items	-	-	-	(1)
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	60	55	115	139
Items recognized in other comprehensive income				
Translation adjustments	(79)	(101)	(180)	1
Actuarial (gains) or losses	(332)	36	(296)	377
Portion of unrecognized asset due to the application of the asset ceiling	30	-	30	(183)
AT DECEMBER 31	**2,149**	**1,820**	**3,969**	**4,763**

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	2017	2016
At January 1	**2,048**	**501**	**2,549**	**2,368**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	(236)	(7)	(243)	(73)
▶ Due to experience	(3)	(28)	(31)	(51)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	350	90	440	819
▶ Due to experience	(443)	(19)	(462)	(317)
Unrecognized asset due to application of asset ceiling	30	-	30	(183)
Change in the scope of consolidation	-	-	-	(14)
AT DECEMBER 31	**1,746**	**537**	**2,283**	**2,549**
Of which actuarial gains or (losses)	*1,673*	*537*	*2,210*	*2,503*
Of which asset ceiling effect	*73*	*-*	*73*	*46*

In 2017, the net amount recognized in the consolidated income statement was an income of €4 million (2016: income of €35 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2017	Year ended December 31, 2016
Cost of services rendered during the year	58	62	120	127
Net interest on the defined benefit liability (asset)	60	55	115	139
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	(20)	(36)	(56)	(262)
▶ Due to curtailments of defined benefit plans	-	-	-	-
Effect of defined benefit plans settlements	-	-	-	(19)
Other items	-	-	-	(1)
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	(88)	(95)	(183)	(19)
TOTAL RECORDED IN THE INCOME STATEMENT	**10**	**(14)**	**(4)**	**(35)**

Annual charges are determined with the assistance of independent actuaries at the beginning of each financial year based on the following factors:

- charge corresponding to acquisition of an additional year of rights ("cost of services rendered during the year");
- charge/income corresponding to the discounting adjustment to reflect the impact of the passage of time ("net interest");
- income or charge from annual recognition of actuarial gains or losses on other long term defined benefit plans ("Actuarial (gains) or losses recognized during the year");
- gain/loss resulting from changes or introduction of benefit plans ("past service cost recognized during the year");
- gain/loss resulting from curtailments of any benefit plans ("past service cost recognized during the year");
- gain/loss resulting from settlements of any benefit plans ("past service cost recognized during the year").

/ 27.1.1 Pension plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary.

Under defined benefit plans, future level of benefits are defined by the plan regulations. The valuation of such defined benefit plans is carried out with the assistance of independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds or insurers specialized in managing these assets. In the case of unfunded plans such as the German pension plans, a provision is made in the consolidated statement of financial position.

The main pension plans provided within the Group are as follows:

USA

The defined benefit plan in USA is the Michelin Retirement Plan (MRP). The provisions applicable to the main population are described below.

The plan was closed to new entrants as of January 1, 2004. 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 total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan's pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides a cost-of-living adjustment of the pension only for employees hired before January 1, 1991.

The plan is funded solely by employer contributions.

Canada

There is one major defined benefit plan in Canada, Michelin Retirement Plan (MRP). Other minor defined benefit plans which are closed to new entrants are valued but not detailed further.

The Michelin Retirement Plan (MRP) was closed to new entrants as from January 1, 2005. After this date new entrants are enrolled in a defined contribution plan. Accruals for most of the participants were frozen under the plan as of December 31, 2015. These participants are enrolled in a defined benefit contribution plan.

The plan sets the normal retirement age at 65. However, employees having 30 years of service or who have reached the age 55 are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental bridge is granted for employees having 30 years of service to partially compensate early retirement.

The plan provides a guaranteed monthly annuity at retirement based on a defined formula that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit or a beneficiary pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an annual increase of the pension based on a percentage inferior to Consumer Price Index.

The plan is funded solely by employer contributions.

United Kingdom

The defined benefit retirement plan in the UK is the Michelin Pension and Life Assurance Plan.

The plan was closed to new entrants as from March 31, 2005 and replaced by a defined contribution plan and as of January 1, 2009 it was closed for all future accruals.

Accruals up to December 31, 2008 are frozen but pensions are still linked to the average final salary at retirement.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 are eligible for early retirement with the Group's consent. In the case of early retirement, the accrued benefit is reduced by an actuarial reduction factor.

The plans provide for an annual pension based on the employee's pensionable earnings. Most employees take the maximum amount allowed by tax legislation in the form of a lump sum.

The plan includes provision for death in service benefits, provision for spouse reversion benefit as well as disability benefits.

The plan provides an indexation of the pension benefit based on a capped inflation rate 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)" of MRW (Michelin Reifenwerke AG).

The plan was closed to new entrants as from January 1, 2000. After this date new entrants are enrolled in defined contribution plans.

The plan sets the normal retirement age at 65.

The plans provide lifetime monthly annuity which are based on the employee pensionable compensation.

A flat rate applies to the compensation exceeding the social security ceiling and an additional rate takes into account the years of service on the total pensionable earnings.

The plan includes provision in case of death in service provisions as well as post-retirement spouse and orphan's pensions and disability provisions.

There is a legal obligation to adjust every three years the pension annuity by the inflation up to the average increase of the employees' salaries.

France

There is one major pension defined benefit plan in France, "Régime de retraite supplémentaire MFPM".

In order to be eligible, employees must reach 10 years of service and be present at the retirement date.

This plan had been set up in 1996 in order to grant an additional retirement benefit to all employees when the retirement replacement ratio of the mandatory state plans is below the trigger threshold of 55%. At this point an additional benefit is calculated based on service and pensionable earnings (capped additional plan).

If mandatory state pension plus additional benefit from this plan reaches 55% of pensionable salary, the annuity paid by the plan is capped at this level. Closure of the plan being not possible for new entrants, the threshold of 55% is decreasing progressively until 2046 where it will be nil. In return, employees must participate to a defined contribution plan (Article 83) and can also participate in 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:

	2017				2016			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	4,449	4,715	52	**9,216**	4,274	4,543	35	**8,852**
Translation adjustments	(479)	(116)	(5)	**(600)**	216	(413)	7	**(190)**
Changes in scope of consolidation	-	-	-	**-**	-	8	-	**8**
Current service cost	3	42	1	**46**	16	40	1	**57**
Interest cost on the defined benefit obligation	163	105	3	**271**	176	128	3	**307**
Administration costs	9	4	-	**13**	7	4	-	**11**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	4	(24)	-	**(20)**	2	-	-	**2**
▶ Past service cost due to curtailments of defined benefit plans	-	(88)	-	**(88)**	-	(5)	-	**(5)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	(20)	-	**(20)**
Benefits paid	(255)	(220)	(4)	**(479)**	(264)	(181)	(4)	**(449)**
Other items	-	-	1	**1**	-	(1)	3	**2**
Actuarial (gains) or losses generated during the year	123	(40)	-	**83**	22	612	7	**641**
Present value of the obligations at the end of the year	**4,017**	**4,378**	**48**	**8,443**	**4,449**	**4,715**	**52**	**9,216**
Fair value of plan assets at the beginning of the year	3,974	2,509	37	**6,520**	3,813	2,610	25	**6,448**
Translation adjustments	(426)	(93)	(9)	**(528)**	198	(340)	8	**(134)**
Changes in scope of consolidation	-	-	-	**-**	-	(1)	-	**(1)**
Interest income on plan assets	144	64	5	**213**	156	85	3	**244**
Contributions paid to the plans	44	146	1	**191**	2	71	1	**74**
Benefits paid by the plans	(254)	(189)	(2)	**(445)**	(263)	(151)	(2)	**(416)**
Other items	-	-	1	**1**	(2)	-	3	**1**
Actual return on plan assets excluding interest income	257	148	10	**415**	70	235	(1)	**304**
Fair value of plan assets at the end of the year	**3,739**	**2,585**	**43**	**6,367**	**3,974**	**2,509**	**37**	**6,520**
Deficit/(Surplus) at the end of the year	**278**	**1,793**	**5**	**2,076**	**475**	**2,206**	**15**	**2,696**
Deferred items at the beginning of the year	(46)	-	-	**(46)**	(210)	-	(3)	**(213)**
Translation adjustments	4	-	1	**5**	(9)	-	-	**(9)**
Unrecognized asset due to application of the asset ceiling generated during the year	(24)	-	(8)	**(32)**	173	-	3	**176**
Deferred items at the end of the year	**(66)**	**-**	**(7)**	**(73)**	**(46)**	**-**	**-**	**(46)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**344**	**1,793**	**12**	**2,149**	**521**	**2,206**	**15**	**2,742**

France

As at June 22, 2017, the Group has announced a global reorganization project aimed to better serve the customers. A voluntary pre-retirement plan has been offered to the salaried employees and managers who are based at the Clermont-Ferrand site and for which an agreement with the personnel's representative bodies has been issued.

The pension plan obligation has been reduced for an amount of €88 million. A provision for reorganizations and adaptation of activities has been recognized for an equivalent amount.

United Kingdom

In the United Kingdom, the pension plan implemented a pension increase exchange (PIE) exercise whereby pensioner members were offered an immediate uplift in their pension in return for giving up their future pension increases. The exercise of this option by the pension plan retiree's members has generated a negative past service cost resulting in a reduction of the obligation for an amount of €24 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 2017, the amount recognized resulting from the effect of the asset ceiling was €30 million (2016: -€183 million)

In 2017, the present value of defined benefit pension obligations decreased by €773 million. This change was due to:

(in € million)	2017	2016
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	600	190
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(83)	(641)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	149	74
Changes in plan regulations	108	23
Changes in the scope of consolidation	-	(8)
Other items	(1)	(2)

The fair value of plan assets amounted to €6,367 million at December 31, 2017, showing a decrease of €153 million compared to December 31, 2016. The factors behind this variation were as follows:

(in € million)	2017	2016
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(528)	(134)
Difference between the contributions paid to the funds and the benefits paid by the funds	(254)	(342)
Actual return on plan assets	628	548
Changes in the scope of consolidation	-	(1)
Other items	1	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 2017 and the previous four periods:

(in € million)	2017	2016	2015	2014	2013
Defined benefit obligation	(8,443)	(9,216)	(8,852)	(8,440)	(7,079)
Plan assets	6,367	6,520	6,448	6,142	5,182
SURPLUS/(DEFICIT)	**(2,076)**	**(2,696)**	**(2,404)**	**(2,298)**	**(1,897)**
Experience adjustment to:					
▶ plan liabilities	32	38	75	32	(43)
▶ plan assets	415	315	(107)	538	166

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:

	2017	2016	2015	2014	2013
Experience adjustment to:					
▶ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.38%	-0.41%	-0.85%	-0.38%	0.61%
▶ to the plan assets in percentage of the fair value of the assets	6.52%	4.83%	-1.66%	8.76%	3.20%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2017			December 31, 2016		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.65%	2.11%	9.85%	4.02%	2.30%	11.10%
Inflation rate	2.37%	2.69%	4.50%	2.37%	2.78%	5.00%
Rate of salary increases	2.86%	2.81%	4.84%	2.85%	2.69%	6.00%
Weighted average duration of the defined benefit obligation	12.1	15.9	12.4	12.0	16.5	11.3

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 2017 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.63%	7.43%
Discount rate on the aggregate of current service cost and interest cost on the obligation	6.90%	-8.19%
Inflation rate on the defined benefit obligation (DBO)	4.33%	-4.13%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	4.72%	-4.46%
Salary increase rate on the defined benefit obligation (DBO)	1.63%	-1.46%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	3.05%	-2.68%
Interest rates on the fair market value of plan assets	-6.02%	6.85%

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

(in € million)	Year ended December 31, 2017 North America	Europe	Other	Total	Year ended December 31, 2016 North America	Europe	Other	Total
Cost of services rendered during the year	12	44	2	**58**	23	44	1	**68**
Interest cost on the defined benefit obligation	163	105	3	**271**	176	128	3	**307**
Interest income on plan assets	(143)	(64)	(4)	**(211)**	(147)	(85)	(3)	**(235)**
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	4	(24)	-	**(20)**	2	-	-	**2**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	(20)	-	**(20)**
Other items	-	-	-	**-**	-	(1)	-	**(1)**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(88)	-	**(88)**	-	(5)	-	**(5)**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**36**	**(27)**	**1**	**10**	**54**	**61**	**1**	**116**
Actual return on plan assets	**401**	**212**	**15**	**628**	**226**	**320**	**2**	**548**

The asset allocation of fully and partly funded pension plans is as follows:

	December 31, 2017 Canada	USA	UK	Other	Total	December 31, 2016 Canada	USA	UK	Other	Total
Quoted securities										
Local equities	3.2%	10.4%	2.4%	0.0%	**5.7%**	3.5%	11.0%	3.0%	0.0%	**6.4%**
Foreign and global equities	9.3%	9.4%	11.0%	0.0%	**9.6%**	8.9%	10.0%	18.7%	0.0%	**12.5%**
Alternative investments	3.9%	11.2%	18.3%	0.0%	**12.1%**	5.2%	10.3%	19.6%	0.0%	**12.3%**
Real estate	0.0%	0.0%	7.3%	0.0%	**2.7%**	0.0%	0.0%	7.2%	0.0%	**2.5%**
Indexed linked bonds	0.1%	0.1%	10.3%	13.8%	**4.5%**	0.1%	0.1%	10.8%	14.0%	**4.4%**
Fixed income government and agencies	24.1%	9.4%	9.6%	0.0%	**11.7%**	21.3%	8.9%	6.3%	0.2%	**9.9%**
Corporate bonds	11.5%	27.2%	7.4%	0.0%	**16.0%**	11.6%	26.5%	6.6%	0.0%	**15.8%**
Other fixed income, multi-asset credit, emerging market bonds	39.8%	19.4%	22.4%	0.0%	**23.4%**	35.9%	20.2%	18.8%	0.0%	**21.8%**
Cash & cash equivalent	1.9%	2.9%	4.2%	0.0%	**3.1%**	2.6%	2.7%	3.5%	0.8%	**2.9%**
Total quoted securities	**93.8%**	**90.1%**	**93.0%**	**13.8%**	**88.7%**	**89.2%**	**89.7%**	**94.5%**	**15.0%**	**88.5%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	83.3%	**3.4%**	0.0%	0.0%	0.0%	85.0%	**3.2%**
Private placements(1)	3.2%	2.0%	7.0%	2.9%	**4.1%**	4.0%	2.9%	5.5%	0.0%	**3.9%**
Real estate	3.0%	7.9%	0.0%	0.0%	**3.8%**	6.8%	7.4%	0.0%	0.0%	**4.4%**
Total non-quoted securities	**6.2%**	**9.9%**	**7.0%**	**86.2%**	**11.3%**	**10.8%**	**10.3%**	**5.5%**	**85.0%**	**11.5%**
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**	**16.4**	**33.6**	**9.5**	**22.1**	**17.6**	**16.4**	**30.2**	**9.0**	**20.6**

(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 general 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 rate duration 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 2017 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				
2017	45	176	2	**223**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2018	1	108	-	**109**
2019	2	101	-	**103**
2020	3	118	-	**121**
2021	3	119	-	**122**
2022	3	126	-	**129**
2023-2027	245	640	-	**885**

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 2017, in addition to the ordinary contributions, it was decided to make contributions in advance due in the UK for an amount of €80 million and in the United States for an amount of €44 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, 2017				December 31, 2016			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	958	1,025	38	**2,021**	1,184	1,055	32	**2,271**
Translation adjustments	(98)	1	(4)	**(101)**	45	-	3	**48**
Changes in scope of consolidation	-	-	-	**-**	-	(9)	-	**(9)**
Current service cost	10	48	4	**62**	12	44	4	**60**
Interest cost on the defined benefit obligation	34	19	2	**55**	46	20	1	**67**
Administration costs	-	-	-	**-**	-	-	-	**-**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	(39)	3	-	**(36)**	(271)	7	-	**(264)**
▶ Past service cost due to curtailments of defined benefit plans	-	(95)	-	**(95)**	-	(14)	-	**(14)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	1	-	**1**
Benefits paid	(51)	(69)	(2)	**(122)**	(59)	(63)	(2)	**(124)**
Other items	-	-	-	**-**	-	(55)	-	**(55)**
Actuarial (gains) or losses generated during the year	(24)	58	2	**36**	1	39	-	**40**
Present value of the obligations at the end of the year	**790**	**990**	**40**	**1,820**	**958**	**1,025**	**38**	**2,021**
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	**790**	**990**	**40**	**1,820**	**958**	**1,025**	**38**	**2,021**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**790**	**990**	**40**	**1,820**	**958**	**1,025**	**38**	**2,021**

USA

In the United States of America, the Group has remeasured the impact of Postretirement Welfare plan amendment in the light of the actual data. The initial measurement carried out in 2016 resulted in a negative past service cost amounting to €271 million. The remeasurement of the impact made in 2017 led the Group to recognize an additional negative past service cost for an amount of €22 million.

In 2017, the Postretirement Welfare plan has been amended for a specific category of retiree members introducing a new structure of the annual subsidy provided by the Company for medical coverage. This change in the plan regulation has generated a negative past service cost resulting in a reduction of the obligation amounting to €17 million.

France

As at June 22, 2017, the Group has announced a global reorganization project aimed to better serve the customers. A voluntary pre-retirement plan has been offered to the salaried employees and managers who are based at the Clermont-Ferrand site and for which an agreement with the personnel's representative bodies has been issued.

The other post-employment plan obligation has been reduced for an amount of €95 million. A provision for reorganizations and adaptation of activities has been recognized for an amount slightly lower to the extent that end-career allowances of the voluntary pre-retirement plan are partly exempted from social security charges.

In 2017 the present value of "other defined benefit plans" decreased by €201 million, due to:

	2017	2016
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	101	(48)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(36)	(40)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	5	(3)
Changes in plan regulations	131	277
Changes in the scope of consolidation	-	9
Other items	-	55

The present value of the defined benefit obligation and experience adjustments are as follows for 2017 and the previous four periods:

(in € million)	2017	2016	2015	2014	2013
Defined benefit obligation	(1,820)	(2,021)	(2,271)	(2,286)	(1,993)
Experience adjustments to plan liabilities	46	16	25	65	86
Experience adjustments to plan liabilities *(in % of present value of the obligation (DBO))*	-2.53%	-0.79%	-1.10%	-2.84%	-4.32%

The main actuarial weighted average assumptions used to measure obligations for "other defined benefit plans" are as follows:

	December 31, 2017			December 31, 2016		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.57%	1.61%	5.47%	4.02%	1.70%	6.47%
Weighted average duration of the defined benefit obligation	11.3	13.6	9.6	10.7	12.1	10.2

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2017		December 31, 2016	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.85%	6.30%	7.96%	5.64%
Minimum long-term rate of annual growth in healthcare costs	5.00%	4.25%	5.00%	4.25%
Year in which the minimum growth rate will be achieved	2026	2028	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 2017 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.27%	6.39%
Discount rate on the aggregate of current service cost and interest cost on the obligation	0.47%	-0.82%
Healthcare cost trend on the healthcare defined benefit obligation	1.84%	-1.73%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	1.78%	-1.63%

Net income and expenses recognized in the income statement are as follows:

(in € million)	Year ended December 31, 2017				Year ended December 31, 2016			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	10	48	4	**62**	12	43	4	**59**
Interest cost on the defined benefit obligation	34	19	2	**55**	46	20	1	**67**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	**-**	-	1	(1)	**-**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	(39)	3	-	**(36)**	(271)	7	-	**(264)**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	1	-	**1**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(95)	-	**(95)**	-	(14)	-	**(14)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**5**	**(25)**	**6**	**(14)**	**(213)**	**58**	**4**	**(151)**

Group payments made under "other defined benefit plans" in 2017 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2017	51	69	2	**122**
Estimates of benefit payments to be made				
2018	47	21	1	**69**
2019	48	21	2	**71**
2020	49	34	2	**85**
2021	49	46	2	**97**
2022	50	92	2	**144**
2023-2027	240	336	9	**585**

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 2017, the contributions paid to defined contribution plans and expensed amounted to €220 million (2016: €213 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:

	2017		2016	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**54.35**	**672,028**	**65.87**	**1,733,471**
Granted	-	-	-	-
Forfeited	51.16	(2,098)	85.79	(338,023)
Exercised	55.00	(308,979)	67.27	(723,420)
AT DECEMBER 31	**53.81**	**360,951**	**54.35**	**672,028**

360,951 of the 360,951 options outstanding as at December 31, 2017 are exercisable (2016: 672,028 exercisable out of a total of 672,028).

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2017		December 31, 2016	
Grant dates	Vesting dates	Expiry dates	Exercise prices *(in € per option)*	Number of options outstanding	Exercise prices *(in € per option)*	Number of options outstanding
May 2008	May 2012	May 2017	59.85	-	59.85	75,662
November 2009	November 2013	November 2018	51.16	177,748	51.16	317,554
May 2010	May 2014	May 2019	52.13	79,963	52.13	102,910
May 2011	May 2015	May 2020	66.00	59,127	66.00	93,288
June 2012	June 2016	June 2021	51.16	44,113	51.16	82,614
NUMBER OF STOCK OPTIONS OUTSTANDING				**360,951**		**672,028**

28.2 Performance share plans

Changes in the number of performance share rights are as follows:

	2017 Number of outstanding performance share rights	2016 Number of outstanding performance share rights
At January 1	**668,936**	**732,406**
Granted	296,440	120,520
Forfeited	(42,780)	(61,027)
Shares delivered	(39,084)	(122,963)
AT DECEMBER 31	**883,512**	**668,936**

In November 2017, 296,440 rights to performance shares have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2021 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (share price on the market, industrial environmental performance, employee engagement level, increase in operating income) are met. The fair value of a right to a performance share is estimated at €66.84. 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 2017 is estimated at €13 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2017 Number of outstanding performance share rights	December 31, 2016 Number of outstanding performance share rights
	France	Other countries	France	Other countries	France	Other countries		
2013	2017	2017	None	None	69.43	69.43	-	78,168
2014	2018	2018	None	None	63.05	63.05	276,168	279,864
2014	2018	2018	None	None	63.05	63.05	106,244	106,244
2015	2019	2019	None	None	82.24	82.24	84,140	84,140
2016	2020	2020	None	None	66.41	66.41	120,520	120,520
2017	2021	2021	None	None	66.84	66.84	296,440	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**883,512**	**668,936**

The expense recognized in 2017 for the performance share plans amounts to €7 million (2016: €7 million) and is included in "Other operating income and expenses from recurring activities".

28.3 Employee share purchase plans

In 2017, there was no new employee share purchase plan.

In 2016, 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 €76.38, after a 20% discount on the reference price of €95.47, the latter being the average of the Michelin share's opening trading price of the last twenty trading days preceding the price fixing day. The employees were granted one free share for each share purchased capped to the first five. 657,366 shares were purchased during this share offer.

The global expense recognized in the income statement by the Group in 2016 in relation to this plan amounted to €16 million after deduction of the effect of the five-year restriction.

The main features of the plan and the assumptions used for the valuation of the cost linked to the shares acquired by Group employees were as follows:

Maturity of the plan	5 years
Number of shares subscribed	657,366
Reference price *(in €)*	95.47
Subscription price *(in €)*	76.38
Five-year risk-free rate[1]	-0.28%
Five-year market participant rate[2]	5.30%
Dividend yield	2.99%
Cost of the lock-up period *(in % of the reference price)*	23.82%
Cost recognized *(in € per share)*	23.95

(1) The risk-free interest rate is based on the yield of French government bonds with the equivalent maturity.
(2) The five-year market participant rate is an average of non-dedicated 5-year individual loan rates.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions and other long-term liabilities amount to €1,676 million (2016: €1,604 million) and include provisions for reorganizations and adaptation of activities, provisions for litigation, for warranties 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, 2017	**274**	**363**	**637**
Additional provisions	253	137	**390**
Provisions utilized during the year	(97)	(101)	**(198)**
Unused provisions reversed during the year	(18)	(10)	**(28)**
Translation adjustments	(3)	(21)	**(24)**
Other effects	1	86	**87**
AT DECEMBER 31, 2017	**410**	**454**	**864**

The €454 million balance for Litigation, warranties and other provisions includes mainly amounts arising from social security disputes (URSSAF in France), as well as risks and warranty relating to products marketed mainly in North America.

29.1 Reorganizations and adaptation of activities

At December 31, 2017, the remaining provisions for reorganizations and adaptation of activities relate to following countries:

(in € million)	December 31, 2017	December 31, 2016
France	269[1]	109
United Kingdom	62	76
Italy	40	42
Germany	26	21
Other countries	13	26
TOTAL	**410**	**274**

(1) The balance includes mainly the provision made in relation to the implementation of the new worldwide organisation 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, 2017	December 31, 2016
Customers – Deferred rebates	847	969
Employee benefits	573	500
Social security liabilities	221	231
Reorganizations and adaptation of activities liabilities	3	3
Current income tax payable	186	188
Other taxes	279	195
Other	276	310
OTHER CURRENT LIABILITIES	**2,385**	**2,396**

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, 2017	Year ended December 31, 2016
Investment grants	(13)	(12)
Change in employee benefit obligations	(235)	(94)
Change in litigation and other provisions	(5)	(20)
Costs related to reorganizations and adaptation of activities	(100)	(99)
Other	7	19
Operating income and expenses from non-recurring activities (cash) and change in provisions	**(346)**	**(206)**
Interest and other financial expenses paid	(422)[2]	(210)
Interest and other financial income received	23	44
Dividends received	26	20
Cost of net debt and other financial income and expenses paid	**(373)**	**(146)**
Change in inventories	(311)	(83)
Change in trade receivables and advances	(317)	(319)
Change in trade payables and advances	205	72
Change in trade payables under factoring contracts	199	217
Change in other receivables and payables	160	(89)
Change in working capital, net of impairments	**(64)**	**(202)**
Purchases of intangible assets (note 13)	(186)	(158)
Purchases of PP&E (note 14)	(1,585)	(1,653)
Government grants received	25	21
Change in capital expenditure payables	78	(25)
Purchases of intangible assets and PP&E	**(1,668)**	**(1,815)**
Increase in other non-current financial assets	(21)	(6)
Decrease in other non-current financial assets	10	13
Net cash flows from cash management financial assets	(18)	(162)[1]
Net cash flows from borrowing collaterals	36	2
Net cash flows from other current financial assets	(10)	(6)
Cash flows from other financial assets	**(3)**	**(159)**
Increase in non-current financial liabilities	494	115
Decrease in non-current financial liabilities	(28)	(92)
Repayment of finance lease liabilities	(24)	(13)
Net cash flows from current financial liabilities	(424)	(141)
Derivatives	(86)	112
Cash flows from financial liabilities	**(68)**	**(19)**
Details of non cash transactions:		
▶ New finance leases (note 14)	135	42
▶ Increase/(Decrease) of liabilities to minority shareholders	-	-
▶ New emission rights	4	4

(1) See note 21.
(2) See note 26.1.

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, 2017	December 31, 2016
Within one year	234	220
Between one and five years	415	402
More than five years	134	101
TOTAL FUTURE MINIMUM PAYMENTS	**783**	**723**

Total operating lease rents recognized in the income statement in 2017 amounted to €379 million (2016: €381 million).

/ 32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2017, amounts to €326 million (of which €90 million is likely to be delivered from 2019).

/ 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 2018. 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, 2017, the present value of the future contributions exceeding the provision booked in the Group accounts amounts to €133 million.

/ 32.2.2 Tax audit in Germany

Following a tax audit covering the periods 2005 to 2009, a German subsidiary received during the year 2015 notifications of intended tax adjustments on a €305 million tax base. The tax authorities are contesting in the main (€286 million) the effects on the subsidiary of the transfer price policy applied by the Group. No significant new elements with regards to this claim have been identified in 2017.

The Group does not accept any of the positions taken by the German tax authorities and considers that:

- it is more unlikely than likely that the subsidiary will have to face a financial loss in connexion with these tax adjustments;
- furthermore, it is not possible at this stage of the proceedings to reliably evaluate the potential financial risk related to these tax litigations.

In 2016 a new tax audit covering the periods 2010 to 2014 was instigated; no specific elements have been raised as at the date of the closing of the consolidated accounts.

/ 32.2.3 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 €260 million at 2017 closing exchange rate) credit line.

In 2013, a lawsuit was instigated against the subsidiary, the plaintiff pleading the unconstitutional nature of the decree by which the advantages had been given.

After having received a favorable ruling in 2015, the subsidiary was condemned on appeal in October 2016. The judgment only concerned the deferred tax payments relating to the importation of industrial machines for the Resende plant. The Group estimates that the amount of financial risk related to this litigation to be in the region of 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.

At the date of the closing of the consolidated accounts, the preliminary decision concerning the sequestration of the company's assets, pronounced following the lawsuit initiated in November 2016, has not been put into effect.

The Group contests all of the positions expressed by the Brazilian legal authorities in the different lawsuits and considers that it is more likely than unlikely that it will make its points of view prevail.

/ 32.2.4 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 (2016: €34 million).

/ 32.3.2 Financial assets

Loans and deposits amounting to €42 million (2016: €77 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 €468 million (2016: €476 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, 2017 (2016: €15 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 CHANGE IN THE SCOPE OF CONSOLIDATION AND IN THE PERCENTAGE OF INTEREST

33.1 Change in the scope of consolidation

/ 33.1.1 Nextraq

On July 17, 2017, the Group took control of NexTraq Inc., a US provider of telematics solutions for commercial fleets. Nextraq provides solutions that improve drivers' safety, fuel consumption management and fleet productivity. Its services are mainly based on geolocation management of small commercial vehicles for fleets between 2 and 50 vehicles.

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)	113
Property, plant and equipment (PP&E)	-
Non-current financial assets and other assets	-
Non-current assets	**113**
Inventories	1
Trade receivables and other current assets	14
Cash and cash equivalents	2
Current assets	**17**
Non-current financial liabilities	-
Provisions and other non-current liabilities	-
Deferred tax liabilities	42
Non-current liabilities	**42**
Current financial liabilities	-
Trade payables and other current liabilities	7
Current liabilities	**7**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**81**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for the trademark and using an income approach for the customer relationships and the technology. The Nextraq trademark has been valued at €9 million. Its remaining useful life is 15 years. The fair value of the customer relationships has been measured at €87 million. It will be amortized over its remaining useful life of 15 years. The fair value of the technology is €17 million and will be amortized over its remaining useful life of five years.

The allocation of the purchase price, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for €224 million, calculated as follows:

(in € million)	At acquisition date
Fair value of consideration transferred (1)	305
Fair value of net assets acquired (2)	81
GOODWILL (1) - (2)	**224**

This acquisition will enable the Group to increase its expertise and visibility in the field of fleets telematics services, to expand its customer base in the United States and the geographical coverage of its offerings, as well as accelerate its market's penetration within the trailer segment, where the potential growth of telematics services such as those provided by Nextraq is expected to be important. These analyses led to the allocation of the goodwill to the group of CGUs comprising Truck tire, fleet services and digital activities in North America (note 13.2).

In the five months to December 31, 2017, NexTraq contributed €19 million to the Group's net sales, €1 million to its operating income and €13 million to its net income as a consequence of a deferred tax income recognized following the United States' tax reform adopted in December.

/ 33.1.2 Other acquisitions

In October 2017, the Group acquired the truck tire distributor and service provider Tructyre, in the United Kingdom and Lehigh Technologies in the United States. The latter 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.

In December, the acquisition of PTG (Germany) and Teleflow (France), two leaders in tire pressure control systems, was completed.

Given the acquisition dates of these entities, it has not been possible to integrate them according to the acquisition method before the consolidated financial statements' finalisation and they are provisionally presented under the section "Non-current financial assets and other assets" of both the Consolidated Statement of Financial Position and the Consolidated Cashflow Statement, as at December 31, 2017 for €55 million. Consolidation and purchase price allocation will be carried out during the accounting period beginning on January 1, 2018.

33.2 Change in the percentage of interest

On June 6, 2017, the Group, through its subsidiary Compagnie Financière Michelin SCmA, has filed a draft simplified cash public tender offer with the French securities regulator (*Autorité des marchés financiers* – AMF), acting in concert with the Ivory Coast company SIFCA, the majority shareholder of SIPH, to acquire the 1,042,324 shares (*i.e.,* 20.60% of the capital) in Société Internationale de Plantations d'Hévéas (SIPH) not currently held by the concert parties, at a price of €85 per share. The amount of the operation, corresponding to the expected total repurchase of the shares, is €89 million and was deposited with the financial broker on a blocked account until the closing of the tender offer. Before launching this offer, the Group owned 23.81% of the capital of SIPH, recognized as "Investments in associates" in the consolidated statement of financial position.

The shareholders' agreement entered into by the Group and SIPH at the date of the launch of this operation states that the Group undertakes to sell forward to SIFCA, in the five coming years, 25% of the shares acquired by the Group under the public tender or the squeeze out of any remaining minority shareholders of SIPH, in order to reach the targeted ownership structure as follows:

- Michelin 40% of the share capital;
- SIFCA 60% of the share capital.

The simplified public tender initiated by the Group was closed on July 12, 2017. The Group acquired through this tender 493,452 shares, of which 248,732 were taken up and paid as at June 30, 2017, for a total amount of €41 million. The targeted number of shares was 1,042,234.

The percentage of share capital held by the Group in SIPH after this operation is 33.56%, compared to the 23.81% previously held.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1 Subsidiaries, joint ventures and associates

The list of the major Group subsidiaries is included in note 36 "List of main Group companies". Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated in consolidation.

Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2017	2016
Income statement		
Income for the sale of goods or supply of services	78	111
Expenses for the purchase of products or supply of services	(224)	(142)
Balance sheet		
Financial liabilities	(7)	(9)
Accounts payable	(5)	(5)
Financial assets	20	4
Accounts receivable	11	31

34.2 Senior Management and Supervisory Board

In 2017, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2016 net income and amounting to €2.2 million (2015: €1.3 million).

He was entitled to a global compensation of €1.5 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin (2016: €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 (2016: €0.6 million). He was entitled to a gross amount (social charges and tax included) of €1.2 million according to the terms of a long term incentive bonus program reducing the provision, based on the present value of the vested rights in that program, recognized as at December 31, 2017 to an amount of €1.1 million (2016: €2.2 million) including the related tax and social charges.

The global compensation granted in 2017 to the 11(*) members of the Group Executive Committee (2016: 13(*) members) was €24 million (2016: €20 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Short term benefits	17.1	14.0
Post-employment benefits	3.8	3.1
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	3.4	2.5
COMPENSATION GRANTED TO MEMBERS OF THE GROUP EXECUTIVE COMMITTEE	**24.3**	**19.6**

(*) Members of the Group Executive Committee as at December 31.

The attendance fees paid in 2017 to the Supervisory Board members for 2016 meetings were €0.5 million (2016: €0.4 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 2017 consolidated financial statements.

35.1 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 replacement tire distribution and related service operations in a joint venture owned on a 50-50 basis by the parties. The transaction will form the second-largest player in the wholesale tire market in the United States which will operate under a new brand, NTW.

The Group will bring to the joint venture the wholesale tire activity of its TCI network in the United States, valued at 160 million USD completed by a contribution in cash for 630 million USD.

The transaction might be completed by the end of the first quarter of 2018, subject to customary approvals.

35.2 Non-dilutive cash-settled convertible bonds issue

In January 2018, the Group issued exclusively cash-settled five year convertible bonds with a total face value of 600 million USD. These bonds, which were issued at 95.5% of their face value, are redeemable at par on November 10, 2023 (if they are not converted) and their coupon's interest rate is 0%.

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 hedged by euro-denominated swaps, provides the Group with the equivalent of classic euro-denominated bond financing at an advantageous cost.

NOTE 36 LIST OF MAIN GROUP COMPANIES

Countries are presented based on the Michelin geographical regions and within each regions are listed according to the alphabetical order of the French names.

Companies	Registered office	Nature	% of interest
EUROPE			
Germany			
Laurent Reifen GmbH	Oranienburg	Manufacturing & commercial	100.00
Michelin Reifenwerke AG & Co. KgaA	Karlsruhe	Manufacturing & commercial	100.00
Euromaster GmbH	Mannheim	Commercial	100.00
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Karlsruhe	Financial	100.00
Ihle tires GmbH	Muggensturm	Miscellaneous	100.00
Tirecorp GmbH	Muggensturm	Miscellaneous	100.00
Ihle International GmbH	Muggensturm	Miscellaneous	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Denmark			
Euromaster Danmark A/S	Skanderborg	Commercial	100.00
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.81
Reservas de Restaurantes, S.L.	Madrid	Miscellaneous	99.81
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	100.00
Nex Tyres, S.L.	Lleida	Miscellaneous	50.00
Finland			
Suomen Euromaster Oy	Pori	Commercial	100.00
France			
Compagnie Générale des Établissements Michelin	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Avallon	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Bassens	Manufacturing	100.00
Euromaster France	Montbonnot-Saint-Martin	Commercial	98.41
Michelin Aircraft Tyre	Clermont-Ferrand	Commercial	100.00
Transityre France	Clermont-Ferrand	Commercial	100.00
Michelin Travel Partner	Boulogne-Billancourt	Commercial	100.00
Spika	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Montbonnot-Saint-Martin	Commercial	96.81
Tyredating	Lyon	Commercial	100.00
Ihle France	Schiltigheim	Miscellaneous	100.00
Euromaster Services et Management	Clermont-Ferrand	Commercial	100.00
GIE MICHELIN PLACEMENTS	Clermont-Ferrand	Financial	100.00
Greece			
Elastika Michelin A.E.	Halandri	Commercial	100.00
Hungary			
Michelin Hungaria Tyre Manufacture Ltd.	Nyíregyháza	Manufacturing & commercial	100.00
Ireland			
Miripro Insurance Company Designated Activity Company / Miripro Insurance Company DAC	Dublin	Miscellaneous	100.00
Italy			
Società per Azioni Michelin Italiana	Turin	Manufacturing & commercial	100.00
Luxembourg			
Michelin Luxembourg SCS	Luxembourg	Financial	100.00
Michelin Finance (Luxembourg) S.à r.l.	Luxembourg	Financial	100.00

Companies	Registered office	Nature	% of interest
The Netherlands			
Euromaster Bandenservice B.V.	Deventer	Commercial	100.00
Michelin Nederland N.V.	Drunen	Commercial	100.00
Transityre B.V.	Breda	Commercial	100.00
Poland			
Michelin Polska S.A.	Olsztyn	Manufacturing & commercial	100.00
Serbia			
Tigar Tyres d.o.o.	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Voluntari	Manufacturing & commercial	99.86
Euromaster Tyre & Services Romania S.A.	Voluntari	Commercial	100.00
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Birmingham	Commercial	100.00
Blackcircles.com Limited	Edinburgh	Commercial	100.00
Livebooking Holdings Limited	London	Commercial	99.94
LB Central Limited	London	Commercial	99.94
Sweden			
Euromaster AB	Varberg	Commercial	100.00
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Givisiez	Commercial	100.00
Nitor S.A.	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière Michelin SCmA	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Granges-Paccot	Miscellaneous	100.00
Michelin Mexico Properties Sàrl	Granges-Paccot	Miscellaneous	100.00
Turkey			
Michelin Lastikleri Ticaret A.S.	Istanbul	Commercial	100.00
AFRICA/INDIA/MIDDLE EAST			
South Africa			
Michelin Tyre Company South Africa Proprietary Limited	Boksburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Commercial	100.00
Nigeria			
Michelin Tyre Services Company Ltd.	Lagos	Commercial	95.48
India			
Michelin India Private Limited	Chennai	Manufacturing	100.00
NORTH AMERICA			
Canada			
Michelin North America (Canada) Inc.	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	New Glasgow	Commercial	100.00
United States of America			
Michelin North America, Inc.	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Wilmington	Commercial	100.00
Tire Centers, LLC	Wilmington	Commercial	100.00
CR Funding Corporation	Wilmington	Financial	100.00
Michelin Corporation	New York	Financial	100.00
Oliver Rubber Company, LLC	Wilmington	Manufacturing	100.00
NexTraq LLC	Wilmington	Commercial	100.00
Mexico			
Michelin Mexico Holding, S.A. de C.V.	Queretaro	Financial	100.00
Industrias Michelin, S.A. de C.V.	Queretaro	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% of interest
SOUTH AMERICA			
Argentina			
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Buenos Aires	Commercial	100.00
Brazil			
Sociedade Michelin de Participações, Indústria e Comércio Ltda.	Rio de Janeiro	Manufacturing & commercial	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda.	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda.	Rio de Janeiro	Miscellaneous	100.00
Sascar Tecnologia E Segurança Automotiva S.A.	Barueri	Miscellaneous	100.00
Industrial Levorin S.A.	Guarulhos	Manufacturing & commercial	100.00
Neotec Indústria e Comércio de Pneus Ltda.	Manaus	Manufacturing & commercial	100.00
LevNeo Participações Ltda.	Guarulhos	Miscellaneous	100.00
Chile			
Michelin Chile Ltda.	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Bogotá	Commercial	99.96
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
SOUTHEAST ASIA/AUSTRALIA			
Australia			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00
Indonesia			
PT Michelin Indonesia	Jakarta	Commercial	100.00
PT Synthetic Rubber Indonesia	Jakarta	Manufacturing	55.00
Malaysia			
Michelin Malaysia Sdn. Bhd.	Petaling Jaya	Commercial	100.00
Singapore			
Michelin Asia (Singapore) Co. Pte. Ltd.	Singapore	Commercial	100.00
Michelin Asia-Pacific Pte Ltd	Singapore	Miscellaneous	100.00
Société des Matières Premières Tropicales Pte. Ltd.	Singapore	Miscellaneous	100.00
Thailand			
Michelin Siam Company Limited	Bangkok	Manufacturing & commercial	100.00
Michelin Thai Holding Co., Ltd.	Bangkok	Financial	100.00
Vietnam			
Michelin Vietnam Company Limited	Ho Chi Minh City	Commercial	100.00
CHINA			
China			
Michelin Shenyang Tire Co., Ltd.	Shenyang	Manufacturing	100.00
Shanghai Michelin Tire Co., Ltd.	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd.	Shanghai	Commercial	100.00
Taiwan			
Michelin Tire Taiwan Co., Ltd.	Taipei	Commercial	100.00
EASTERN EUROPE			
Russia			
Michelin Russian Tyre Manufacturing Company LLC	Davydovo	Manufacturing & commercial	100.00
Ukraine			
Michelin Ukraine LLC	Kiev	Commercial	100.00
JAPAN/KOREA			
Japan			
Nihon Michelin Tire Co., Ltd.	Tokyo	Commercial	100.00
South Korea			
Michelin Korea Co., Ltd.	Seoul	Commercial	100.00

NOTE 37 STATUTORY AUDITORS' FEES

	Deloitte				PricewaterhouseCoopers			
	Statutory auditor (Deloitte & Associés)		Network		Statutory auditor (PricewaterhouseCoopers Audit)		Network	
(in € thousand)	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit (including consolidated financial statements and half year review)								
Public Interest Entity	*517*	*43%*	*-*	*-*	*605*	*43%*	*-*	*-*
Controlled entities	*685*	*57%*	*1,640*	*100%*	*815*	*57%*	*3,564*	*100%*
Sub-total	**1,202**	**100%**	**1,640**	**100%**	**1,420**	**100%**	**3,564**	**100%**
Non Audit Services								
Public Interest Entity[(1)]	*20*	*83%*	*-*	*-*	*36*	*29%*	*-*	*-*
Controlled entities	*4*	*17%*	*821*	*100%*	*87*	*71%*	*2,704*	*100%*
Sub-total	**24**	**100%**	**821**	**100%**	**123**	**100%**	**2,704**	**100%**
TOTAL	**1,226**		**2,461**		**1,543**		**6,268**	

(1) These services are relating mainly to a certificate from the Statutory Auditors on agreed-upon procedures.

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