

**COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN**  
Financial information for the year ended December 31, 2016

**2016: Objectives met**  
Volumes up 2.1%.  
€2,692 million in operating income from recurring activities,  
up €235 million at constant exchange rates.  
Over €1 billion in free cash flow.

**2017: Another year of progress, in line with the Group's 2020 objectives**

- Volumes up 2.1%, outperforming the markets,
  - Passenger car and Light truck tires up 3%, Truck tires up 1% and Specialty businesses down 1%.
  - Volumes up 4.2% for the Group in the fourth quarter, with gains of 5% in Passenger car and Light truck tires and 6% in the Specialty businesses.
- €2,692 million in operating income, or 12.9% of net sales, up €235 million at constant exchange rates.
- €159 million net positive impact from changes in price mix versus raw materials costs, thanks to effective management.
- Competitiveness plan target met with €1.2 billion in gains over the 2012-2016 period.
- Strong free cash flow for the year, at €1,024 million.
  - €128 million improvement in structural free cash flow, to €961 million.
- €750 million share buyback program completed over the 2015-2016 period.
  - 1.8% of outstanding shares canceled in 2016, corresponding to €301 million.
- Proposed dividend of €3.25 per share, reflecting the Group's commitment to shareholders and representing a payout ratio of 36.5%, to be submitted to shareholders at the Annual Meeting on May 19, 2017.

Jean-Dominique Senard, Chief Executive Officer, said: "2016 represented a successful milestone in our strategic roadmap. Our growth, which once again outpaced the markets, was driven by the strength of the MICHELIN brand, our steady stream of innovations, the improvement in the quality of our customer service and the success of our intermediate lines. Our pricing policy, which is designed to capture the full value of our technological leadership, and our sustained commitment to improving competitiveness enabled us to fulfill the financial guidance announced early in the year. Looking ahead, 2017 is expected to be another year of growth, in line with the Group's 2020 objectives."

□ Outlook

In 2017, tire markets are expected to track the trends observed in late 2016, in particular with the upturn in mining tire sales. The year will also see an increase in raw materials costs, for an estimated impact of approximately €(900) million, in response to which Michelin will agilely manage prices so as to hold unit margins firm in businesses not subject to indexation clauses.

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

(IN € MILLIONS)	2016	2015
NET SALES	<b>20,907</b>	<b>21,199</b>
OPERATING INCOME FROM RECURRING ACTIVITIES	<b>2,692</b>	<b>2,577</b>
OPERATING MARGIN ON RECURRING ACTIVITIES	<b>12.9%</b>	<b>12.2%</b>
PASSENGER CAR/LIGHT TRUCK TIRES AND RELATED DISTRIBUTION	<b>13.1%</b>	<b>11.5%</b>
TRUCK TIRES AND RELATED DISTRIBUTION	<b>9.7%</b>	<b>10.4%</b>
SPECIALTY BUSINESSES	<b>18.6%</b>	<b>18.6%</b>
OPERATING INCOME/(LOSS) FROM NON-RECURRING ACTIVITIES	<b>99</b>	<b>(370)</b>
OPERATING INCOME	<b>2,791</b>	<b>2,207</b>
NET INCOME	<b>1,667</b>	<b>1,163</b>
EBITDA FROM RECURRING ACTIVITIES	<b>4,084</b>	<b>3,934</b>
CAPITAL EXPENDITURE	<b>1,811</b>	<b>1,804</b>
NET DEBT	<b>944</b>	<b>1,008</b>
GEARING	<b>9%</b>	<b>11%</b>
EMPLOYEE BENEFIT OBLIGATIONS	<b>4,763</b>	<b>4,888</b>
FREE CASH FLOW <sup>1</sup>	<b>1,024</b>	<b>653</b>
STRUCTURAL FREE CASH FLOW <sup>2</sup>	<b>961</b>	<b>833</b>
ROCE	<b>12.1%</b>	<b>12.2%</b>
EMPLOYEES ON PAYROLL <sup>3</sup>	<b>111,708</b>	<b>111,681</b>
EARNINGS PER SHARE	<b>€9.21</b>	<b>€6.28</b>
DIVIDEND PER SHARE <sup>4</sup>	<b>€3.25</b>	<b>€2.85</b>

<sup>1</sup> Free cash flow: net cash from operating activities less net cash from investing activities

<sup>2</sup> Structural free cash flow: free cash flow before acquisitions, adjusted for the impact of changes in raw materials costs on trade payables, trade receivables and inventories and for the impact of end-of-year volumes on working capital requirement

<sup>3</sup> At period-end

<sup>4</sup> 2016 dividend to be submitted to shareholder approval at the Annual Meeting on May 19, 2017

## Market Review

### □ PASSENGER CAR AND LIGHT TRUCK TIRES

2016 % change YoY (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	+3%	+4%	+1%	+7%	-12%	+9%	+4%
Replacement	+2%	+4%	+2%	+4%	+0%	+3%	+2%

Fourth quarter % change YoY (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%	+2%	+0%	+10%	+6%	+12%	+6%
Replacement	+4%	+5%	+3%	+4%	+5%	+1%	+3%

\*Including Turkey

In 2016, the global original equipment and replacement Passenger car and Light truck tire market expanded by 3% in number of tires sold.

#### ▪ ORIGINAL EQUIPMENT

- In Europe, demand rose by 3% overall during the year, reflecting a sustained 4% increase in Western Europe, despite the slowdown in automobile sales in the second half, and a steep 12% drop in Eastern Europe.
- ⊖ The North American market stabilized at a high level, with a 1% increase, in line with registrations.
- Demand in Asia (excluding India) ended the year up 7% overall. The Chinese market remained buoyant, with a 14% increase led by the government's compact car purchase incentives and the popularity of SUV models. Demand contracted by 2% in Japan, 7% in South Korea and 2% in the ASEAN nations.
- ⊖ Markets in South America continued their steep decline, losing 12% over the year, with the first signs of improvement emerging in the final quarter in Brazil (up 6%) and Argentina.

#### ▪ REPLACEMENT

- The European market saw a 2% overall increase during the year. Demand in Western Europe rose by 4%, reflecting a volatile winter segment (up 4%), the increase in entry-level tire imports and the robust growth in all-season tire sales. In Eastern Europe, demand continued to shrink, by a further 7% over the year.
- In North America, demand rose by 2% overall, fuelled by strong growth in the small tire segment in the fourth quarter and the solid 8% gain in Mexico. The US market edged up by 1%, reflecting buyer hesitation in an election year, but firm growth was reported in the 18-inch and larger segment (up 15%) and in SUV tires.
- Demand in Asia (excluding India) ended the year up 4%, thanks to sustained growth in the Chinese market (up 8%) in a highly competitive environment. The rest of the region was relatively flat, with just a 1% increase, reflecting the 1% market declines in Japan and Thailand.
- ⊖ In South America, demand was unchanged overall, as the 2% decline in Brazil (despite an upturn at year-end) was offset by more positive trends in the rest of Latin America.

□ TRUCK TIRES (radial and bias)

2016 % change YoY (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	+1%	+1%	-19%	+6%	-17%	+5%	+0%
Replacement	+5%	+6%	+0%	-3%	-1%	-3%	-1%

Fourth quarter % change YoY (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	-6%	-7%	-23%	+9%	-8%	+3%	-0%
Replacement	+7%	+9%	-4%	+1%	+3%	-6%	+0%

\*Including Turkey

In 2016, global demand for new original equipment and replacement Truck tires retreated by 1% in number of tires sold. Retread markets were also in decline, with an especially steep fall-off in Europe.

▪ **ORIGINAL EQUIPMENT**

- In Europe, the market ended the year up 1% despite a slowdown in the second half. The 1% gain in Western Europe reflected both a downward trend in the semi-truck segment and growth in trailer tires, while the 3% increase in Eastern Europe revealed the first positive signs in a market that remained historically low.
- The North American market fell 19% in 2016, as expected, given the renewal of the local truck fleet observed in recent years.
- Demand for radial and bias tires in Asia (excluding India) increased by 6% in 2016, as growth in China (up 9%) offset declines in Japan (down 7%) and Thailand (down 3%). Chinese demand has been rebounding since the autumn due to the arrival of new market entrants and the application of new axle load and truck size rules. The latter are expected to spur a surge in truck replacements.
- The South American market, which started to level off in the second half, still ended the year down 17%. Demand in Brazil, also down 17% for the year, began to show some signs of improvement in the last two months.

▪ **REPLACEMENT**

- In Europe, the market rose by 5% overall, with a slower decline in Russia in the second half. The sharp 6% rebound in Western Europe was led by the increase in freight tonnes carried per km and the rise in sales of low-cost tires from Asia, which are depressing retread demand. In Eastern Europe, robust demand in the intermediate segments helped to drive a 4% gain for the year.
- Demand in North America ended the year flat, reflecting a first-half buying spree ahead of the new tariffs announced on Chinese tire imports, dampened by the subsequent fall-off in sales in the second half, as well as by pre-election buyer hesitation and the slowdown in the region's economic indicators.
- Demand for replacement radial and bias tires in Asia (excluding India) was down 3% for the year. In China, it contracted by 4% overall, but showed a 2% improvement in the fourth quarter thanks to booming online sales and an economic stimulus plan that is particularly favorable to the construction industry and infrastructure investment. In the rest of the region, markets slipped 1% overall in a challenging economic environment, with a significant 12% drop in Thailand and a 2% gain in Japan.
- The South American radial and bias market continued to drift downwards, by 1% in 2016, but signs of an upturn emerged in the final quarter (up 4%) led by Brazil (up 2% for the year and 11% in the fourth quarter) and Argentina.



## □ SPECIALTY TIRES

- **EARTHMOVER TIRES:** the mining tire market retreated for the third year in a row, dragged down by the steep reduction in mine inventory. The trend turned upward in the fourth quarter, however, as mining companies resumed purchases, in line with their level of tire use.  
Original equipment markets declined sharply in the mature geographies at a time of weak demand. The Chinese market also continued to cool in 2016 after dropping precipitously in 2015.  
Dealer hesitation is weighing on demand for infrastructure and quarry tires, which declined over the year.
- **AGRICULTURAL TIRES:** after falling off sharply in 2015, OE demand continued to slide in the mature geographies, with the first-half rebound wiped out by a collapse in the second part of the year.  
Replacement markets retreated significantly in the mature regions, penalized by low farm commodity prices.
- **TWO-WHEEL TIRES:** demand for motorcycle tires climbed for the fourth straight year in Europe, lifted by an increase in dealer buying, but fell back sharply in North America. The emerging markets are continuing to expand overall.
- **AIRCRAFT TIRES:** demand in the commercial aircraft segment continued to grow, led by the increase in passenger traffic.

## 2016 Net Sales and Results

### □ NET SALES

Consolidated net sales stood at €20,907 million for the year, down 1.4% on 2015 due to the combined impact of the following factors:

- A €440 million increase from the 2.1% growth in volumes.
- A €386 million decrease from the 1.9% unfavorable price-mix effect, reflecting i) a €438 million decrease from price adjustments, of which nearly half corresponded to the application of indexation clauses based on raw materials prices; and ii) a €52 million increase from the mix, as the still highly positive product mix and the favorable impact of the rebound in Earthmover tire sales in the fourth quarter offset the dampening impacts of the geographic mix and the relative growth rates of intermediate and OE tire sales.
- A €370 million decrease from the currency effect.
- A €24 million increase from the consolidation of BookaTable, Europe's leading online restaurant booking service.

### □ RESULTS

**Consolidated operating income from recurring activities** amounted to €2,692 million or 12.9% of net sales, compared with the €2,577 million and 12.2% reported in 2015. The €99 million in operating income from non-recurring activities corresponds to the gain from a change in the retiree health coverage plan in the United States, which was partially offset by restructuring costs related to the Group's competitiveness improvement projects.

Operating income from recurring activities reflected the €176 million increase from volume growth and the net €159 million positive impact of efficiently managing the price mix (whose effect was negative at €386 million) at a time of lower raw materials costs (which had a €545 million favorable impact). Although the production cutbacks implemented in certain plants to reduce inventory adversely impacted the ongoing deployment of the competitiveness plan, the plan's €233 million in gains nevertheless offset most of the €264 million increase in production costs and overheads over the year. Lastly, operating income from recurring activities also reflected the predicted €89 million increase in depreciation and amortization expense, the €122 million favorable currency effect and the €31 million reduction in start-up costs.

**Net income came in at €1,667 million.**



## □ NET FINANCIAL POSITION

**Free cash flow** improved by €370 million to end the year at **€1,024 million** after capital expenditure of €1,811 million.

Based primarily on this free cash flow, less the payment of €538 million in dividends and the €301 million in share buybacks, consolidated **gearing stood at 9%** at December 31, 2016, corresponding to net debt of €944 million, compared with gearing of 11% and net debt of €1,008 million at December 31, 2015.

When compared with the weighted average cost of capital for the year, the 12.1% after-tax return on capital employed attests that Michelin created value in 2016.

## □ SEGMENT INFORMATION

In € millions	NET SALES		OPERATING INCOME FROM RECURRING ACTIVITIES		OPERATING MARGIN ON RECURRING ACTIVITIES	
	2016	2015	2016	2015	2016	2015
PASSENGER CAR/LIGHT TRUCK TIRES & RELATED DISTRIBUTION	<b>12,105</b>	<b>12,028</b>	<b>1,585</b>	<b>1,384</b>	<b>13.1%</b>	<b>11.5%</b>
TRUCK TIRES & RELATED DISTRIBUTION	<b>5,966</b>	<b>6,229</b>	<b>580</b>	<b>645</b>	<b>9.7%</b>	<b>10.4%</b>
SPECIALTY BUSINESSES	<b>2,836</b>	<b>2,942</b>	<b>527</b>	<b>548</b>	<b>18.6%</b>	<b>18.6%</b>
GROUP	<b>20,907</b>	<b>21,199</b>	<b>2,692</b>	<b>2,577</b>	<b>12.9%</b>	<b>12.2%</b>

### ▪ PASSENGER CAR/LIGHT TRUCK TIRES & RELATED DISTRIBUTION

Net sales in the Passenger car/Light truck tires & related distribution segment rose by 0.6% in 2016, to €12,105 million from €12,028 million the year before.

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

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

### ▪ TRUCK TIRES & RELATED DISTRIBUTION

Net sales in the Truck tires & related distribution segment stood at €5,966 million, versus the €6,229 million reported in 2015.

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

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



- **SPECIALTY BUSINESSES**

In all, net sales by the Specialty businesses came to €2,836 million for the year, compared with €2,942 million in 2015.

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

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

## **COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN**

Compagnie Générale des Établissements Michelin ended the year with net income of €1,416 million, compared with €590 million in 2015.

The financial statements were presented to the Supervisory Board at its meeting on February 9, 2017. An audit was performed and the auditors' report was issued on February 13, 2017.

The Chief Executive Officer will call an Annual Shareholders Meeting on Friday, May 19, 2017 at 9:00 am in Clermont-Ferrand.

Shareholders will be asked to approve the payment of a dividend of €3.25 per share, compared with €2.85 in respect to the previous year.

## 2016 Highlights

- ❑ With the acquisition of BookaTable, Michelin becomes the European online restaurant booking leader (January 11, 2016)
- ❑ Michelin recognized as one of the ten best corporate brands in Europe in the Best Brands study (February 19, 2016)
- ❑ Latest version of the MICHELIN X LINE ENERGY Z Truck tire range launched in North America (February 28, 2016)
- ❑ Michelin adapts the organization of its activities in Clermont-Ferrand (March 1, 2016)
- ❑ PSA presents its first Corporate Social Responsibility Award to Michelin (June 2, 2016)
- ❑ At an Investor Day event held at its Technology Center in Ladoux, France, Michelin presents its strategic vision, growth objectives and competitiveness plan, designed to drive €1.2 billion in cost savings by 2020 (June 6, 2016)
- ❑ A new premium passenger car tire plant to be built in Mexico (July 4, 2016)
- ❑ Strategic collaboration agreement signed with Boeing subsidiary Aviall (July 12, 2016)
- ❑ Acquisition of bicycle and motorcycle tire manufacturer Levorin strengthens Michelin's presence in Brazil (August 26, 2016)
- ❑ The MICHELIN X GUARD Truck tire takes to the road in China (August 31, 2016)
- ❑ Formula-E 2016/2017 - The latest MICHELIN Pilot Sport EV2 tires successfully pass pre-season litmus test (September 12, 2016)
- ❑ A new employee stock ownership plan (September 15, 2016)
- ❑ Inauguration of the new R&D campus, the heart of Michelin innovation (September 16, 2016)
- ❑ Meeting the needs of mine operators with the innovative MICHELIN XDR3 dump truck tire (September 16, 2016)
- ❑ Engie joins Michelin in investing in European fuel cell manufacturer Symbio FCell (September 19, 2016)
- ❑ The Shanghai Michelin Guide is launched (September 21, 2016)
- ❑ The new MICHELIN CrossClimate+, built for safety in all conditions, from the first to the last mile (October 1, 2016)
- ❑ MICHELIN Pilot Sport4 S wins across the board (October 1, 2016)
- ❑ At the Hanover Fair, Michelin presents its MICHELIN X® LINE™ Energy™ range, the first Truck tires on the market to have received AAA rating for rolling resistance (November 2016)
- ❑ Buyback and cancellation of Michelin shares (December 15, 2016)
- ❑ Acquisition of Restaurantes.com, Spain's leading online restaurant booking site (December 20, 2016)
- ❑ Successful issue of convertible non-dilutive cash-settled bonds (January 5, 2017)
- ❑ Michelin North America announces broad price increase (January 31, 2017)
- ❑ Michelin raises tire prices in Europe in response to rising raw materials costs (February 3, 2017)

A full description of 2016 highlights  
may be found on the Michelin website: <http://www.michelin.com/eng>



## PRESENTATION AND CONFERENCE CALL

Full-year 2016 results will be reviewed with analysts and investors during a presentation today, Tuesday February 14, at 11:00 am CET. The event will be in English, with simultaneous interpreting in French.

## Webcast

The presentation will be webcast live on [www.michelin.com/eng](http://www.michelin.com/eng)

### Conference call

Please dial-in on one of the following numbers from 10:50 a.m. CET:

- In France 01 70 77 09 21 (French)
- In France 01 70 77 09 37 (English)
- In the United Kingdom 0207 107 1613 (English)
- In North America (866) 907 5928 (English)
- From anywhere else +44 (0)207 107 1613 (English)

The presentation of financial information for 2016 (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, 2017:**  
Thursday, April 20, 2017 after close of trading
- **First-half 2017 net sales and results:**  
Tuesday, July 25, 2017 after close of trading

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