

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN
Financial Information for the Nine Months Ended September 30, 2018

€16.2 billion in net sales for the first nine months of 2018, up 3.9% at constant exchange rates thanks to a robust 2.2% gain from the price-mix effect

2018 markets scenario revised, EBIT guidance refined and structural free cash flow confirmed

Third-quarter net sales up on favorable prior-year comparatives, with a 2.9% increase in volumes and, as expected, a 0.5% positive impact from the price-mix effect as the environment weakened late in the period.

- Further market share gains in the 18-inch and larger Passenger car tire segment.
- 3% rebound in Truck tire sales.
- Sustained strong growth in the Specialty businesses, up 9%.
- Firm 0.5% gain from the price-mix effect, led by disciplined margin management.
- 3.4% increase from changes in the business base, following the arrival of Fenner in the Specialty businesses and the deconsolidation of TCi.

Given the significant decline in the Passenger car & light truck and Truck tire markets late in the third quarter and the further weakness expected in the fourth quarter, the Group has revised its 2018 markets scenario, notably in China.

As a result, the Group has refined its guidance and now expects:

- A slight increase in volumes over the full year. Fourth-quarter performance will be driven by sustained market share gains in the 18-inch and larger segment of the Passenger car and Light truck business and in the Specialty markets. Full-year volumes will be affected by the major price increases already introduced to offset the sharp currency depreciation in emerging markets.
- A year-on-year increase of at least €200 million in operating income from recurring activities, at constant exchange rates, with no net impact from changes in the price mix and raw materials costs in the second half and competitiveness plan gains offsetting inflation for the year. At the same time, the Group reaffirms the competitiveness plan's target of €1.2 billion in savings over the 2017-2020 period
- More than €1,100 million in structural free cash flow in 2018

Outlook for 2019:

- Current market horizon:
 - 1.5% growth in the Passenger car & Light truck tire market, with a 10% gain in the 18-inch and larger segment and a slight upturn in the Chinese market
 - Stable Truck tire market
 - A 4% to 5% increase in the Specialty businesses
- Around a €150 million year-on-year increase in EBIT from the latest acquisitions*, including the initial synergies from Fenner's highly successful integration.

**Pending the regulatory approvals expected to be obtained for Camso in November 2018*

NET SALES (IN € MILLIONS)	Third Quarter 2018 New organization	Third Quarter 2017 New organization	% change New organization	Third Quarter 2017 Reported
RS1: AUTOMOTIVE & RELATED DISTRIBUTION	8,332	8,850	-5.9%	9,242
RS2: ROAD TRANSPORTATION & RELATED DISTRIBUTION ⁽¹⁾	4,324	4,454	-2.9%	4,605
RS3: SPECIALTY BUSINESSES & RELATED DISTRIBUTION ⁽²⁾	3,561	3,090	+15.2%	2,547
GROUP TOTAL	16,217	16,394	-1.1%	16,394

As part of the new organization introduced earlier in the year, the Group's reporting segments (RS) have been adjusted as follows:

(1) Replacement light truck tires have been transferred from RS1 (Automotive) to RS2 (Road transportation).

(2) Construction truck tires have been transferred from RS2 to RS3 (Specialty businesses). RS3 includes the following businesses: Mining, Earthmover, Construction Truck, Agricultural, Two-Wheel and Aircraft tires and High-Tech Materials.

Market Review

- PASSENGER CAR & LIGHT TRUCK TIRES

Nine months 2018/2017 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA /MIDDLE EAST	TOTAL
Original equipment	-1%	-1%	-3%	+2%	-1%	+10%	+8%	+0%
Replacement	+2%	+1%	+3%	+3%	-2%	-7%	-1%	+0%

*Including Turkey

Third quarter 2018/2017 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA /MIDDLE EAST	TOTAL
Original equipment	-4%	-5%	+4%	-0%	-4%	+9%	+7%	-1%
Replacement	+1%	+0%	+5%	+7%	-3%	-13%	-0%	-0%

*Including Turkey

The global original equipment and replacement Passenger car and Light truck tire market grew by less than 1% in number of tires sold over the first nine months of the year, primarily as a result of a falloff in the third quarter.

▪ **ORIGINAL EQUIPMENT**

- In Western Europe, after holding firm in the first half, demand dropped a steep 5% in the third quarter, affected in part by the introduction of the new WLTP regulations in September. In Eastern Europe, the recovery is continuing to gain momentum quarter after quarter.
- In North America, the contraction that began in second-half 2017 and continued into the first six months of 2018 finally bottomed out, with a 4% rebound off of more favorable comparatives.
- Following a slight improvement in the first half, demand in Asia (excluding India) turned downwards in the third quarter due to the 5% decrease in China and the continued market decline in other countries in the region.
- Markets in South America continued to expand at a robust pace throughout the first nine months, despite the region's prevailing political uncertainty.

▪ **REPLACEMENT**

- The Western European replacement market ended the first nine months up a weak 1%, mainly due to a flat third quarter. In Eastern Europe, demand rose by 11% over the full nine-month period, but was impacted by the slowdown in growth to 3% in the third quarter.
- In North America, growth picked up in the third quarter, to a robust 5% following a 3% increase in the second quarter, led in part by the rise in Asian imports, but also by the favorable economy.
- Demand contracted by 2% in Asia (excluding India) over the first nine months, with, in particular, a 5% decline in China in the third quarter, reflecting dealer inventory drawdowns in an uncertain economic environment.
- The South American market fell by a significant 7% over the full nine-month period, primarily due to the precipitous 13% drop in the third quarter.

• **TRUCK TIRES (radial & bias)**

Nine months 2018/2017 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA /MIDDLE EAST	TOTAL
Original equipment	+5%	+5%	+16%	-12%	-8%	+62%	+12%	+1%
Replacement	+1%	-1%	+6%	+3%	-4%	+3%	-2%	-1%

Third quarter 2018/2017 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA /MIDDLE EAST	TOTAL
Original equipment	+5%	+5%	+17%	+5%	-24%	+50%	+3%	-11%
Replacement	+1%	-0%	+6%	+3%	-6%	-0%	-2%	-2%

*Including Turkey

Global demand for new original equipment and replacement Truck tires was more or less flat year on year, as a 4% decline in the third quarter offset the 2% gain in the first half.

- **ORIGINAL EQUIPMENT**

- The Western European market climbed by 5%, buoyed as before by low interest rates, sustained demand for freight services and renewed truck sales in the recovering construction industry. In Eastern Europe, demand cooled in the third quarter to end the nine months up 8%.
- The North American market continued to expand rapidly, growing 16% over the period, as the booming US and Canadian economies spurred freight demand.
- In Asia (excluding India), the market ended the nine months down a significant 8%, primarily due to the collapse in Chinese demand, which was caused by i) a high basis of comparison following the extensive fleet upgrades in 2017 to ensure compliance with new standards and ii) the elimination of government incentives.
- The South American market soared 62%, lifted by export-led growth in the Brazilian market.

- **REPLACEMENT**

- In Western Europe, demand edged back by 1% over the first nine months and was unchanged in the third quarter. The implementation in May of provisional duties on Chinese tire imports threw the market into considerable turmoil between the second and third quarters. Demand is now shifting to Tier3 products manufactured in Europe or imported from other Asian countries. Demand in Eastern Europe remains robust, gaining 5% over the first nine months despite a slight slowdown to 4% in the third quarter.
- The North American market rose by a strong 6% as the trucking industry benefited from the still sustained economic expansion.
- Demand for replacement radial and bias tires in Asia (excluding India) declined by 4% over the first nine months. The Chinese market lost 4% over the nine-month period and 6% in the third quarter alone, reflecting i) a degree of cannibalization in the wake of the 35% year-on-year surge in the OE market in 2017 and ii) a falloff in demand for overland freight transport as the use of rail and coastal shipping alternatives is encouraged. Demand in the rest of the region has been dropping steadily quarter after quarter, reaching an 8% decline in the third quarter.
- In South America, the market grew by 3% over the first nine months and was stable over the third quarter.

- **SPECIALTY TIRES**

- **MINING TIRES:** the mining tire market pursued its vibrant recovery that began in late 2016, when inventory drawdowns came to an end among international mining companies, oil companies and regional mines.
- **OFF-ROAD TIRES:** in the Agricultural tire segment, OE markets are leveling off, while replacement demand is still trending upwards overall. Worldwide demand for construction equipment tires is continuing to rise, except in Argentina and Eastern Europe.
- **TWO-WHEEL TIRES:** motorcycle tire markets have been rebounding since April in Europe, where weather conditions were unfavorable early in the year, and are now up for the first nine months in North America. Demand in the commuting segment remains very strong in the new markets.
- **AIRCRAFT TIRES:** led by the increase in passenger traffic, the commercial aircraft tire market is continuing to expand, with more pronounced gains in the radial segment.

Michelin Net Sales

• CONSOLIDATED NET SALES

(IN € MILLIONS AND %)	Third Quarter 2018		Nine Months 2018	
NET SALES	5,615		16,217	
	CHANGE Q3 2018/Q3 2017		CHANGE 9 MONTHS 2018/ 9 MONTHS 2017	
TOTAL CHANGE	280	+5.2%	(177)	-1.1%
OF WHICH VOLUMES*	153	+2.9%	167	+1.0%
PRICE-MIX	29	+0.5%	359	+2.2%
CURRENCY EFFECT	(84)	-1.6%	(819)	-5.0%
CHANGES IN SCOPE OF CONSOLIDATION	182	+3.4%	116	+0.7%

*In tonnes.

Impacted by unfavorable exchange rate movements, net sales totaled €16,217 million in the first nine months of 2018, a 1.1% decline from the €16,394 million reported a year earlier, taking into account the following factors:

- a €167 million increase from the 1.0% growth in volumes.
- a €359 million or 2.2% increase from the favorable price-mix effect. Prices added 1.4%, reflecting the full-year impact of the price increases introduced in 2017 in non-indexed businesses to offset the impact of higher raw materials costs, plus price adjustments in the businesses subject to raw materials indexation clauses. The mix effect was a positive 0.8%, thanks to the still highly positive product mix and the favorable impact of the rebound in the mining tire business.
- a €116 million increase from changes in the scope of consolidation, reflecting the inclusion of Fenner since June 1, 2018 and the removal of the TCi chain following the creation of the joint venture with Sumitomo Corp.

• NET SALES BY REPORTING SEGMENT

▪ AUTOMOTIVE & RELATED DISTRIBUTION

Impacted by the unfavorable currency effect, net sales declined by 5.9% in the first nine months of 2018, to €8,332 million from €8,850 million in the year-earlier period.

- Passenger car tire volumes ended the period down 1%, in flat markets and following the application of disciplined pricing policies, particularly in emerging regions where the sharp price increases introduced to offset currency depreciations caused volumes to decline.
- The positive price effect reflected i) the full-year impact of the price increases introduced in 2017 in response to higher raw materials costs and ii) the careful pricing policies that offset the price reductions following application of raw materials indexation clauses in the original equipment businesses.
- The mix effect remains favorable, thanks to the sustained market share gains in the 18-inch and larger Passenger car tire segment.

▪ **ROAD TRANSPORTATION & RELATED DISTRIBUTION**

Taking into account the unfavorable currency effect, nine-month net sales declined by 2.9% in 2018, to €4,324 million from €4,454 million in the year-earlier period.

- Truck tire volumes ended the period up slightly after rebounding 3% in the third quarter, mainly on original equipment sales, the success of the BFGoodrich lines in Europe and favorable bases of comparison.
- The positive price-mix effect reflected i) the full-year impact of the price increases introduced in 2017 in response to higher raw materials costs and ii) disciplined pricing management, in particular the significant price increases applied in emerging regions to offset local currency devaluations.

▪ **SPECIALTY BUSINESSES & RELATED DISTRIBUTION**

Net sales stood at €3,561 million in the first nine months of 2018, up 15.2% from €3,090 million in the year-earlier period.

The increase was led by the robust 8% growth in volumes and the favorable impact of consolidating Fenner since June 1, 2018.

- Mining businesses: net sales maintained their strong growth performance, despite the adverse currency effect.
- Off-road tires: net sales were unchanged for the period, as unfavorable currency movements offset all of the increase in sales volumes.
- Two-wheel tires: excluding Levorin, net sales eased back somewhat despite strong growth in the commuting segment. The Group is continuing to integrate Levorin.
- Aircraft tires: net sales were up slightly for the nine-month period, thanks to robust growth in sales volumes in the commercial segment.

Third-Quarter 2018 Highlights

- **Michelin strengthens its leadership position in specialty businesses with the acquisition of Camso (July 12, 2018)**
- **Michelin introduces the MICHELIN PILOT high-performance bias tire engineered for piston and turbo-prop aircraft (July 24, 2018)**
- **Michelin acquires Truckfly, an application designed to make life easier for truck drivers (July 26, 2018)**
- **Michelin announces the success of its three-tranche bond offering for a total amount of €2.5 billion (August 29, 2018)**
- **Michelin announces the launch of a new employee share ownership plan enabling Group employees to invest in new company shares on preferential terms (September 17, 2018)**
- **Michelin launches MICHELIN Alpin⁶, the latest generation of winter passenger car tires for the European market (October 2, 2018)**
- **Michelin Launches MICHELIN X Ice North⁴ , studded tyre dedicated to Nordic and Russian markets**
- **Michelin at Paris Motorshow 2018 (October 2, 2018)**
- **Bibendum Award – The Michelin Man (Bibendum) named “Icon of the Millennium” by Advertising Week (October 2, 2018)**

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

PRESENTATION AND CONFERENCE CALL

The quarterly information for the period ended September 30, 2018 will be reviewed during a conference call in English later today (Thursday, October 18, 2018) at 7:00 PM, CEST. Practical information concerning the call may be found at <http://www.michelin.com/eng>.

You may follow the presentation with slideshow synchronization at <http://www.michelin.com/eng>

If you would like to participate in the conference call, please phone one of the following numbers:

- In France 01 72 72 74 03 + code pin: 62670373#
- In the United Kingdom 0207 194 3759 + code pin: 62670373#
- In North America +1 646 722 49 16 + code pin: 62670373#
- From anywhere else +44 (207).194.3759 + code pin: 62670373#

INVESTOR CALENDAR

- **2018 net sales and results:**
February 11, 2019 after close of trading
- **Quarterly information for the three months ending March 31, 2019:**
April 24, 2019 after close of trading

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