

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN
Financial Information for the Nine Months Ended September 30, 2019

Sales up 1.3% like-for-like in the first nine months of 2019, in an environment that deteriorated sharply over the period

Contribution from acquisitions in line with expectations

Fourth-quarter market forecasts lowered; guidance confirmed

- **In weaker than expected markets, Michelin's volumes declined by 0.8% in the first nine months of 2019, with in particular:**
 - **A contraction in Automotive tire volumes, in line with the markets. Sustained growth in the 18-inch and larger segment**
 - **A decline in Truck tire volumes in increasingly difficult markets**
 - **Growth in the mining tire business, in line with expectations**
 - **A steeper than expected drop in the Agricultural and Construction tire markets**
- **A 2.1% improvement in the price-mix effect, attributable to:**
 - **Disciplined price management in every business and region, in particular with price increases in the third quarter**
 - **A strong mix effect, shaped by a favorable business-mix and a firm product-mix in the Automotive segment**
- **Contribution from acquisitions in line with expectations (+7.1%)**
- **Sustained deployment of the competitiveness plan**

Florent Menegaux, Chief Executive Officer, said: "In response to a market downturn that was sharper than expected, particularly in the Truck segment, the Group is continuing to improve the competitiveness of its operations, carefully manage its prices and strengthen its positions in the fastest growing segments and businesses. In these challenging times, I would above all like to commend all our teams for their engagement and hard work in limiting the impact of this unfavorable environment."

□ **Guidance confirmed:**

In 2019, the Passenger car and Light truck tire markets are expected to decline by 1%, as the modest 1% growth in the Replacement segment fails to offset the steep 6% contraction in the Original equipment segment. Truck tire markets are expected to weaken more quickly in the fourth quarter, to end the year down 4%. Specialty tire markets will probably remain stable over the full year, as sustained demand for Mining and Aircraft tires helps to cushion the sharp contraction in the Agricultural and Construction markets. The full-year impact of raw materials costs and customs duties is estimated at around a negative €100 million.

In this scenario, Michelin confirms its guidance for 2019, with volume growth in line with global market trends; segment operating income exceeding the 2018 figure at constant exchange rates and before the estimated €150 million contribution from Fenner and Camso; and structural free cash flow of more than €1.45 billion.*

*Of which €150 million from the application of IFRS 16.

Analysis of nine-month sales

SALES (IN € MILLIONS)	NINE MONTHS 2019	NINE MONTHS 2018 ADJUSTED ⁽¹⁾	% CHANGE	NINE MONTHS 2018 REPORTED
RS1: AUTOMOTIVE & RELATED DISTRIBUTION	8,634	8,327	+3.7%	8,332
RS2: ROAD TRANSPORTATION & RELATED DISTRIBUTION	4,833	4,719	+2.4%	4,324
RS3: SPECIALTY BUSINESSES & RELATED DISTRIBUTION	4,430	3,171	+39.7% ⁽²⁾	3,561
GROUP TOTAL	17,897	16,217	+10.4%	16,217

(1) Following the acquisition of Camso and the merger of the Off-road businesses, certain minor adjustments have been made to the composition of the segments.

(2) Including the 34.4% positive impact from the first-time consolidation of Camso and Fenner

Market Review

• PASSENGER CAR AND LIGHT TRUCK TIRES

Nine months 2019/2018 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	SOUTH AMERICA	ASIA (EXCLUDING INDIA)	AFRICA/ INDIA/ MIDDLE EAST	TOTAL
Original equipment	-5%	-6%	-2%**		+1%	-8%	-18%	-7%
Replacement	-2%	-2%	+3%	+0%	-1%	+4%	-0%	+1%

Third quarter 2019/2018 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	SOUTH AMERICA	ASIA (EXCLUDING INDIA)	AFRICA/ INDIA/ MIDDLE EAST	TOTAL
Original equipment	-2%	-2%	+1%**		+4%	-5%	-20%	-4%
Replacement	-0%	-0%	+2%	+1%	+3%	+7%	-0%	+2%

*Including Turkey

**North America and Central America

The number of Original equipment and Replacement Passenger car and Light truck tires sold worldwide was stable in the third quarter of 2019, but declined by 1% over the first nine months, dragged down by the 7% fall in Original equipment demand during the period.

▪ ORIGINAL EQUIPMENT

- In Western Europe, demand contracted by 6% over the nine months ended September 30, due to the continued adverse impact of the roll-out of WLTP standards (mainly in the first quarter), the economic crisis in Turkey and a certain degree of consumer hesitation in an uncertain economic environment. In addition, European export sales remained dampened by China's economic slowdown and US protectionist measures. Demand in Eastern Europe fell back 2% over the period.
- In North and Central America, despite a favorable economic environment, markets slid by 2% over the first nine months as domestic demand softened and, in particular, shifted to used vehicle sales.
- Demand in Asia (excluding India) ended the first nine months down 8%. In China, the market decline eased to 8% in the third quarter from 15% in the second half, but only because of more favorable comparatives, with demand remaining deeply impacted by the trade war with the United States and the dealer inventory glut of vehicles built before deployment of the China 6 standard in June 2019. Demand in the rest of the region was stable for the period.
- The South American market rose by 1% over the first nine months, as the rebound that began in the second quarter continued with a 4% gain in the third. Higher demand in Brazil offset the adverse impact of the financial crisis in Argentina.
- The contraction in the Africa/India/Middle East region is deepening, with the OE market plummeting 20% in the third quarter after dropping 16% in the first half, primarily because the weaker rupee and tighter credit are weighing on domestic demand in India.

▪ REPLACEMENT

- In Western Europe, the Replacement tire market ended the first nine months down 2% overall, with declines in Germany (down 5%) and the Iberian Peninsula (down 3%) and stability in France and the United Kingdom. In an uncertain environment, dealers are only slowly laying in winter tire inventory as the season begins. However, demand for all-season tires remains as robust as ever.
- Demand in Eastern Europe declined by 2%, dampened by the 5% contraction in the Russian market.
- The North American market climbed 3% over the first nine months, with a much faster 7.5% gain in the first quarter. Demand is being driven by Asian tire imports, with the pool market up slightly for the first nine months.
- In Asia (excluding India), the Replacement market rose by 4% overall during the period. Demand continued to rebound in China, with a 4% gain over the first nine months, and improved by 4% in the rest of the region, with an 8% surge in the third quarter led by the South Korean and Japanese markets. In the latter case, demand was buoyed by buying ahead of the recent price increases and the introduction of a higher sales tax rate on October 1, 2019.
- Central American markets remained unchanged over the first nine months, particularly in Mexico.
- In South America, the market edged down 1% over the first nine months, but demand rebounded by 3% in the third quarter, led by 3% growth in Brazil. The Argentine market leveled off in the third quarter after plunging 14% over the first half.
- In the Africa/India/Middle East region, demand held firm over the first nine months, as declines in the Middle Eastern countries were offset by gains in the other markets in the region (India up 1%; Central Africa up 3%).

- Truck tires (radial and bias)

Nine months 2019/2018 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	SOUTH AMERICA	ASIA (EXCLUDING INDIA)	AFRICA/ INDIA/ MIDDLE EAST	TOTAL
Original equipment	-7%	-7%	+5%	-34%	+29%	-2%	-27%	-4%
Replacement	+2%	+3%	-12%	-0%	-2%	-1%	-2%	-2%

Third quarter 2019/2018 (in number of tires)	EUROPE INCLUDING RUSSIA & CIS*	EUROPE EXCLUDING RUSSIA & CIS*	NORTH AMERICA	CENTRAL AMERICA	SOUTH AMERICA	ASIA (EXCLUDING INDIA)	AFRICA/ INDIA/ MIDDLE EAST	TOTAL
Original equipment	-13%	-15%	-2%	-25%	+20%	-4%	-33%	-8%
Replacement	+9%	+11%	-15%	+5%	-5%	+0%	-2%	-1%

*Including Turkey

Global demand for new Original equipment and Replacement Truck tires declined by 3% in number of tires sold in the first nine months of 2019, primarily due to a sharp 4% slowdown in OE demand and a 2% contraction in the Replacement markets.

- ORIGINAL EQUIPMENT**

- After contracting by 4% in the first half, demand in Western Europe dropped by a sharp 15% in the second quarter, to end the nine-month period down 7% overall, with declines in all of the region's leading markets. Demand in Eastern Europe fell 4%, in line with the 5% decline in the first half.
- The North American market turned downwards in the third quarter of 2019 off of very high prior-year comparatives (up 16% in the first nine months of 2018). After expanding by 9% in the first half thanks to fleet upgrades, demand slipped by 2% in the third quarter but remains very strong.
- In Asia (excluding India), demand cooled by 2% over the first nine months, with a 4% contraction in the third quarter. The Chinese market declined by 3% in the third quarter, in line with the second-half trend. In Indonesia, the market continued to spiral downwards, losing 27% in the third quarter. The Japanese market eased back 1% over the first nine months.
- In Central America, Mexican demand dropped 34% over the nine-month period.
- In South America, the market rose 29%, lifted by sustained 30% growth in Brazilian demand.
- In the Africa/India/Middle East region, the market fell 27%, primarily due to the 39% collapse in demand in India.

- **REPLACEMENT**

- In Europe, Replacement tire demand rose by 2% over the first nine months. The Iberian Peninsula and UK markets delivered the fastest growth, whereas demand in Turkey remained severely impacted by the local economic crisis, losing 15% over the first nine months. Chinese tire imports, which have declined since tariff barriers were introduced in May 2018, have now been replaced by the growing supply of low-cost tires from Vietnam and Thailand.
- The North American market fell a steep 12% overall in the first nine months, with a faster 15% drop in the third quarter. As freight demand cooled in the third quarter, Replacement tire markets were adversely impacted by the strong expansion in OE demand in the United States, which has lasted for more than a year now. In addition, massive purchases of Asian tire imports between late 2018 and early 2019, ahead of the introduction of customs duties in mid-February, had a major impact on sales in both the first half (as the resulting inventory was drawn down) and the third quarter (due to the unfavorable basis of comparison).
- In Asia (excluding India), markets declined by 1% overall during the first nine months. In China, demand contracted by 3% over the period in a particularly uncertain economic environment. After easing by a slight 1% in the first half, demand in Southeast Asia rebounded by a strong 9% in the third quarter, led by the 17% surge in the Japanese and South Korean markets.
- Markets in Central America were stable overall.
- The South American market ended the period down 2%, with demand in Brazil tumbling 6% in the third quarter after holding firm in the first half. The entire region remains impacted by the declines in the Venezuelan and Argentine markets, by respectively 28% and 5% over the first nine months.
- The Africa/India/Middle East market edged down 2%, reflecting slower growth in India and the generally unstable economic and geopolitical conditions prevailing in the rest of the region.

- **SPECIALTY TIRES**

- **MINING TIRES:** The mining tire market is still being shaped by sustained growth in demand from mining companies.
- **AGRICULTURAL AND CONSTRUCTION TIRES:** In the Agricultural segment, the cyclical Original equipment markets fell sharply in Europe, South America and North America, while Replacement demand was also impacted by US-China trade tensions in North America and the financial crisis in Turkey. The Construction segment was hurt by the steep drop in OE demand.
- **TWO-WHEEL TIRES:** Motorcycle and scooter tire markets enjoyed further growth in Europe, but declined in North America. Demand in the commuting segment continued to trend upwards.
- **AIRCRAFT TIRES:** Led by the sustained increase in passenger traffic, despite a slight slowdown over the summer, the commercial aircraft tire market is continuing to expand, with more pronounced gains in the Radial segment once again.

Michelin sales

- CONSOLIDATED SALES

(IN € MILLIONS)	Nine months 2019	
SALES	17,897	
CHANGE - 9 MONTHS 2019/9 MONTHS 2018		
TOTAL CHANGE	+1,680	+10.4%
OF WHICH VOLUMES*	-134	-0.8%
PRICE-MIX	+340	+2.1%
CURRENCY EFFECT	+315	+2.0%
CHANGES IN SCOPE OF CONSOLIDATION	+1,159	+7.1%

*In tonnes.

Sales for the first nine months of 2019 totaled €17,897 million, an increase of 10.4% from the year-earlier period that was attributable to the following factors:

- A 0.8% or €134 million decrease due to lower volumes, primarily as a result of the 1% decline in the Passenger car and Light truck tire markets and the sharp deterioration in the B2B markets (Truck, Agricultural and Construction tires).

- A 2.1% increase from the favorable price-mix effect. Prices added 1.1%, reflecting once again the Group's disciplined price management, particularly the price increases introduced in the third quarter. The mix effect added another 1.0%, led by the sustained up-market shift in the product-mix and the favorable business-mix (OE/Replacement, Mining/Agricultural tires).

- A 2% increase from currency movements, primarily the US dollar's rise against the euro.

- A robust 7.1% increase from changes in the scope of consolidation, primarily the inclusion of recently acquired Fenner, Camso, Multistrada and Masternaut, as well as the deconsolidation of TCI.

- SALES BY REPORTING SEGMENT

- **Automotive and related distribution**

Sales climbed 3.7% year on year to €8,634 million in the first nine months of 2019.

In narrower markets hard hit by the 7% fall-off in OE demand over the period, the Group's volumes contracted by 1%. The segment enjoyed a favorable price-mix effect, reflecting its disciplined price management, supported by the powerful MICHELIN brand and the continued up-market shift in its product-mix. The effect of changes in the scope of consolidation was slightly positive following the deconsolidation of TCI and the first-time consolidation of Multistrada.

- **Road Transportation and related distribution**

Sales for the first nine months amounted to €4,833 million, up 2.4% year on year.

Volumes declined by 2% in markets that fell sharply over the period. The price-mix effect was robust, reflecting the business' selective focus on segments capable of creating value.

□ Specialty businesses and related distribution

Nine-month sales totaled €4,430 million, a 39.7% year-on-year gain that was primarily driven by the first-time consolidation of Camso and Fenner.

At constant scope of consolidation, segment sales rose by 5.3% over the period, lifted by the strong price-mix effect, stable volume performance and favorable currency effect.

- ▶ Mining tires: Sales maintained their momentum thanks to the Group's solid positions in Surface Mining segment, its pricing strategy and the growth of its service operations.
- ▶ Off-the road tires: The firm pricing policy and the Group's market share gains in the Replacement segment helped to offset the unfavorable impact of the fall-off in demand.
- ▶ Two-wheel tires: Sales rose over the period, reflecting the increase in tonnages sold, under both the MICHELIN and the Levorin brands, notably in the commuting segment.
- ▶ Aircraft tires: Sales are continuing to expand, led once again by growth in the Radial segment.

Third-quarter 2019 non-financial ratings

MCSI: Michelin has been rated AA for 2019, with a score of 7.3 out of 10. The rating affirms the Group's very good performance in environmental, social and corporate governance (ESG) practices, which has also been recognized by ISS OEKOM (2019, PRIME), VIGEO EIRIS (2018, A1+) and SUSTAINALYTICS (2018, OUTPERFORMER).

Social responsibility: Michelin has been honored with the Corporate Social Responsibility Award from French financial weekly AGEFI. The award recognizes the commitment of everyone across the organization, who demonstrate and embody Michelin's social responsibility in their behavior and decisions as they strive to make sustainable mobility a reality.

Governance: In September 2019, AGEFI awarded Michelin its Corporate Governance Grand Prize.

Third-quarter 2019 Highlights

- In New York, Michelin looks back at the MICHELIN Pilot Sport tire's maiden Formula E campaign. Over the season, the new tires amply fulfilled their ambitious objectives for energy efficiency, versatility, longevity and high performance. (July 15, 2019)
- WWF France and Michelin renew their "zero-deforestation" partnership and extend their collaboration to sustainable mobility and the protection of biodiversity. (July 26, 2019)
- Michelin to make Playstation's Gran Turismo Sport even more gripping for gamers. (August 23, 2019)
- The first MICHELIN Guide Beijing to be launched on November, 28. (September 3, 2019)
- Michelin, Continental and Smag create a joint venture to develop Rubberway®, a smartphone app that maps sustainability practices across the natural rubber industry. (September 12, 2019)
- With the construction of the first industrial-scale prototype of a plant producing butadiene from bioethanol in France, Michelin, IFP Energies Nouvelles and Axens take the BioButterfly project to the next level. (September 26, 2019)
- CAMSO Introduces X4S, an innovative ATV (all-terrain vehicle) and UTV (utility task vehicle) track system solution, that fits on these two types of machines, designed specifically to meet any usage and evolves with the user over time. (August 6, 2019)

- Michelin announces the closure of its plant in Bamberg, Germany by early 2021. (September 25, 2019)
- By creating a new adhesive resin without any SVHCs, the BioImpulse project is giving new impetus to biotechnology in materials. (October 1, 2019)
- Michelin announces its intention to close its plant in La Roche-sur-Yon, France by the end of 2020 and to deploy a wide-ranging employee support program. (October 10, 2019)

A full description of highlights for the first nine months of 2019 may be found on the Michelin website: <http://www.michelin.com/en>

PRESENTATION AND CONFERENCE CALL

Nine-month 2019 sales will be reviewed with analysts and investors during a presentation today, Thursday, October 24, 2019 at 6:15 p.m. CEST.

WEBCAST

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

CONFERENCE CALL

Please dial-in on one of the following numbers from 6:05 p.m. CEST:

- In France 01 72 72 74 03 (English) PIN: 92581237#
- In the United Kingdom 0207 194 3759 (English) PIN: 92581237#
- In North America +1 (646) 722 4916 (English) PIN: 92581237#
- From anywhere else +44 (0) 207 194 3759 (English) PIN: 92581237#

The presentation of financial information for the nine months ended September 30, 2019 (press release, presentation) may also be viewed at <http://www.michelin.com/en>, along with practical information concerning the conference call.

INVESTOR CALENDAR

- **Sales and results for the year ending December 31, 2019:** Monday, February 12, 2020 after close of trading.
- **Quarterly information for the three months ending March 31, 2020:** Thursday, April 29, 2020 after close of trading.

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