Michelin Tyre Public Limited Company

Annual report and financial statements for the year ended 31 December 2018

Registered number 84559

Michelin Tyre Public Limited Company

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Michelin Tyre Public Limited Company

Directors and advisers for the year ended 31 December 2018

Directors
P Berther
K Shepherd
G Alderman
J Reid
C Smith
C Beau

Company Secretary
GL Duddy

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Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
No 1 Spinningfields
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Michelin Tyre Public Limited Company

Strategic report for the year ended 31 December 2018

The directors have pleasure in presenting their strategic report for the year ended 31 December 2018.

Business review and principal activities

The company is engaged in the manufacture and sale of tyres, tubes, wheels and accessories.

Turnover has decreased by 5.2% compared to 2017 in what has continued to be challenging market conditions in both the UK and Western Europe. In the UK, in our Original Equipment market we have seen reductions in volumes (down 9.6%) and turnover (down 0.4%) compared to 2017, with the biggest reduction being in the car segment (B2B 4 wheel). Our Replacement sales have increased both in terms of value (up 6.5%) and volumes (up 1.1%), with the main increases being in the B2B Off and Mining segments. Our exports into Western Europe have fallen considerably compared to 2017, partly due to the difficult market conditions giving rise to lower production volumes in our factories in both Dundee and Stoke, but mainly as a result of the closure of the factory in Ballymena in 2018 (see page 6). Our operating result has been adversely affected by these low production volumes and the ongoing costs associated with the closure of Ballymena. In addition, in 2018 there is a £19.1million past service cost for the defined benefit pension scheme due to the High Court ruling on GMP equalisation (see note 11). As a result our operating result before exceptional items has fallen from a £20.4 million profit in 2017 to a loss of £23.3 million in 2018. The exceptional items of £140.2 million relate mainly to the closure of the Dundee factory (see page 6 and note 22) and include a £97.6 million provision for social and dismantling costs and £49.3 million for impairment of fixed assets.

Details of other items affecting the operating loss for the year are set out in note 6.

It is anticipated that the operating result will be low over the next couple of years as the low production levels and the closure of the Dundee factory continue to adversely impact the result.

The directors intend to continue with the strategy of achieving sustainable performance by focusing on innovation, the high quality of products and services as well as stringent cost control.

Results

	2018	2017
	£'000	£'000
Loss before taxation	**(189,201)**	(5,008)
Tax on loss	**(13,651)**	3,236
Loss for the financial year	**(202,852)**	(1,772)
Net debt	**(237,411)**	(114,063)
Net cash inflow – operating activities	**4,358**	16,480
Net liabilities	**(225,542)**	(54,952)

Strategy

a) Overriding objective

The directors seek to fulfil the mission of the Michelin Group to improve mobility by focusing on generating sustainable, responsible, profitable growth that creates value for customers, employees, shareholders and society as a whole.

b) Products (including development)

B2C Business Line

In 4 wheel (4W) in 2018 the company continued with its expansion of the Cross Climate range with the introduction of Cross Climate SUV and Agilis Cross Climate. Autobild test results ranked Cross Climate SUV as 'Exemplary' and Cross Climate continues to gain popularity in the market as a whole with reports of high mileage and excellent winter mobility. Despite its All Season segmentation, Cross Climate+ was described by ADAC as 'performing at the level of the best summer tyres'. Pilot Sport 4 SUV was also introduced towards the end of the year making the performance, long life and finesse of the Pilot Sport family available to the rapidly developing SUV market in the UK. Michelin Primacy 4 remains available for both cars and SUVs where high mileage and quiet cruising are the main requirements. The eagerly waiting introduction of the BFGoodrich Mud Terrain KM3 was well received by both off road enthusiasts and operators of professional off road vehicles. Despite the capabilities of its predecessor the KM2, the increase in mileage potential and damage resistance of the KM3 are substantial. Michelin's design philosophy of LLP (Long Lasting Performance) continues to attract attention, helped by the 2017 Autobild test win for Cross Climate+ in the first tyre test to include comparison of tyres in the worn condition.

In 2 wheel (2W) in 2018 the Power Cup Evo range of road legal racing tyres was expanded to offer smaller bikes a competition standard treaded race/track tyre benefitting from the same technologies pioneered in the Superbike tyre sizes to enhance longevity, stability and grip in an adaptable and easy to set up package. The new Road 5 improves on the market leading Pilot Road 4 Sports Touring tyre, adding race and sports tyre technologies 2CT + (Dual Compound Technology +) and ACT + (Advanced casing technology) to enhance stability, grip and feel to give benefits most notable at speed and under hard cornering. Using a new tread pattern and XST Evo (X-Sipe Technology Evolution) it brings wet weather performance to a new standard, proving to give superior wet weather braking even on half worn Road 5 tyres. Existing scooter and urban use tyre ranges have been expanded with the introduction of new dimensions to respond to an ever more complex sizing mix.

B2B Business Line

In the B2B Off and Mining segments 2018 saw a number of new Michelin Group products and services offered to the market. During 2018 Michelin consolidated the innovations introduced in 2017 of 3 star tyres for rigid dump trucks by introducing the Xtra Load Grip and Xtra Load Protect in 18.00 R33. This new size, benefitting from a revolutionary new cable design and greater amount of rubber mass, offers increased tread life, distance in an hour, together with increased load carrying capacity. For larger sizes of rigid dump trucks (100 tonnes +) the XDR3 rock tyre was introduced giving all the advantages achieved in the 33" and 35" sizes. The X Mine D2 Pro was introduced as an L5 tyre primarily for use in underground mines but giving exceptional resistance to accidental damage in above ground applications as well. The Xtra Defend was introduced in the size 750/65 R 25, the first Michelin tyre in this size to be designated E4.

In the Agricultural sector many new tyres in the Michelin brand portfolio were introduced:

- Roadbib, a tyre with specific characteristics for operators spending a high percentage (>80%) of time on the road,
- Axiobib 2, a VF tyre for users who need a tyre for high power and high load whilst operating at lower pressures,
- Crossgrip, a specialist industrial tyre for tractors and machinery working on road-side verges and sportsfields without damaging the grass,
- Evobib, a two in one tyre, requiring a CTIS system to optimise its performance, designed to work at high pressure on the road and low pressure in the field. This minimises fuel consumption in all operations and maximises traction in the field whilst preserving the soil,
- Cerexbib was updated with Cerexbib 2 for harvesters and similar machinery,
- Agribib was replaced by Agribib 2 designed with a deeper tread and more flexible casing to increase the tractive ability of the tyre.

In the Kleber range, Cropker was introduced, a new narrow section tyre for the sprayer market replacing the Super 3 Tyre range. Also in 2018 Zen@Terra was launched, a control system for Central Tyre Inflation systems (CTIS) specifically designed for agricultural machinery.

b) Products (including development) continued

In the B2B On segment, in Tier 1 the X® Multi™ regional range of tyres was expanded with the introduction of the X® Multi™ Energy™ front steer and drive axle tread patterns in the dimension 315/70 R 22.5. In Tier 2, the launch of the extensive BF Goodrich Truck range was completed. In Tier 3 the Orium, Tigar and Riken brands were expanded with the addition of several tyre dimensions.

c) Investment

In 2018, our capital investments in tangible and intangible assets totalled £12.0 million (2017: £19.8 million).

On 18 November 2011, we announced a significant project to modernise the tyre building equipment in the Dundee car tyre plant to enable the plant to extend its portfolio to include the latest generation of low-rolling resistance car tyres and bring ergonomic improvements. During 2018 significant progress was made with the electric press workshop ramp up in line with the goal of being in full production by the first quarter of 2019. Equally the energy efficiency performance of this new process has been demonstrated to be in line with original project goals. The adaption of the After-Cure Test and Inspection workshop continued with the completion of the main elements of the 2018 plan in advance of the announcement to cease activities by the end of June 2020 (see below). The 2019 elements of this project were in the early stages of preparation at the time of the announcement and were therefore cancelled at that stage. The installation of the next tyre building machine was completed but the production start-up was delayed due to prevailing market conditions and will not now be restarted.

d) Closure of Ballymena factory

The closure of the Ballymena factory was completed during 2018. Production ceased at the end of April 2018 and most of the employees left at the end of June 2018. The site was transferred to the new owners at the end of September 2018. See notes 14 and 22 for further details.

e) Closure of Dundee factory

In November 2018 we announced our intention to cease activities at our Dundee site by the middle of 2020. The Dundee factory, which manufactures exclusively 16-inch and smaller Michelin tyres for cars, has faced serious difficulties in recent years due to:

- a profound transformation of the car market towards larger vehicles resulting in a structural decline in the demand of premium tyres of 16 inches and smaller;
- an accelerated shift in the 16-inch and smaller tyre offer towards low cost products from Asia

The priority now is to provide the 827 employees at the factory with the most effective support possible at this difficult time. The company will implement a personalised support programme for each of the factory's employees, including enhanced redundancy packages and a comprehensive plan to assist employees to start a new career as quickly as possible. This plan will include intensive support to find a new job, relocation assistance and tailor made programmes including skills training.

A mitigation payment of £210 million will also be paid by the participating employers to the defined benefit scheme. £63.7 million has been paid in 2018 and the balance of £146.3 million will be paid in 2019 (see note 11).

Michelin Development Limited, the Group's entity dedicated to local economic development in areas in which the Michelin Group has operations, will also work with local stakeholders to replace the jobs lost in Dundee.

f) Training and development

During the course of 2018 there was an increase in the training activity following two major change initiatives, resulting in 90% of employees receiving some form of training. Particular emphasis was again put on industrial training. In line with Michelin Group policy, the use of the "Michelin Manufacturing Way" approach, regarding the training support for production employees, continued in 2018.

Strategic report for the year ended 31 December 2018 (continued)

g) Social responsibility

Michelin strongly believes in its social responsibility and demonstrates this through a close involvement with the local communities to which it belongs. A separate company, Michelin Development Limited, is committed to helping create quality, sustainable employment within these regions. It achieves this by offering unsecured loans at subsidised interest rates and by providing, free of charge, the company's considerable in-house expertise. Michelin Development Limited has now made almost 350 loan offers to local SMEs around our UK sites which should potentially create 2,900 jobs with the value of the loans granted now totalling £7.5 million at the end of 2018.

With the closure of our factory in Ballymena in 2018, the work of Michelin Development Limited in the local community continues to remain at a high level with 101 jobs and loans totalling almost £0.4 million completed in order to help support local businesses create employment.

In light of the recent announcement regarding the closure of our factory in Dundee, the work of Michelin Development Limited will increase in the Dundee area as we work with local stakeholders to replace the jobs lost as a result of the closure of the factory.

Key Performance Indicators (KPIs)

The Board monitors progress against the overall Michelin Group strategy and the individual strategic elements by reference to six KPIs.

Performance during the year, together with historical trend data is set out in the table below:

	2018	2017	Commentary
Reduction in Sales (%)	**(5.2%)**	(4.3%)	Year on year sales reduction expressed as a percentage. The result is in line with our expectations given the closure of our factory in Ballymena and the lower than anticipated production volumes at our factory in Dundee.
Operating Margin before exceptional items (%)	**(3.6%)**	3.0%	Operating (loss) / profit as a percentage of sales before exceptional items. The margin has been adversely impacted by the lower production volumes. In addition, in 2018 there is a £19.1million past service cost for the defined benefit pension scheme due to the High Court ruling on GMP equalisation. In addition, 2017 included a £19.7m credit for the Pension Increase Exchange exercise performed that year (see note 11).
Trade debtors / sales	**23.9%**	24.3%	Rolling 12 month average trade debtors balance expressed as a percentage of sales.
Employee turnover	**4.5%**	3.9%	Employee turnover is the number of employees who left the company by "Natural / Unplanned" means over a 12 month period, divided by the average number of employees in the company over the same 12 month period. The result is given as a percentage. Note:- turnover would not include retirements, redundancies and transfers. These are considered as "planned" leavers.
Lost time incident frequency rate	**0.32**	0.26	Number of incidents resulting in more than one day of lost time per million hours worked.
Lost time incident severity rate	**0.00**	0.00	Number of working days (more than one day) lost to accidents per thousand hours worked.

Principal risks and uncertainties

i) Competition

The UK & ROI markets remain among the very most price competitive in Europe.

ii) Employees

Employee annual turnover remained low at around 4.5% (2017: 3.9%) and the absence level for the year was 3.0% (2017: 2.6%). We believe these figures demonstrate a high level of loyalty and commitment to the company. This has been demonstrated in the support, flexibility and teamwork shown by employees. However, we are anything but complacent: we regularly review our compensation and benefits packages against the market and we continue to make full use of our employee consultation forums.

iii) Supply

Increasingly mindful of cash flow constraints, manufacturers and distributors are carefully managing stocks. To avoid overstocking, stock levels are carefully managed at a group level to meet customer demand.

iv) Energy costs

Primary energy prices have increased by 13% between 2017 and 2018, mainly due to market price volatility. However volumes have reduced because of the closure of the Ballymena factory and also as a result of a decrease in demand for power and gas by the factories in Dundee and Stoke. Taxes, transport and distribution costs represent an increasing part of the overall cost of the UK's manufacturing energy. The company continues to reduce its demand for natural gas (down 34% in 2018) and power (down 45% in 2018). Our purchase and risk management strategy in 2018 has been to manage the closure of the Ballymena factory and the future closure of Dundee. The main challenge for 2019 will be to continue to prepare for the closure of our Dundee site with regards to our energy contracts.

v) Technology

The Michelin Group continues its commitment to innovation, research and development. These innovations help keep the Company at the forefront of tyre design and ensure its customers have access to industry-leading technology to suit their requirements. Product quality is assured by an ever more stringent quality system and the empowerment of our employees through application of the Michelin Manufacturing Way, Michelin Selling Way and Michelin Design Way and our Performance and Responsibility Charter.

Consideration of future developments likely to impact the Company and an analysis of the Company's financial risk management policies are given in the Directors' report on page 10.

vi) Brexit

The company has been actively monitoring the developments of the expected withdrawal of the United Kingdom from the European Union. Over the course of late 2018 and early 2019 the Michelin Brexit Taskforce, including members from the company and the Michelin Group, covering all aspects of corporate activity (Legal, Finance, Supply Chain, Logistics, Production, Sales and Public Affairs), conceived and implemented an action plan aimed at mitigating the uncertainty regarding the withdrawal process and meeting customer requirements in case of a No Deal Brexit on 29 March 2019. The extension of the Article 50 period has meant that some of the measures implemented are no longer required in the short term. Nonetheless, should it become apparent that the UK is to withdraw from the European Union without an agreement, these contingency measures would be reinstated as and when necessary.

Post balance sheet events

On 18 March 2019 the share capital of the company was increased. The company issued 6 million shares for £10 each to Compagnie Financière Michelin SCmA for a cash consideration of £300 million. The capital increase has been split between £60 million share capital and £240 million share premium.

Approved by the Board and signed on its behalf by

K Shepherd
Director
7 June 2019
Registered number 84559

Directors' report for the year ended 31 December 2018

The directors have pleasure in presenting their annual report and the audited financial statements of the company for the year ended 31 December 2018.

Business review, principal activities and results

See strategic report on page 4.

Dividends

The directors are unable to recommend the payment of a dividend (2017: £nil). The loss for the financial year of £202.9 million (2017: £1.8 million) is transferred to reserves.

Research and development

Research and Development activities are carried out at the Group's technology centres in Europe, Asia and the USA. Michelin Tyre Public Limited Company does not execute research and development in the UK but is recharged by the Group for the research and development carried out at a Group level.

Future outlook

The outlook for 2019 for the UK market is positive although the replacement market will remain extremely competitive and the original equipment market may continue to be impacted by the uncertainties around Brexit. It is anticipated that our exports will fall again in 2019 as our Dundee factory starts to ramp down its production prior to its closure in 2020 (see page 6).

Going concern

In compiling the Annual Report and Financial Statements the directors have used the going concern basis of preparation. Although the company has net liabilities the use of the going concern basis has been deemed appropriate as the company will become profitable and cash generative once the closure of the Dundee factory is complete. The company expects to be able to meet its liabilities as they fall due including restructuring payments and payments to the defined benefit pension scheme using the £125 million 3 year credit facility and the £75 million 5 year loan with the group (signed in June 2018). In addition, the company received a capital injection of £300 million in March 2019 (see page 9 and note 29).

Financial risk management

The company's operations expose it to a variety of financial risks. Most of these risks are managed by the Michelin Group on behalf of the company.

i) Price risk

The company is exposed to commodity price risk as a result of its operations, although the purchasing of the company's raw materials is managed at a Michelin Group level. Given the size of the Group's operations, the costs of managing exposure to commodity price risk exceed any potential benefits.

ii) Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. All customers have credit limits and sales are only made outside these limits when appropriate procedures have been followed.

iii) Liquidity risk

Any excess funds are cash pooled with the Michelin Group on a daily basis. Any liquidity risk is managed by the Group.

iv) Interest rate risk

As any excess funds are cash pooled with the Michelin Group on a daily basis, any interest rate risk is managed by the Group.

Key Performance Indicators (KPIs)

See strategic report on page 7.

Directors

The directors of the company who held office during the year and up to the date of signing the financial statements were as follows:

P Berther
K Shepherd
G Alderman
J Reid
G Heywood (resigned 31 January 2018)
J Young (resigned 1 April 2018)
C Smith (appointed 1 April 2018)
J John (appointed 1 April 2018 and resigned 15 April 2019)
C Beau (appointed 15 April 2019)

The Michelin Group has maintained throughout the year, and at the date of approval of the financial statements, liability insurance for its directors and officers and those of its subsidiaries. This is a qualifying third party provision for the purposes of the Companies Act 2006.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The company is committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests. The Michelin Manufacturing Way approach continues to increase employee involvement in the running of their business areas. In addition, the company encourages the involvement of employees through the employee representative bodies at UK and local levels. Key areas influencing the company's results are presented to employees at monthly team meetings in order to provide an appreciation of the financial and economic factors that affect the performance of the company. Employees are also able to purchase shares in the group's employee share scheme.

Post balance sheet events

See strategic report on page 9.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report for the year ended 31 December 2018 (continued)

Statement of directors' responsibilities (continued)

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the Board and signed on its behalf by

K Shepherd
Director
7 June 2019
Registered number 84559

Michelin Tyre Public Limited Company

Independent auditors' report to the members of Michelin Tyre Public Limited Company

Report on the audit of the financial statements

Opinion

In our opinion, Michelin Tyre Public Limited Company's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2018; the Profit and loss account, the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements , our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of this other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Stategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent auditors' report to the members of Michelin Tyre Public Limited Company (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on pages 11 and 12, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for the audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Nicholas Boden (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
7 June 2019

Michelin Tyre Public Limited Company

Profit and loss account for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	5	**650,206**	685,912
Cost of sales		**(722,615)**	(576,802)
Gross (loss) / profit		**(72,409)**	109,110
Distribution costs		**(55,272)**	(55,127)
Administrative expenses		**(35,859)**	(43,949)
Operating (loss) / profit	6	**(163,540)**	10,034
Analysed as			
Operating (loss) / profit before exceptional items		**(23,313)**	20,413
Restructuring costs	22	**(140,227)**	(10,379)
Operating (loss) / profit		**(163,540)**	10,034
Interest receivable and similar income	7	**178**	47
Amounts written off investments	15	**(18,102)**	(2,742)
Interest payable and similar expenses	8	**(7,737)**	(12,347)
Loss before taxation		**(189,201)**	(5,008)
Tax on loss	12	**(13,651)**	3,236
Loss for the financial year		**(202,852)**	(1,772)

The above results for the years derive from continuing activities. There is no difference between the profit for the year stated above and their historical cost equivalents. The notes on pages 18 to 44 form part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2018

	2018 £'000	2017 £'000
Loss for the financial year	**(202,852)**	(1,772)
Other comprehensive (expense) / income: items that will not be reclassified to profit or loss		
Opening balance adjustment in relation to IFRS9 (note 2.1.2)	**(38)**	-
Actuarial gain on post-employment benefits (note 11)	**65,741**	203,129
Deferred tax on actuarial gain on post-employment benefits (note 24)	**(11,176)**	(34,532)
Partial write off of deferred tax asset on post-employment benefits (note 24)	**(22,265)**	-
Other comprehensive income for the year, net of tax	**32,262**	168,597
Total comprehensive (expense) / income for the year	**(170,590)**	166,825

Michelin Tyre Public Limited Company

Balance sheet as at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	13	**570**	1,123
Tangible assets	14	**65,308**	114,955
Investments	15	**1,011**	19,113
Total fixed assets		**66,889**	135,191
Current assets			
Stocks	16	**52,853**	75,058
Debtors: amounts falling due within one year	17	**180,672**	206,709
Debtors: amounts falling due after more than one year	18	**21,297**	55,625
Cash at bank and in hand		**638**	811
		255,460	338,203
Creditors : amounts falling due within one year	19	**(355,113)**	(328,313)
Net current (liabilities) / assets		**(99,653)**	9,890
Total assets less current liabilities		**(32,764)**	145,081
Provisions for liabilities	22	**(107,870)**	(46,472)
Creditors : amounts falling due after more than one year	20	**(77,804)**	(10,189)
Net (liabilities) / assets excluding pension and medical scheme deficit		**(218,438)**	88,420
Pension and medical scheme deficit	11	**(7,104)**	(143,372)
Net liabilities		**(225,542)**	(54,952)
Capital and reserves			
Called up share capital	23	**51,424**	51,424
Share premium account		**275,576**	275,576
Capital redemption reserve		**75,000**	75,000
Profit and loss account		**(627,542)**	(456,952)
Total shareholders' deficit		**(225,542)**	(54,952)

The notes on pages 18 to 44 are an integral part of these financial statements.

The financial statements on pages 15 to 44 were approved by the board of directors on 7 June 2019 and were signed on its behalf by:

Director:
G Alderman
Registered number 84559

Michelin Tyre Public Limited Company

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total shareholders' deficit £'000
At 1 January 2017	**51,424**	**275,576**	**75,000**	**(623,777)**	**(221,777)**
Loss for the financial year	-	-	-	(1,772)	(1,772)
Other comprehensive income / (expense) for the year:					
Actuarial gain on post-employment benefits (note 11)	-	-	-	203,129	203,129
Deferred tax on actuarial gain on post-employment benefits (note 24)	-	-	-	(34,532)	(34,532)
At 31 December 2017	**51,424**	**275,576**	**75,000**	**(456,952)**	**(54,952)**
At 1 January 2018	**51,424**	**275,576**	**75,000**	**(456,952)**	**(54,952)**
Loss for the financial year	-	-	-	(202,852)	(202,852)
Other comprehensive income / (expense) for the year:					
Opening balance adjustment in relation to IFRS9 (note 2.1.2)	-	-	-	(38)	(38)
Actuarial gain on post-employment benefits (note 11)	-	-	-	65,741	65,741
Deferred tax on actuarial gain on post-employment benefits (note 24)	-	-	-	(11,176)	(11,176)
Partial write off of deferred tax asset on post-employment benefits (note 24)	-	-	-	(22,265)	(22,265)
At 31 December 2018	**51,424**	**275,576**	**75,000**	**(627,542)**	**(225,542)**

Michelin Tyre Public Limited Company

Notes to the financial statements

1 General information

Michelin Tyre Public Limited Company is engaged in the manufacture and sale of tyres, tubes, wheels and accessories.

The company is a privately owned public company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Campbell Road, Stoke-On-Trent, England, ST4 4EY.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared under the historical cost convention or historic cost modified by revaluation of financial assets and financial liabilities held at fair value through the profit and loss account (as applicable) and in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in conformity with FRS101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7 Financial Instruments Disclosures
- Paragraphs 91 to 99 of IFRS 13 Fair value measurement
- Paragraph 38 of IAS 1 Presentation of Financial Statements comparative information requirements in respect of:
    - Paragraph 73(e) of IAS 16 Property, plant and equipment
    - Paragraph 118(e) of IAS 38 Intangible assets (reconciliations between carrying amounts at the beginning and end of the period)
- The following paragraphs of IAS 1 Presentation of Financial Statements:
    - 10(d) (statement of cash flows)
    - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements)
    - 16 (statement of compliance with all IFRS)
    - 38A (requirement for minimum of two primary statements, including cash flow statements)
    - 38B-D (additional comparative information)
    - 40A-D (requirements for a third statement of financial position)
    - 111 (cash flow statement information) and
    - 134-136 (capital management disclosures)
- IAS 7 Statement of cash flows
- Paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24 Related party disclosures (key management compensation)
- The requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group.

2.1.1 Going concern

In compiling the Annual Report and Financial Statements the directors have used the going concern basis of preparation. Although the company has net liabilities the use of the going concern basis has been deemed appropriate as the company will become profitable and cash generative once the closure of the Dundee factory is complete. The company expects to be able to meet its liabilities as they fall due including restructuring payments and payments to the defined benefit pension scheme using the £125 million 3 year credit facility and the £75 million 5 year loan with the group (signed in June 2018). In addition, the company received a capital injection of £300 million in May 2019 (see page 9 and note 29).

2.1.2 New standards, amendments and IFRIC interpretations

The following new accounting standards, amendments to accounting standards, and IFRIC interpretations have been adopted by the company:

- IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2, 'Share based payments', on clarifying how to account from certain types of share based payment transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018);
- Amendment to IAS 40, 'Investment property' relating to transfers of investment property (effective for annual periods beginning on or after 1 January 2018);
- Annual improvements 2014 – 2016 – IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 (effective for annual periods beginning on or after 1 January 2018);
- Annual improvements 2014 – 2016 – IAS 28, 'Investments in associates and joint ventures', regarding measuring an associate at fair values (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22, 'Foreign currency transactions and advance consideration'(effective for annual periods beginning on or after 1 January 2018).

IFRS 9 Financial Instruments, published in July 2014, endorsed by the European Union in November 2016 and effective for accounting periods beginning on or after 1 January 2018, replaces IAS 39. The standard contains requirements for the classification and measurement of financial assets, including a new expected loss impairment model for financial assets. The main impact for the company is the introduction of the new expected loss model for trade receivables. IFRS 9 has been applied retrospectively and adopted without the restatement of comparative information in accordance with the transitory method indicated in paragraph 7 of the standard. The reclassifications and adjustments related to the new rules concerning impairment loss are presented in the opening reserves at 1 January 2018.

The adjustments booked for each line in the balance sheet are shown below. The lines that have not been impacted by the adoption of IFRS 9 are not shown.

	2017 £'000	Adoption of IFRS 9 £'000	2017 Restated £'000
Trade debtors	99,479	(38)	99,441

The company applies the simplified approach in order to determine the expected credit loss of trade debtors. The model uses a matrix of the probabilities of default based on historical write offs, customer payment behaviour and expected losses. Following the adoption of the expected credit loss model, an increase in the allowance for doubtful trade debtors has been recognised for an amount of £0.04 million at 1 January 2019.

2.1.2 New standards, amendments and IFRIC interpretations (continued)

IFRS 15 'Revenue from Contracts with Customers', published in May 2014 and adopted by the European Union in September 2016, together with the amendment 'Clarifications to IFRS 15', are effective for accounting periods beginning on or after 1 January 2018. Their scope covers all contracts with customers except leases, insurance contracts and financial instruments, which are covered by other standards. The accounting policies and critical judgements deriving from the application of IFRS 15 are described in note 2.15.

IFRS 15 has been applied retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to opening reserves. The analysis carried out, with regard to the new standard, of all the contractual relationships with customers has led to the conclusion that the application of IFRS 15 does not have a significant impact on the amount of revenue recognised by the company and on the timing of its recognition. As a result, the implementation of IFRS 15 does not result in any changes to the presentation of the financial statements and has no impact on the shareholders' deficit as at 1 January 2018.

The adoption of the other amendments to accounting standards and IFRIC interpretations did not have a material impact on the company's financial statements.

The following new accounting standards, amendments to accounting standards, and IFRIC interpretations have been issued before 31 December 2018 with an effective date beginning on or after 1 January 2019 and have been endorsed by the European Union. They have not been adopted early by the company:

- IFRS 16 'Leases';
- IFRIC 23, 'Uncertainty over income tax treatments'.

IFRS 16 'Leases', published in January 2016, endorsed by the European Union in November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS17 'Leases' and its associated interpretative guidance. Significant changes to the lessee's accounting model are introduced as the current distinction between operating and financial leases is removed. The lessee must recognise an asset, corresponding to the right of use, and a liability corresponding to the lease commitment. With regard to the transition options, the company will implement the standard from its mandatory adoption date of 1 January 2019 and apply the simplified transition approach without restating comparative amounts for the year prior to first adoption. In addition, the company is going to adopt the exceptions provided for short-term leases, including contracts with less than twelve months after the application date and those relating to low value assets.

IFRIC 23 'Uncertainty over income tax treatments' clarifies the recognition and valuation principles applicable to income tax risks. These uncertainties arise where there is uncertainty related to a tax position adopted by the company that could be challenged by the tax administration. This interpretation was adopted by the European Union in October 2018 and is applicable for financial years beginning on 1 January 2019. The company does not expect the application of the interpretation from 1 January 2019 to have any significant impact.

2.2 Consolidation

Under Section 400 of the Companies Act 2006, the company is exempt from producing group financial statements as it is a wholly owned subsidiary of a company registered in the European Union. The ultimate holding company draws up publicly available group financial statements in accordance with the EU Seventh Directive. The company's results are included in the financial statements of Compagnie Générale des Etablissements Michelin, a company incorporated in France.

2.3 Foreign currency translation

Items included in the financial statements of the company are measured using the currency of the primary economic environment of which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

Transactions in foreign currency are converted to Sterling at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Sterling at the rates of exchange ruling at 31 December 2018. Differences arising out of the translation of foreign currency transactions and balances are accounted for with in the profit and loss account in the year they arise.

2.4 Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. No depreciation is provided on freehold land or assets in the course of construction. Depreciation is charged on all other categories of tangible fixed assets so as to write off the cost by equal annual instalments over the expected useful economic lives of the assets at the following rates:

	Per annum
Freehold buildings	2%
Fixtures, fittings and vehicles	5% to 20%
Plant and machinery	6.6% to 33.3%

The expected useful lives of the assets to the business are reassessed periodically in the light of experience. Impairment reviews are performed by the business units where there has been an indication of potential impairment.

Tangible fixed assets are reviewed when adverse economic conditions or other events indicate that they may be impaired. The carrying value of the asset is compared to its estimated recoverable amount (being the higher of net realisable value and value in use) and any resulting impairment loss is recognised in the profit and loss account. Value in use is calculated using cash flows derived from budgets and projections approved by the directors which are discounted at the groups' risk adjusted weighted average cost of capital.

2.5 Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense when they are incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company or group are recognised as intangible assets and are amortised on a straight line basis over a period of three years. The amortisation charge is included within administrative expenses.

Intangible assets are reviewed when adverse economic conditions or other events indicate that they may be impaired. The carrying value of the asset is compared to its estimated recoverable amount (being the higher of net realisable value and value in use) and any resulting impairment loss is recognised in the profit and loss account. Value in use is calculated using cash flows derived from budgets and projections approved by the directors which are discounted at the groups' risk adjusted weighted average cost of capital.

2.6 Investments

Fixed asset investments are stated at the lower of cost and the company's share of the net book value of the investee's net assets at the year end. Impairment reviews are performed by management when there has been an indication of potential impairment, with any resulting impairment loss recognised in the profit and loss account in the year in which it occurs.

2.7 Stocks and work in progress

Stocks and work in progress are valued at the lower of weighted average cost and net realisable value. Cost in the case of manufactured products consists of direct material and labour cost, together with an appropriate proportion of overheads. Net realisable value is based on anticipated selling price less the cost of selling such goods and any sales incentives. Specific provision is made for obsolete, slow moving or defective items where appropriate.

2.8 Mileage contract assets

There are two different categories of contract. The first type is where the legal ownership is with Michelin Tyre Public Limited Company. The second type is where legal ownership is with the customer but Michelin Tyre Public Limited Company has an economic influence over these tyres and generates revenue over time. In both cases the tyres are valued at cost less a usage factor. The assets are classified within stock on the balance sheet. Turnover is recognised on a per mile basis based on mileage declarations. Where amounts are un-invoiced at year end, they are accrued within accrued income, included within debtors.

2.9 Trade debtors

Trade debtors are amounts due from customers for the sale of products or for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as debtors due within one year. If not they are included in debtors due after more than one year. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Provisions against the non-recovery of debtors are made specifically against identified doubtful debtors. Additionally, a new year end forward looking impairment provision is calculated to cover potential future losses relating to trade debtors under IFRS 9. The model applied uses a matrix of the probabilities of default based on historical write-offs, customer payment behaviour and expected losses. When a trade receivable is uncollectible, it is written off against the allowance account for trade debtors. Subsequent recoveries of amounts previously written off are credited against 'administrative costs' in the profit and loss account.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within bank loans and overdrafts within creditors falling due within one year.

2.11 Share capital

Ordinary shares are classified as equity. There are no preference shares, but they would be classed as liabilities if there were any.

2.12 Trade creditors

Creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost

2.13 Provisions

Provisions in respect of liabilities are recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Specifically:

The company adopts a policy of partial self-insurance and a specific provision is made representing management's best estimate of the non-insured costs which have been incurred at the year end.

Provision is also made for onerous lease obligations to the extent that the company is committed to making future lease payments which will not be covered by estimated future cash inflows.

Provisions for redundancies and restructuring costs are made to the extent that a detailed formal plan has been prepared and approved and the company is irrevocably committed to implementing the plan at the year end.

Provision is made for dilapidation costs to the extent that the company has incurred a liability in respect of such costs at the year end.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.14 Deferred income and government grants

Government grants receivable in respect of tangible fixed assets are capitalised and treated as deferred income in the balance sheet and are released to the profit and loss account within cost of sales on a straight line basis over the period in which the related fixed asset is depreciated. They are disclosed under creditors falling due within one year and creditors falling due after more than one year based on the period over which the income will be released to the profit and loss account.

2.15 Turnover and revenue recognition

Turnover consists predominately of the sale of tyres in the original equipment or replacement market or the export of tyres to other group companies. Turnover is based on the invoiced value of all goods despatched prior to the year end, excluding value added tax (VAT) and other sales based taxes and net of trade discounts and rebates.

The accounting principles concerning the recognition of income in the course of ordinary activities were updated in light of the new provisions of IFRS 15.

In terms of the sale of tyres, the company acts as a principal and not as an agent. The customer has the full and complete possibility to use the tyres for its own benefit or to market them and fix the resale price. Furthermore the customer carries the inventory risk. The trade terms offered by the company are in line with normal market practice and the payment for the goods sold will be made in a period appreciably less than one year and there is no reason to adjust the amount of consideration received from customers to take into account the effects of a financing component. Each delivery of tyres represents a distinct and separate performance obligation to be fulfilled at a point in time and which corresponds to the loading of goods or their delivery, in accordance with the underlying contract.

In addition, the amount that the company effectively receives for the tyres delivered can vary as a result of deferred rebates stipulated in contractual agreements and / or at the start of commercial campaigns, and which will be paid to the customers at the end of the reference period and depending on the achievement of qualitative and quantitative objectives fixed for that period. Their value is determined using the expected value method. The company relies on the analysis of historical data and its accumulated experience to estimate the probable amount of rebates and discounts to be given to customers. The revenue is therefore recognised taking into account the uncertainty surrounding the different elements of variable consideration and to the extent that it is highly probable that the outcome will not give rise to a significant reduction in the amount of turnover already booked.

2.15 Turnover and revenue recognition (continued)

Other sales categories comprise mainly the management of tyres for commercial fleets and the supply of telematics services to reduce the consumption of fuel and increase the efficiency of fleets (mileage contracts). The services supplied within the framework of these contracts consist of a single performance obligation satisfied over time for which the sales revenue is recognised according to the level of progress, measured on the basis of efforts made and costs incurred.

2.16 Post-employment benefits

The company operates a defined contribution scheme, a defined benefit pension scheme and a medical scheme.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme and medical scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined discounting the estimated future cash outflows using interest rates of non-government or corporate securities, which have terms of maturity approximating to the terms of the liability. The assets of the defined benefit pension scheme are held separately from those of the company in an independently administered fund.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to the profit and loss account is the net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

2.17 Current and deferred taxation

The tax expense for the period comprises current and deferred taxation. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the year in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.18 Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charge to the income statement on a straight line basis over the period of the lease.

Leases, where the company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the asset and the present value of the minimum lease payments.

Lease income on sublet properties is taken to the profit and loss account on a straight line basis over the lease term.

2.19 Non derivative financial instruments

Non derivative financial instruments comprise investments in equity securities, trade and other debtors, cash and cash equivalents and trade and other creditors.

Trade and other debtors

Trade and other debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Investments in equity securities

Investments in subsidiary and other group undertakings are carried at cost less impairment.

2.20 Derivative financial instruments and hedge activities

The company has not applied hedge accounting and all derivatives are measured at fair value through the profit and loss account.

2.21 Exceptional items

The company's income statement separately identifies exceptional items. Such items are those that in the directors' judgement are one-off in nature and need to be disclosed separately by virtue of their size or incidence. In determining whether an item should be disclosed as an exceptional item, the directors consider quantitative as well as qualitative factors such as frequency, predictability of occurrence and significance. This is consistent with the way the financial performance is managed by management and reported to the board. Disclosing exceptional items separately provides additional understanding of the performance of the company.

3 Critical accounting estimates and judgements

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

3.1 Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 11 for the disclosures of the defined benefit pension scheme.

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

3.2 Restructuring provision

The company booked a restructuring provision in 2015 regarding the closure of its factory in Ballymena and a provision in 2018 for the closure of its factory in Dundee. The provisions include social costs, site dismantling, contractual commitments and revitalisation costs. The provisions for social costs are based on the package agreed with employees following a period of consultation. The provision for the dismantling of the machines and buildings at the site and the exiting of the site are management's best estimates based on its own experience and the experience of other companies in the wider Michelin Group. These costs estimates are reviewed annually and adjusted as required. See note 22 for disclosures on the restructuring provision.

3.3 *Recognition of deferred tax asset*

The company has recognised a deferred tax asset on the basis that the directors consider the likelihood of deriving future economic benefit from the asset to be reasonably certain. In reaching this conclusion and in order to estimate the amount that can be recognised, the company has forecast future taxable profits. These forecasts are based on management's best estimates of future profitability.

All of the above are critical accounting estimates. There are no critical judgements applied in the preparation of the financial statements.

4 Financial instruments

The company has the following financial assets (in other debtors – see note 17) and financial liabilities (in other creditors – see note 19) measured at fair value through the profit and loss account:

	2018	2017
	£'000	£'000
Derivative financial assets	**1,160**	-
Derivative financial liabilities	**(104)**	(1)
Derivative financial instruments	**1,056**	(1)

The company enters into forward foreign contracts with the group to mitigate the exchange rate risk for certain foreign currency debtors and creditors. At 31 December 2018, the outstanding contracts all mature within 3 months (2017: 3 months) of the year end. The company is committed to sell EUR 6.4 million, USD 1.0 million and AUD 0.4 million and receive a fixed sterling amount and to buy EUR 78.1 million and pay a fixed sterling amount.

The forward currency contracts are measured at fair value, which is determined using the valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the exchange rates for GBP:EUR, GBP:USD and GBP:AUD.

Notes to the financial statements (continued)

5 Turnover

Turnover is derived from the manufacture and distribution of tyres, tubes, wheels, and accessories.

	2018	2017
	£'000	£'000
Geographical markets		
United Kingdom and Republic of Ireland	**457,251**	437,218
Rest of Europe	**188,240**	243,083
Rest of World	**4,715**	5,611
	650,206	685,912

Turnover to other group companies is £284.0 million (2017: £335.4 million).

6 Operating (loss) / profit

Operating (loss) / profit is stated after charging / (crediting):

	2018	2017
	£'000	£'000
Depreciation of tangible fixed assets – see note 14	**5,380**	35,402
Impairment of tangible fixed assets – see note 14	**49,268**	-
Amortisation of intangible fixed assets – see note 13	**563**	1,029
Operating lease rentals	**3,474**	4,118
Operating lease income	**(395)**	(422)
Services provided by the company's auditors		
- fees payable for the audit	**80**	82
- fees payable for other services	**48**	-
(Profit) / loss on sale of tangible fixed assets	**(452)**	448
Impairment of fixed asset investments – see note 15	**18,102**	2,742
Exchange losses	**153**	114
Government grants amortisation – see note 21	**(3,620)**	(1,507)
Stock recognised as an expense	**502,965**	567,038
Impairment of stock – see note 16	**4,462**	352
Restructuring provisions – see note 22	**99,069**	859
Impairment of trade debtors	**216**	(29)
Bad debts written off	**1,287**	37

7 Interest receivable and similar income

	2018	2017
	£'000	£'000
Interest on current accounts with group undertakings	**178**	47

8 Interest payable and similar expenses

	2018	2017
	£'000	£'000
Bank loans and overdrafts	3	1
Interest on current accounts with group undertakings	3,159	608
Net cost of post-employment benefits (see note 11)	3,397	10,988
Other	1,178	750
	7,737	12,347

9 Directors' emoluments

The directors received £572,190 (2017: £727,298) in respect of their qualifying services to the company. Benefits are accruing to 4 directors (2017: 4) under defined benefit schemes and to 6 directors (2017: 5) under defined contribution schemes. The aggregate value of company contributions paid to the defined contribution pension scheme during the year was £134,191 (2017: £209,586). Two directors (2017: 1 directors) received shares in Compagnie Générale des Etablissements Michelin, the ultimate parent company, during the year.

No directors (2017: no directors) exercised share options during the year with Compagnie Générale des Etablissements Michelin, the ultimate parent company.

Highest paid director	2018	2017
	£'000	£'000
Total emoluments	156	219
Company contribution to defined contribution pension scheme	43	67
	199	286

One director received £354,327 for compensation for loss of office in 2018.

10 Particulars of employee costs

The average monthly number of persons employed by the company (including directors) during the year was:

	2018	2017
	Number	Number
By activity:		
- Production, selling and distribution	1,674	2,062
- Administration	60	63
	1,734	2,125

10 Particulars of employee costs (continued)

	2018 £'000	2017 £'000
Their total remuneration was:		
- Wages and salaries	**67,140**	83,700
- Social security costs	**7,273**	8,661
- Other pension costs	**7,467**	8,552
	81,880	100,913

Other pension costs relate to life insurance and income protection premiums of £1.2 million (2017: £1.3 million) and company contributions in relation to the defined contribution scheme of £6.2 million (2017: £7.3 million) (see note 11).

The above employee numbers and costs include some employees who are on Michelin Tyre Public Limited Company contracts and the Michelin Tyre Public Limited Company payroll but who are currently seconded to other companies in the Group, such as Michelin Lifestyle Limited and Michelin Travel Partner Limited. Their costs are recharged to these other companies each month.

11 Post-employment benefits

The company operates a defined contribution scheme, a defined benefit scheme and a post-retirement medical scheme for the benefit of employees in the UK, including the employees of the subsidiaries of Associated Tyre Specialists (Investment) Limited ("ATS"), a company whose ultimate holding company is also Compagnie Générale des Etablissements Michelin. In practice the Pension Plan is not sectionalised and the assets and liabilities are not ring-fenced. The liabilities have been calculated by allocating individual members to the respective employers based on census data at 31 March 2017 using the data provided by the Pension Plan's administrator. The assets are allocated to achieve the same funding level for each participating company and the Pension Plan as a whole at each balance sheet date.

Defined benefit scheme

The defined benefit scheme is a final salary scheme and is funded in advance by contributions from members at the rate set in the scheme rules and from the employing company to meet the balance of the costs, at rates assessed by the actuary of the scheme in regular funding reviews. The plan is a registered pension scheme defined by UK legislation. The scheme's assets are held in funds separate from those of the company. Responsibility for the governance of the plan, including investment decisions and contribution schedules, lies with the board of trustees in consultation with the company. The disclosures below relate to the company's share of the scheme and excludes ATS's share of the scheme. The scheme closed to future accrual from the beginning of 2009. Employees have retained the benefits that they have already earned in the defined benefit scheme, but from the beginning of 2009 they have transferred to the defined contribution scheme. As such the current service cost in the defined benefit scheme is nil.

The risks of the scheme are as follows:

a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short term.

As the plan's funding level improves, the level of investment risk will be reduced by investing more in assets that better match the liabilities with the sale of equity holdings and purchase of bonds.

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

11 Post-employment benefits (continued)

b) Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the members, so increases in life expectancy will result in an increase in the plan's liabilities.

d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The plan does hold some inflation linked bonds and property which are designed to hedge some of the inflation risk.

Asset-liability matching reviews of the defined benefit scheme are performed regularly. The results of the reviews are used to assist the trustees and the company to determine the optimal long-term asset allocations with regard to the structure of the liabilities of the scheme. They are also used to assist the trustees in managing the underlying volatility inherent in investment performance and the risk of a significant increase in the scheme deficit, by providing information used to determine the scheme's investment strategy. The main strategic choices that are formulated as a result are:

- Target asset mix 25% return seeking assets and 75% liability matching assets (bonds and property).
- 95% of interest rate and inflation risk is partly hedged using physical bonds and swaps.
- 75% of foreign currency exposure is hedged by the use of currency forward contracts.

An accounting valuation was carried out at 31 December 2018 by Mercer, a qualified independent actuary. The liabilities have been projected from the last full funding valuation data as at 31 March 2017 and using membership data as at 31 March 2017 and the following assumptions:

Weighted average assumptions used to determine benefit obligations at 31 December:	**2018**	2017
Discount rate	**2.9%**	2.6%
Rate of compensation increase	**2.5%**	2.7%
Rate of increase of pensions in payment	**3.0%**	3.1%
Rate of increase of pensions in deferment	**2.15%**	2.3%
Rate of inflation	**3.15%**	3.3%

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

11 Post-employment benefits (continued)

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

Weighted average life expectancy for mortality tables used to determine benefit obligations at 31 December:	**2018 Male**	**2018 Female**	2017 Male	2017 Female
Member age 65 (current life expectancy)	**21.1**	**24.0**	21.1	24.0
Member age 45 (life expectancy at age 65)	**22.8**	**25.9**	22.8	25.9

Reconciliation of scheme assets and liabilities	**Assets £'000**	**Liabilities £'000**	**Total £'000**
At 1 January 2018	**1,597,492**	**(1,740,182)**	**(142,690)**
Interest cost (see note 8)	39,217	(42,594)	**(3,377)**
Administrative expenses	-	(2,709)	**(2,709)**
Actuarial (losses) / gains	(41,529)	107,270	**65,741**
Past service cost	-	(14,667)	**(14,667)**
Employer contributions	91,300	-	**91,300**
Benefits paid	(122,336)	122,336	-
At 31 December 2018	**1,564,144**	**(1,570,546)**	**(6,402)**

The average duration of the benefit obligation is 16 years. The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Approximately 14% of the liabilities are attributable to current employees, 26% to former employees and 60% to current pensioners.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

Impact on defined benefit obligation	0.5 percentage point upward shift	0.5 percentage point downward shift
Discount rate	-7.0%	7.8%
Compensation increase rate	0. 9%	-0.6%
Inflation rate	3.9%	-3.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

11 Post-employment benefits (continued)

Total cost / (credit) recognised as an expense / (income):

	2018	2017
	£'000	£'000
Administrative expenses	2,709	1,942
Past service cost / (credit)	14,667	(18,820)
Net interest cost (see note 8)	3,377	10,968
	20,753	(5,910)

The past service cost in 2018 of £14.6 million is made up of a £19.1 million increase in liabilities due to the High Court ruling on GMP equalisation on 26 October 2018 and a prior service pension curtailment credit of £4.4 million in respect of the Dundee factory closure (see page 6 and note 22). In 2017, the Plan implemented a pension increase exchange (PIE) exercise, whereby pension members were offered an immediate uplift in their pension in return for giving up some or all of their future pension increases. This lead to a past service credit of £19.7 million as a result of the change in the defined benefit obligation before and after implementation, which was recognised in full at the point of implementation less the company's share of the administration and consultancy fees incurred by the Plan in relation to the PIE exercise (£0.3 million) and financial advisor expenses incurred by the company on behalf of pensioners (£0.6 million).

The fair value of the plan assets was:	2018	2017
	£'000	£'000
Equities	32,117	213,724
Bonds	1,104,572	902,063
Property	124,613	116,522
Cash / Alternatives	302,842	365,183
	1,564,144	1,597,492

The return on plan assets was:

	2018	2017
	£'000	£'000
Interest income	39,217	39,738
Re-measurements	(41,529)	94,429
	(2,312)	134,167

The accounting valuation at 31 December 2018 showed a decrease in the deficit from £142.7 million to £6.4 million. Company contributions were £91.3 million, which represented its share of lump sum contributions in relation to the PPF levy, scheme expenses, the recovery plan payment due in 2018, advance payment of the recovery plan payment due in 2019 and a special mitigation payment following the announcement to close the Dundee factory (see page 6). The company will pay its share of the PPF levy of £2.3 million, incurred by the scheme in 2018, over to the scheme in 2019 along with its share of the remaining mitigation payment for £146.3 million. Company contributions for future years are the company's share of lump sum contributions as per the recovery plan, plus the company's share of the PPF levy and the scheme expenses. The recovery plan is supported by the group.

A deferred tax asset of £1.1 million (2017: £24.3 million) has been recognised in relation to the pension scheme.

11 Post-employment benefits (continued)

Post-retirement medical scheme

The scheme was closed to new entrants in 2007 and existing members will receive no future increase in their benefit. As such the service cost is nil. The plan has no assets and therefore no disclosures on assets have been provided.

Weighted average assumptions used to determine benefit obligations at 31 December:	**2018**	2017
Discount rate	**3.6%**	3.6%
Rate of inflation	**0%**	0%

As the scheme is closed to new entrants and existing members will receive no future increase in their benefit, the inflation assumption is 0%.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

Weighted average life expectancy for mortality tables used to determine benefit obligations at 31 December:	**2018 Male**	**2018 Female**	2017 Male	2017 Female
Member age 65 (current life expectancy)	**21.1**	**24.0**	21.1	24.0

Reconciliation of scheme liabilities	**Assets £'000**	**Liabilities £'000**	Total £'000
At 1 January 2018	-	**682**	**682**
Interest cost (see note 8)	-	20	**20**
At 31 December 2018	-	**702**	**702**

Total cost recognised as an expense:

	2018 £'000	2017 £'000
Net interest cost (see note 8)	**20**	20

Defined contribution schemes

During the year the company paid contributions amounting to £6.2 million (2017: £7.6 million) in relation to defined contribution schemes. At the end of the year, there was an accrual outstanding of £1.1 million (2017: £1.0 million) in relation to such schemes. The company also incurred life insurance and income protection premiums of £1.2 million (2017: £1.3 million) under the scheme.

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

12 Tax on loss

Tax expense / (income) included in profit or loss

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on loss of the year	(175)	-
Total current tax charge	(175)	-
Deferred tax		
Origination and reversal of timing differences	(30,901)	(2,147)
Adjustment in respect of prior period	(1,299)	(1,089)
Partial write off of deferred tax asset	46,026	-
Total deferred tax (see note 24)	13,826	(3,236)
Tax on loss	13,651	(3,236)

Tax expense included in other comprehensive income or expense

	2018 £'000	2017 £'000
Deferred tax		
Origination and reversal of timing differences	11,176	34,532
Partial write off of deferred tax asset	22,265	-
Total tax expense included in other comprehensive income or expense	33,441	34,532

The tax assessed for the year is higher (2017: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Loss before taxation	(189,201)	(5,008)
Loss multiplied by the standard rate of tax in the UK of 19.00% (2017: 19.25%)	(35,948)	(964)
Expenditure / (Income) not deductible / (chargeable) for tax purposes	2,151	(1,468)
Difference between standard tax rate of 19.00% (2017: 19.25%) and rate used for deferred tax	3,557	285
Adjustment in respect of prior period	(1,299)	(1,089)
Partial write off of deferred tax asset	45,365	-
Group relief	(175)	-
Total tax charge / (credit) for the year	13,651	(3,236)

12 Tax on loss (continued)

Following the announcement to close the factory in Dundee (see strategic report page 6), future results forecasts were reviewed and a decision was made to write down the deferred tax asset brought forward by £47.3 million. A deferred tax asset of £21.3 million (2017: £68.6 million) has been recognised at the year end on the basis that that the directors consider the likelihood of deriving future economic benefit from the asset is reasonably certain.

Factors affecting current and future tax charge

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the company's results for this accounting period are taxed at an effective rate of 19.00%.

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced was to reduce the main rate to 17% from 1 April 2020 and this was substantively enacted in September 2016.

As the change had been substantively enacted at the balance sheet date, its effect is included in these financial statements.

13 Intangible assets

Cost	**Software £'000**	**Software in progress £'000**	**Total £'000**
As at 1 January 2018	4,820	-	4,820
Additions	-	10	10
As at 31 December 2018	**4,820**	**10**	**4,830**
Accumulated amortisation			
As at 1 January 2018	3,697	-	3,697
Amortisation charge	563	-	563
As at 31 December 2018	**4,260**	-	**4,260**
Net book value			
At 31 December 2018	**560**	10	**570**
At 31 December 2017	1,123	-	1,123

The amortisation charge is included within administrative expenses.

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

14 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and vehicles £'000	Assets in course of construction £'000	Total £'000
Cost at 1 January 2018	70,372	299,308	31,336	24,596	425,612
Additions	-	-	-	12,037	12,037
Transfers from assets in the course of construction	4,664	18,818	230	(23,712)	-
Disposals	(23,180)	(29,484)	(68)	(527)	(53,259)
Cost at 31 December 2018	**51,856**	**288,642**	**31,498**	**12,394**	**384,390**
Accumulated depreciation at 1 January 2018	35,072	250,963	24,622	-	310,657
Charge for the year	1,016	3,687	677	-	5,380
Disposals	(21,014)	(25,142)	(67)	-	(46,223)
Impairment charge	17,973	19,640	2,613	9,042	49,268
Accumulated depreciation at 31 December 2018	**33,047**	**249,148**	**27,845**	**9,042**	**319,082**
Net book value					
At 31 December 2018	**18,809**	**39,494**	**3,653**	**3,352**	**65,308**
At 31 December 2017	35,300	48,345	6,714	24,596	114,955

Following the announcement relating to the closure of the Dundee factory (see page 6) an impairment provision of £49.3 million has been booked to write down the value of the Dundee assets to the future anticipated profits that can be generated between now and the closure of the factory. The remaining net book value of the Dundee assets will now be depreciated over the remaining life of the factory. The impairment charge is included in exceptional items.

Included within freehold land and buildings is £0.2 million (2017: £0.7 million) which represents land not depreciated.

Included in assets in the course of construction is £1.2 million in relating to Dundee, which are assets (mainly moulds) that can be transferred to other group companies. The remaining £2.2 million relates to projects at Stoke, of which £0.3 million is logistics projects (2017: £0.2 million) and £1.8 million is projects for Stoke factory.

Sale proceeds received on the disposal of assets were £7.5 million (2017: £2.1 million), of which £2 million relates to the sale of the Ballymena site and the majority of the rest relates to the sale of Ballymena assets to other group companies.

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

15 Investments

	Shares in subsidiary undertakings £'000	Shares in other group undertakings £'000	Total £'000
Cost at 1 January 2018 and 31 December 2018	**202**	**69,213**	**69,415**
Provision at 1 January 2018	202	50,100	50,302
Impairment provision	-	18,102	18,102
Provision at 31 December 2018	**202**	**68,202**	**68,404**
Net book value			
At 31 December 2018	-	**1,011**	**1,011**
At 31 December 2017	-	19,113	19,113

The subsidiary undertakings as at 31 December 2018 are:

Company	Country of incorporation/ operation	Issued share capital (Ordinary)	% held by the company	Activity
Michelin Travel Partner UK Limited *	England	2 shares of £1 each	100	Marketing maps, guides, travel products and services for European road users
Michelin Development Limited *	England	2 shares of £1 each	100	Creation of quality, sustainable employment
Michelin Pensions Trust Limited *	England	2 shares of £1 each	100	Dormant

* The registered office of the above companies is Campbell Road, Stoke-On-Trent, United Kingdom, ST4 4EY.

The accounting year dates of the financial statements for each investment is in line with that of Michelin Tyre Public Limited Company

15 Investments (continued)

The principal investments in other group undertakings are as follows:

Company	Country of incorporation/ operation	Issued share capital (Ordinary)	% held by the company	Activity	Registered office
Euromaster Services and Management SAS (previously Eurodrive Services and Distribution)	France	265,256 shares of EUR 105 each	18.8	Distribution	7 place Henri Dunant, 63038 Clermont-Ferrand
Michelin Tyre Services Co Limited	Nigeria	7,776,000 shares of N2 each	40.0	Distribution	Plot 2A, Ijora Causeway, Ijora, P.O. Box 2842, Lagos

During the year an impairment provision of £18.1 million (2017: £2.7 million) was booked to write the investment in Euromaster Services and Management SAS down to the company's share of the consolidated net assets.

The company received no dividends during the year.

16 Stocks

	2018	2017
	£'000	£'000
Raw materials and consumables	2,255	8,678
Work in progress	2,520	3,958
Finished goods and goods for resale (includes £18.3 million (2017: £24.5 million) of mileage contract assets)	48,078	62,422
	52,853	75,058

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amount.

Stock is stated after provisions for impairment of £8.1 million (2017: £3.6 million), which includes £nil (2017: £0.1 million) for net realisable value provisions. £4.5 million was charged to the profit and loss account in the year in relation to stock provisions (see note 6). Provisions against consumable stocks were increased by £3.9 million, of which £2.1 million related to Dundee stocks following the closure announcement (see note 22). Provisions for obsolescence of finished products were increased by £0.7million and net realisable value provisions were reduced by £0.1million as they were no longer required.

The amount of stock recognised as an expense is £503.0 million (2017: £567.0 million).

Notes to the financial statements (continued)

17 Debtors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade debtors	**91,549**	99,479
Amounts owed by group undertakings	**82,990**	88,099
Other debtors	**5,707**	5,177
Prepayments and accrued income	**426**	1,015
Deferred tax (see note 24)	**-**	12,939
	180,672	206,709

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Trade debtors are stated after provisions for impairment of £0.3 million (2017: £0.1 million).

18 Debtors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Deferred tax (see note 24)	**21,297**	55,625

19 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts	**1,059**	712
Trade creditors	**42,345**	37,101
Amounts owed to group undertakings	**283,005**	255,780
Taxation and social security	**14,134**	14,846
Other creditors	**5,100**	5,274
Accruals and deferred income (includes £0.8 million (2017: £1.5 million) of deferred government grants – see note 21)	**9,470**	14,600
	355,113	328,313

The bank overdraft is unsecured. There are no bank loans.

19 Creditors: amounts falling due within one year (continued)

Amounts owed to group undertakings are analysed as follows:

	2018	2017
	£'000	£'000
Current accounts (unsecured and repayable on demand)	42,567	73,345
Trading accounts (unsecured and repayable on demand)	116,821	137,435
Loan (term 3 years and unsecured)	-	25,000
Drawn down from £75 million facility (term 3 years and unsecured)	-	20,000
Drawn down from £125 million facility (term 3 years and unsecured)	123,617	-
	283,005	255,780

Interest is charged on current accounts with other group undertakings and the loan in line with group rates which generally reflect LIBOR or EONIA. No interest is charged on trading accounts which make up the majority of the balance.

In June 2018 the £25 million loan and £75 million credit facility with the group were cancelled and replaced by a new 5 year loan for £75 million and a 3 year multi-currency credit facility for £125 million.

The new group loan is repayable in July 2023 and therefore has been disclosed in amounts falling due after more than one year (see note 20). The facility expires in July 2021 however the funds are drawn down for short periods of usually one month duration. The amount of £123.6 million drawn down at the year end is repayable in January 2019. Consequently the amount outstanding at the year end has been disclosed in amounts falling due within one year.

20 Creditors: amounts falling due after more than one year

	2018	2017
	£'000	£'000
Accruals and deferred income (government grants – see note 21)	2,804	10,189
Loan (term 5 years and unsecured)	75,000	-
	77,804	10,189

The group loan is repayable in July 2023. Interest is charged in line with group rates which generally reflect LIBOR or EONIA.

21 Deferred income

	2018	2017
	£'000	£'000
Deferred income due within one year (see note 19)	834	1,462
Deferred income due after more than one year (see note 20)	2,804	10,189
Deferred government grants	3,638	11,651
The movement on deferred grant in the year was as follows: -		
- credited to profit and loss account	(3,620)	(1,507)
- transferred to restructuring	(5,893)	-
- new grants	1,500	4,200
	(8,013)	2,693

21 Deferred income (continued)

Grants totalling £5.9m (2017: £nil) relating to Dundee factory have been transferred to the restructuring provision in 2018 (see note 22). There remain grants of £3.9 million (2017: £10.3 million) which are still subject to claw back provisions. However, none of the conditions have been breached and therefore no amount is payable at the time or expected to be payable in the future.

22 Provisions for liabilities

	Restructuring costs £'000	Onerous lease £'000	Dilapidation provision £'000	Other provisions £'000	Total £'000
At 1 January 2018	41,286	565	1,452	3,169	46,472
Utilised in the year	(37,340)	-	(10)	(522)	(37,872)
Released in the year	-	(77)	-	(104)	(181)
Charged in the year	99,069	-	157	225	99,451
At 31 December 2018	**103,015**	**488**	**1,599**	**2,768**	**107,870**

The restructuring provision at the start of the year related to the closure of the factory in Ballymena in 2018 (see strategic report on page 6). In 2018 two additional restructuring provisions were booked, the main one of which related to the closure of the Dundee factory (see strategic report page 6). The restructuring provisions can be analysed as follows:

	Ballymena £'000	Dundee £'000	Other £'000	Total £'000
At 1 January 2018	41,286	-	-	41,286
Utilised in the year	(35,648)	(1,008)	(684)	(37,340)
Charged in the year	1,208	95,983	1,878	99,069
At 31 December 2018	**6,846**	**94,975**	**1,194**	**103,015**

The provisions for the closure of Ballymena and Dundee have both been discounted using the group's weighted average cost of capital.

The charge for the Ballymena provision includes £0.7 million relating the unwinding of the discounting of the provision. This is shown within exceptional items. The provision outstanding at the end of the year relates mainly to ongoing contractual commitments and revitalisation activities in the local area. The expected period of utilisation is 1 year for contractual commitments and 8 years for revitalisation costs. In addition to the provision above, there is impairment provision of £3.6million against stock at Ballymena (2017: £1.6 million).

The Dundee restructuring provision includes social costs, site dismantling, contractual commitments and revitalisation costs. The expected period of utilisation is 1 to 2 years for social costs. The period of utilisation for dismantling costs is more uncertain and will depend on the future plans for the site. In addition to the £96 million above, an impairment provision of £49.3 million has been booked against fixed assets and £2.1 million has been booked against stock. A reduction of £4.4 million was booked against the pension liability and £5.9 million was released from the deferred income relating to government grants. Therefore the total cost booked through the profit and loss account relating to the restructuring was £137.1 million. These costs are shown within exceptional items.

Michelin Tyre Public Limited Company

Notes to the financial statements (continued)

22 Provisions for liabilities (continued)

The amounts within exceptional items are summarised as follows:

	2018 **£'000**	2017 £'000
Increase / (release) of provision for social and dismantling costs for Ballymena	**495**	(11,351)
Unwinding of discounting for Ballymena	**713**	859
Additional depreciation of Ballymena assets	**-**	20,871
Provision for social and dismantling costs for Dundee	**97,629**	-
Discounting of Dundee provision	**(1,646)**	-
Impairment of Dundee assets (see note 14)	**49,268**	-
Impairment of Dundee consumables stock	**2,138**	-
Dundee grants (see note 21)	**(5,893)**	-
Pension curtailment in relation to Dundee (see note 11)	**(4,355)**	-
Other restructuring provision	**1,878**	
Total exceptional items relating to restructuring	**140,227**	10,379

Other provisions principally relate to self-insured claims against the company, onerous lease obligations and dilapidation provisions. The expected period of utilisation ranges from 1 to 15 years.

23 *Called up share capital*

	2018 **£'000**	2017 £'000
Authorised		
12,600,000 (2017: 12,600,000) ordinary shares of £10 each	**126,000**	126,000
Allotted and fully paid		
5,142,400 (2017: 5,142,400) ordinary shares of £10 each	**51,424**	51,424

There is a single class or ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

24 *Deferred taxation*

Deferred tax asset:	**2018** **£'000**	**2018** **£'000**	2017 £'000	2017 £'000
	Recognised	**Unrecognised**	Recognised	Unrecognised
Unrelieved tax losses	**13,023**	**42,060**	19,004	-
Accelerated capital allowances	**-**	**10,820**	529	-
Deferred tax relating to pension and medical	**8,274**	**-**	39,427	-
Other timing differences	**-**	**11,780**	6,470	-
Surplus ACT	**-**	**3,134**	3,134	-
Total deferred tax	**21,297**	**67,794**	68,564	-

24 Deferred taxation (continued)

Analysis of movements in provided deferred tax:

	Unrelieved tax losses £'000	Accelerated capital allowances £'000	Relating to pension and medical scheme £'000	Other timing differences £'000	Surplus ACT £'000	Total £'000
At 1 January 2017	**12,839**	**(7,253)**	**82,896**	**8,244**	**3,134**	**99,860**
(Charge) / credit in profit and loss account – see note 12	6,165	7,782	(8,937)	(1,774)	-	3,236
(Charge) in other comprehensive income	-	-	(34,532)	-	-	(34,532)
At 31 December 2017	**19,004**	**529**	**39,427**	**6,470**	**3,134**	**68,564**
At 1 January 2018	**19,004**	**529**	**39,427**	**6,470**	**3,134**	**68,564**
(Charge) / credit in profit and loss account – see note 12	(5,981)	(529)	2,288	(6,470)	(3,134)	(13,826)
(Charge) in other comprehensive income	-	-	(33,441)	-	-	(33,441)
At 31 December 2018	**13,023**	**-**	**8,274**	**-**	**-**	**21,297**

Following the announcement to close the factory in Dundee (see strategic report page 6), future results forecasts were reviewed and a decision was made to write down the deferred tax asset brought forward by £47.3 million. A deferred tax asset of £21.3 million (2017: £68.6 million) has been recognised at the year end on the basis that that the directors consider the likelihood of deriving future economic benefit from the asset is reasonably certain. Deferred tax amounts in relation to the pension scheme have been calculated after the effect of spreading the tax relief available on significant contributions. The impact of this spreading on the deferred tax recognised is £7.1 million (2017: £15.1 million).

25 Capital commitments

Amounts not provided for in the financial statements are as follows:

	2018 £'000	2017 £'000
Contracted	**238**	6,106

26 Operating lease commitments

The company had the following future total minimum lease payments under non-cancellable operating leases for each of the following periods

	2018 £'000	2017 £'000
Within 1 year	**3,794**	3,697
2 – 5 years	**10,015**	11,582
5 years or over	**8,112**	10,377
	21,921	25,656

26 Operating lease commitments (continued)

The company had the following future total minimum lease income relating to the subletting of a leased property under non-cancellable operating leases for each of the following periods

	2018	2017
	£'000	£'000
Within 1 year	**393**	371
2 – 5 years	**400**	794
	793	1,165

27 Related party transactions

As a subsidiary undertaking of Compagnie Générale des Etablissements Michelin, the company has taken advantage of the exemption under FRS101 not to disclose transactions with other members of the group headed by Compagnie Générale des Etablissements Michelin.

28 Ultimate parent company

The company is a wholly owned subsidiary of Compagnie Financière Michelin SCmA, a company incorporated and registered in Switzerland, whose registered office is at 10 Route Louis-Braille, 1763 Granges-Paccot, Switzerland. This is the immediate parent company. In the opinion of the directors the ultimate holding company and controlling party is Compagnie Générale des Etablissements Michelin, incorporated in France, situated at 23, Place des Carmes, Dechaux, CEDEX 9, 63040, Clermont Ferrand, France. Copies of the group financial statements of Compagnie Financière Michelin SCmA and Compagnie Générale des Etablissements Michelin, which are the smallest and largest groups into which the company's financial statements are consolidated, may be obtained from these stated addresses. The company benefits from technology supply and service agreements with its ultimate holding company.

29 Events after the end of the reporting period

On 18 March 2019 the share capital of the company was increased. The company issued 6 million shares for £10 each to Compagnie Financière Michelin SCmA for a cash consideration of £300 million. The capital increase has been split between £60 million share capital and £240 million share premium.