

# Michelin Tyre Public Limited Company

## Annual report and financial statements for the year ended 31 December 2019

Registered number 84559

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# Michelin Tyre Public Limited Company

## Annual report and financial statements for the year ended 31 December 2019

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# Michelin Tyre Public Limited Company

## Directors and advisers for the year ended 31 December 2019

### Directors

P Berther  
C Smith  
C Beau  
F Levert

### Company Secretary

N Ockleton

### Registered office

Campbell Road  
Stoke-on-Trent  
United Kingdom  
ST4 4EY

### Independent Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
No 1 Spinningfields  
Hardman Square  
Manchester  
M3 3EB

# Michelin Tyre Public Limited Company

## Strategic report for the year ended 31 December 2019

The directors have pleasure in presenting their strategic report for the year ended 31 December 2019.

### Business review and principal activities

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

Turnover has decreased by 11.3% compared to 2018 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 17.5%) and turnover (down 17.0%) compared to 2018, with the biggest reduction being in the car and off highway transport segments. Our Replacement sales have remained stable in terms of value (down 0.3%) and volumes have increased (up 1.4%). There have been increases in car (B2C 4 wheel) but sales in truck and off highway transport (B2B) have fallen. Our exports into Western Europe have fallen considerably compared to 2018 (down 25.8%), mainly due to the ramping down of production at our factory in Dundee, which is due to close in June 2020 (see page 5).

Our operating result has been adversely affected by these low production volumes and the ongoing costs associated with the closure of Dundee. Our operating profit before exceptional items is only £2 million, although this is an improvement on 2018 where we had a loss of £23.3 million before exceptional items mainly due to a £19.1 million past service cost for the defined benefit pension scheme due to the High Court ruling on GMP equalisation (see note 11) and ongoing costs associated with the closure of the Ballymena factory.

The exceptional items of £7.1 million (2018: £140.2 million) relate mainly to the closure of the Dundee factory (see page 5 and note 23).

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 again in 2020 as the low production levels and the closure of the Dundee factory continue to adversely impact the result. The Covid-19 pandemic will also have a negative impact.

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

	2019	2018
	£'000	£'000
Loss before taxation	(24,966)	(189,201)
Tax on loss	3,597	(13,651)
Loss for the financial year	(21,369)	(202,852)
Net debt	94,957	(237,411)
Net cash inflow – operating activities	9,471	4,358
Net liabilities	(10,907)	(225,542)

### 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.

# Michelin Tyre Public Limited Company

## Strategic report for the year ended 31 December 2019 (continued)

### b) Products (including development)

The Michelin Group continues to place great emphasis on tyre design based around the environment and long-lasting performance. During 2019 the group consolidated the innovations introduced in the past few years with extensions to the many tyre ranges within their Motorcycle, Car, Van, Commercial Vehicle, Earthmover and Agricultural tyre divisions. Some of these existing tyre ranges were also extended by the introduction of dimensions not previously covered. Michelin has also introduced extensions to their Tier 2 and Tier 3 brands across all divisions.

### c) Investment

In 2019, our capital investments in tangible and intangible assets totalled £1.1 million (2018: £12.0 million). With the closure of our factory in Ballymena in 2018 and the planned closure of our factory in Dundee in 2020 (see below), the level of our capital investments has fallen significantly.

### d) Closure of Dundee factory

In November 2018 we announced our intention to cease activities at our Dundee site by the middle of 2020.

The priority in 2019 has been to provide the 827 employees at the factory with the most effective support possible at this difficult time. The company has implemented 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 includes intensive support to find a new job, relocation assistance and tailor-made programmes including skills training. This support will continue during 2020.

A mitigation payment of £210 million has also be paid by the participating employers to the defined benefit scheme. £63.7 million was paid in 2018 and the balance of £146.3 million was 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.

During the year the company entered into a joint venture with Scottish Enterprise and Dundee City Council. The joint venture, Michelin Scotland Innovation Parc Limited, will take over the site when the factory closes and turn it into an innovation park focused on sustainable mobility and low carbon energy. The company has committed to provide £20 million of cash funding to the joint venture. This has been reflected in the restructuring provision.

### e) Training and development

Following the announcement of the closure of our Dundee facility one of the major training priorities has been supporting our employees in re-training for alternative employment. 500 employees have accessed training, on average 5 days per person.

In the remainder of the business, employees have received an average of 7.5 days training per person.

# Michelin Tyre Public Limited Company

## Strategic report for the year ended 31 December 2019 (continued)

### f) 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 2019.

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 in order to help support local businesses create employment and working with schools to encourage entrepreneurs of the future.

In light of the announcement in 2018 regarding the closure of our factory in Dundee in June 2020, work has started in earnest to set up a similar Michelin Development scheme with the aim of supporting SMEs in the Dundee and Angus area to grow and create new jobs.

### 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:

	2019	2018	Commentary
Reduction in Sales (%)	(11.3%)	(5.2%)	Year on year sales reduction expressed as a percentage. The result is in line with our expectations given the ramping down of production volumes at our factory in Dundee prior to its closure in June 2020.
Operating Margin before exceptional items (%)	0.3%	(3.6%)	Operating profit / (loss) as a percentage of sales before exceptional items. The margin has been adversely impacted by the lower production volumes. In addition, the margin was negative in 2018 as there was a £19.1million past service cost for the defined benefit pension scheme due to the High Court ruling on GMP equalisation. (see note 11).
Trade debtors / sales	25.6%	23.9%	Rolling 12-month average trade debtors balance expressed as a percentage of sales.
Employee turnover	6.0%	4.5%	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	1.36	0.32	Number of incidents resulting in more than one day of lost time per million hours worked.
Lost time incident severity rate	0.01	0.00	Number of working days (more than one day) lost to accidents per thousand hours worked.

# Michelin Tyre Public Limited Company

## Strategic report for the year ended 31 December 2019 (continued)

### 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 6.0% (2018: 4.5%) and the absence level for the year was 2.5% (2018: 3.0%). 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 decreased between 2018 and 2019, mainly due to market price volatility observed in Europe and in the rest of the world. Gas and power consumption have reduced significantly over the past few years, firstly with the closure of the Ballymena factory in 2018 and secondly with the ramp down of activity in the Dundee factory prior to its closure in 2020. Taxes, transport and distribution costs remain an increasing part of the overall cost of the UK's manufacturing energy. In 2020, our main challenge will be the global covid-19 crisis, which could have a major impact on our energy costs.

#### 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.

#### vi) Brexit

The UK officially exited the European Union as of 31 January 2020 but remains subject to the main EU rules and regulations until the end of the calendar year. The future provisions have yet to be agreed upon, and all options remain open, including the UK fully withdrawing from the European Union after the implementation period without an agreement having been reached. This would broadly equate to the scenario of a No Deal Brexit which had been envisaged ahead of the previous deadline dates of 29 March 2019 and 31 October 2019. 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. 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.

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.

# Michelin Tyre Public Limited Company

## Strategic report for the year ended 31 December 2019 (continued)

### Section 172 (1) statement

The directors recognise their responsibility to act in a way that promotes the success of the company for the benefit of its members. In doing so, they also take into account the long-term consequences of their decisions and the impact of these decisions on employees, customers, suppliers, the environment and the communities in which the company operates. For more than a century Michelin has pushed innovation forward to create the future of mobility, meet its customers and stakeholders' expectations while enabling the group's employees to develop to their full potential. Michelin cares about giving people a better way forward, which feeds both the group's strategy and its human and social models. All the company directors adhere to the Michelin core values of respect for shareholders, respect for customers, respect for the facts, respect for the environment and respect for people. In addition, the directors consult the ultimate parent company, Compagnie Générale des Etablissements Michelin, before any significant strategic decisions are made.

The difficult decision to close the factory in Dundee can be seen as an example of this (see page 5). Although the closure of the site could not be avoided, the directors were aware of the significant impact that the decision would have on the company's employees and the wider community in Dundee and as a result implemented a personalised support programme for employees including enhanced redundancy packages, intensive support to find a new job, relocation assistance and tailor-made programmes including skills training. In addition, a scheme has been set up under Michelin Development to support SMEs in the Dundee and Angus area to grow and create new jobs (see page 6) and the company entered into a joint venture in 2019 with Scottish Enterprise and Dundee City Council (see page 5) to turn the Dundee site into an innovation park focused on sustainable mobility and low carbon energy and has committed to provide £20 million of cash funding to this joint venture.

### Post balance sheet events

The appearance of the Coronavirus COVID-19 in China in December 2019 and its recent global expansion in many countries in the first months of 2020, led to classification of the viral epidemic as a pandemic by the World Health Organization since March 2020. The consequences on the company's operations are uncertain and will depend largely on the development and the spread of the pandemic in the coming months, as well as on the capacity of everyone affected to react and adapt.

The company is taking all the measures required to safeguard the health of its employees. Home working has been introduced where possible for employees and special health and safety procedures have been implemented at Stoke factory and in the company's logistics warehouses. Dundee factory was closed on 23 March and on 27 March a decision was made that the factory would not be re-opened. The factory was due to close permanently at the end of June and it was decided that implementing the safety measure required to resume production was not viable.

No adjustments have been made in these financial statements as a result of Covid-19, as it is considered a non-adjusting event.



# Michelin Tyre Public Limited Company

## Strategic report for the year ended 31 December 2019 (continued)

### Post balance sheet events (continued)

This pandemic will have a negative impact in 2020, although it is not possible to anticipate or quantify its impact, nor to assess whether this situation will continue and to what extent in the future. The spread of the Coronavirus is being continually monitored and the company is taking all the actions required to minimize as much as possible the negative impacts of this pandemic on its operations and its financial statements as well as to safeguard the health of its employees. As referred to on page 10, the company's liquidity risk is managed by the group. The group continues to manage the liquidity risk and has the sources of financing in place to deal with the uncertainty surrounding this crisis.

Approved by the Board and signed on its behalf by



C Smith

Director

16 September 2020

Registered number 84559

# Michelin Tyre Public Limited Company

## Directors' report for the year ended 31 December 2019

The directors have pleasure in presenting their annual report and the audited financial statements of the company for the year ended 31 December 2019.

### **Business review, principal activities and results**

See strategic report on page 4.

### **Dividends**

The directors are unable to recommend the payment of a dividend (2018: £nil). The loss for the financial year of £21.4 million (2018: £202.9 million) is transferred to reserves.

On 18 March 2019 the share capital of the company was increased. The company issued 600,000 ordinary shares of £10 each for a cash consideration of £300 million (see note 24).

### **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**

Both the replacement and original equipment market will continue to be challenging in 2020. It is anticipated that our exports will fall again in 2020 due to the closure of the Dundee factory (see page 5).

### **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 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 existing £125 million 3 year credit facility and the £75 million 5 year loan with its immediate parent company Compagnie Financière Michelin SCmA (signed in June 2018). The company will also rely on the continued financial support of Compagnie Financière Michelin SCmA, who guarantee the pension recovery plan payments and the support of Compagnie Générale des Etablissements Michelin, its ultimate parent company. The company has used a range to forecasts in arriving at this conclusion as a result of the uncertainties surrounding Covid-19 (see page 8).

### **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.

# Michelin Tyre Public Limited Company

## Directors' report for the year ended 31 December 2019 (continued)

### Financial risk management (continued)

#### 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 6.

### 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 (resigned 30 September 2019)
G Alderman (resigned 31 July 2019)	J Reid (resigned 1 November 2019)
C Smith	J John (resigned 15 April 2019)
J John (resigned 15 April 2019)	C Beau (appointed 15 April 2019)
F Levert (appointed 1 November 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.

### Stakeholder engagement - employees

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 including works councils, trade unions and working groups. Key areas influencing the company's results are presented to employees at monthly team meetings and at regular Town Hall events 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.

### Stakeholder engagement – other stakeholders

See section 172 (1) statement in the strategic report on page 8.

### Post balance sheet events

See strategic report on page 8.

### 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:

# Michelin Tyre Public Limited Company

## Directors' report for the year ended 31 December 2019 (continued)

### Statement of directors' responsibilities (continued)

- 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.

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 company has decided to change its auditors, therefore PricewaterhouseCoopers LLP will not be seeking re-appointment at the end of their term of office. Deloitte LLP have indicated their willingness to act as the company's auditors and a resolution for their appointment will be proposed at the Annual General Meeting.

Approved by the Board and signed on its behalf by



C Smith  
Director

16 September 2020  
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 2019 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 2019; 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

#### 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 Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

# Michelin Tyre Public Limited Company

## 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 2019 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, 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](http://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  
16 September 2020

# Michelin Tyre Public Limited Company

## Profit and loss account for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	5	576,655	650,206
Cost of sales		(498,999)	(722,615)
<b>Gross profit / (loss)</b>		<b>77,656</b>	<b>(72,409)</b>
Distribution costs		(51,690)	(55,272)
Administrative expenses		(31,117)	(35,859)
<b>Operating loss</b>	6	<b>(5,151)</b>	<b>(163,540)</b>
<b>Analysed as</b>			
<b>Operating profit / (loss) before exceptional items</b>		<b>1,992</b>	<b>(23,313)</b>
Restructuring costs	23	(7,143)	(140,227)
<b>Operating loss</b>		<b>(5,151)</b>	<b>(163,540)</b>
Interest receivable and similar income	7	168	178
Amounts written off investments	15	(12,188)	(18,102)
Interest payable and similar expenses	8	(7,795)	(7,737)
<b>Loss before taxation</b>		<b>(24,966)</b>	<b>(189,201)</b>
Tax on loss	12	3,597	(13,651)
<b>Loss for the financial year</b>		<b>(21,369)</b>	<b>(202,852)</b>

The above results for the years derive from continuing activities. There is no difference between the loss for the year stated above and their historical cost equivalents. The notes on pages 18 to 45 form part of these financial statements.

## Statement of comprehensive income for the year ended 31 December 2019

	2019 £'000	2018 £'000
<b>Loss for the financial year</b>	<b>(21,369)</b>	<b>(202,852)</b>
<b>Other comprehensive (expense) / income: items that will not be reclassified to profit or loss</b>		
Opening balance adjustment in relation to IFRS9	-	(38)
Actuarial (loss) / gain on post-employment benefits (note 11)	(31,483)	65,741
Deferred tax on actuarial (loss) / gain on post-employment benefits (note 25)	5,352	(11,176)
Write-off of deferred tax asset on post-employment benefits (note 25)	(37,865)	(22,265)
<b>Other comprehensive (expense) / income for the year, net of tax</b>	<b>(63,996)</b>	<b>32,262</b>
<b>Total comprehensive expense for the year</b>	<b>(85,365)</b>	<b>(170,590)</b>

# Michelin Tyre Public Limited Company

## Balance sheet as at 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Intangible assets	13	6	570
Tangible assets	14	67,527	65,308
Investments	15	13,447	1,011
Pension asset	11	68,423	-
<b>Total fixed assets</b>		<b>149,403</b>	<b>66,889</b>
<b>Current assets</b>			
Stocks	16	47,152	52,853
Debtors: amounts falling due within one year	17	168,330	180,672
Debtors: amounts falling due after more than one year	18	-	21,297
Cash at bank and in hand		5	638
		<b>215,487</b>	<b>255,460</b>
<b>Creditors: amounts falling due within one year</b>	19	<b>(198,590)</b>	<b>(355,113)</b>
<b>Net current assets / (liabilities)</b>		<b>16,897</b>	<b>(99,653)</b>
<b>Total assets less current liabilities</b>		<b>166,300</b>	<b>(32,764)</b>
<b>Creditors: amounts falling due after more than one year</b>	20	<b>(89,243)</b>	<b>(77,804)</b>
<b>Provisions for liabilities</b>	23	<b>(87,790)</b>	<b>(107,870)</b>
<b>Net liabilities excluding pension and medical scheme deficit</b>		<b>(10,733)</b>	<b>(218,438)</b>
Pension and medical scheme deficit	11	(174)	(7,104)
<b>Net liabilities</b>		<b>(10,907)</b>	<b>(225,542)</b>
<b>Capital and reserves</b>			
Called up share capital	24	57,424	51,424
Share premium account		569,576	275,576
Capital redemption reserve		75,000	75,000
Profit and loss account		(712,907)	(627,542)
<b>Total shareholders' deficit</b>		<b>(10,907)</b>	<b>(225,542)</b>

The notes on pages 18 to 45 are an integral part of these financial statements.

The financial statements on pages 15 to 45 were approved by the board of directors on 16 September 2020 and were signed on its behalf by:



Director:

C Smith

Registered number 84559



# Michelin Tyre Public Limited Company

## Statement of changes in equity for the year ended 31 December 2019

	Called up share capital £'000	Share premium account £'000	Capital redemptio n reserve £'000	Profit and loss account £'000	Total shareholders' deficit £'000
<b>At 1 January 2018</b>	<b>51,424</b>	<b>275,576</b>	<b>75,000</b>	<b>(456,952)</b>	<b>(54,952)</b>
Loss for the financial year	-	-	-	(202,852)	(202,852)
<b>Other comprehensive (expense) / income for the year:</b>					
Opening balance adjustment in relation to IFRS9	-	-	-	(38)	(38)
Actuarial gain on post-employment benefits (note 11)	-	-	-	65,741	65,741
Deferred tax on actuarial gain on post-employment benefits (note 25)	-	-	-	(11,176)	(11,176)
Partial write off of deferred tax asset on post-employment benefits (note 25)	-	-	-	(22,265)	(22,265)
Total comprehensive (expense) for the year	-	-	-	(170,590)	(170,590)
<b>At 31 December 2018</b>	<b>51,424</b>	<b>275,576</b>	<b>75,000</b>	<b>(627,542)</b>	<b>(225,542)</b>
<b>At 1 January 2019</b>	<b>51,424</b>	<b>275,576</b>	<b>75,000</b>	<b>(627,542)</b>	<b>(225,542)</b>
Loss for the financial year	-	-	-	(21,369)	(21,369)
<b>Other comprehensive income / (expense) for the year:</b>					
Actuarial loss on post-employment benefits (note 11)	-	-	-	(31,483)	(31,483)
Deferred tax on actuarial loss on post-employment benefits (note 25)	-	-	-	5,352	5,352
Write-off of deferred tax asset on post-employment benefits (note 25)	-	-	-	(37,865)	(37,865)
Total comprehensive (expense) for the year	-	-	-	(85,365)	(85,365)
<b>Total transactions with owners, recognised directly in equity:</b>					
Issue of share capital (see note 24)	6,000	294,000	-	-	300,000
<b>At 31 December 2019</b>	<b>57,424</b>	<b>569,576</b>	<b>75,000</b>	<b>(712,907)</b>	<b>(10,907)</b>

# 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.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 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 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 existing £125 million 3 year credit facility and the £75 million 5 year loan with its immediate parent company Compagnie Financière Michelin SCmA (signed in June 2018). The company will also rely on the continued financial support of Compagnie Financière Michelin SCmA, who guarantee the pension recovery plan payments and the support of Compagnie Générale des Etablissements Michelin, its ultimate parent company. The company has used a range of forecasts in arriving at this conclusion as a result of the uncertainties surrounding Covid-19 (see page 8).

### 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 16 'Leases' (effective for annual periods beginning on or after 1 January 2019);
- Amendment to IFRS 9, 'Financial instruments', on prepayment features with negative compensation (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28, 'Investments in associates' on long term interests in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendment to IAS 19, 'Employee benefits' plan amendment, curtailment or settlement (effective for annual periods beginning on or after 1 January 2019);
- Annual improvements 2015 – 2017 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23, 'Uncertainty over income tax' (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 'Leases', published in January 2016, endorsed by the European Union in November 2017, has been applied by the company as from 1 January 2019. This new standard 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. The accounting policies applied to account for leases are set out in note 2.18.

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.

The company has implemented the standard from its mandatory adoption date of 1 January 2019 without restatement of the 2018 comparatives, as permitted by the simplified retrospective method. In addition, the company has applied the practical simplifications provided for short-term leases, including contracts with less than twelve months after the application date and those relating to low value assets (mainly computers and printers).

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 2.1.2 New standards, amendments and IFRIC interpretations (continued)

The reconciliation between operating lease commitments disclosed at 31 December 2018 and the lease liability recognised 1 January 2019 are shown below:

	£'000
Operating lease commitments disclosed at 31 December 2018	21,921
Less lease commitments on short-term leases	(756)
Less lease commitments on low value assets	(56)
Discounting adjustment	(5,040)
Lease liability at 1 January 2019	16,069
Of which:	
Short term lease liabilities	2,198
Long term lease liabilities	13,871

The adjustments booked for each line in the balance sheet on the adoption of IFRS 16 are shown below. The lines that have not been impacted by the adoption of the standard are not shown.

	31 December 2018 £'000	Adoption of IFRS 16 £'000	1 January 2019 restated £'000
Tangible fixed assets	65,308	16,167	81,475
Prepayments and accrued income	426	(98)	328
Other creditors falling due within one year	5,100	2,198	7,298
Other creditors falling due after one year	-	13,871	13,871

The adoption of IFRS 16 had no impact on the opening reserves as at 1 January 2019.

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 2019 with an effective date beginning on or after 1 January 2020 and have been endorsed by the European Union. They have not been adopted early by the company:

- Amendments to IFRS 9, IAS39 and IFRS 7 – Interest rate benchmark reform

The company does not expect the application of the above on 1 January 2020 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.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 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 2019. 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.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 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.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 2.13 Provisions (continued)

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.

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.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 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 asset or 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.



# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 2.18 Leases and right of use assets

A contract is or contains a lease if it conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or a series of payments. Lease liabilities correspond to the present value of future lease payments, excluding variable lease payments that do not depend on an index or a rate. For contracts that include a lease component and a non-lease component (such as services), only the lease component is taken into account in calculating the present value. The interest rate implicit in the lease is used as the discount rate if it can be readily determined. If the implicit rate cannot be readily determined, the company uses its incremental borrowing rate reflecting its specific credit risk, the currency of the lease and the weighted average maturity of the outstanding lease liability. After initial recognition, the carrying value of the lease liability is increased to reflect interest on the lease and reduced to reflect the lease payments made.

Right of use assets corresponding to leased property, plant and machinery and vehicles are initially measured at cost, corresponding to the sum of the present value of the outstanding lease payments at the commencement date. The right of use asset is depreciated over the shorter of the lease term and the useful life of the leased asset.

Leases with a term not exceeding 12 months or concerning low value assets (mainly computers and printers) are not recognised in the balance sheet. The payments relating to these leases are expensed on a straight-line basis over the duration of the contracts. Variable lease payments are expensed in the period in which the triggering event or situation occurs.

### 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.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 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.

#### 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 23 for disclosures on the restructuring provision.

#### 3.3 Recognition of deferred tax asset

The company has derecognised its deferred tax asset on the basis that the directors no longer consider the likelihood of deriving future economic benefit from the asset to be reasonably certain. In reaching this conclusion, the company has forecast future taxable profits. These forecasts are based on management's best estimates of future profitability and anticipated payments into the pension scheme based on the latest recovery plan.

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:

	2019	2018
	£'000	£'000
Derivative financial assets	173	1,160
Derivative financial liabilities	(658)	(104)
<b>Derivative financial instruments</b>	<b>(485)</b>	<b>1,056</b>

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 4 Financial instruments (continued)

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 2019, the outstanding contracts all mature within 3 months (2018: 3 months) of the year end. The company is committed to sell EUR 1.4 million, USD 0.8 million and AUD 0.2 million and receive a fixed sterling amount and to buy EUR 71.3 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.

### 5 Turnover

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

	2019	2018
	£'000	£'000
<b>Geographical markets</b>		
United Kingdom and Republic of Ireland	434,151	457,251
Rest of Europe	137,479	188,240
Rest of World	5,025	4,715
	<b>576,655</b>	<b>650,206</b>

Turnover to other group companies is £219.7 million (2018: £284 million).

### 6 Operating loss

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

	2019	2018
	£'000	£'000
Depreciation of tangible fixed assets – see note 14	15,037	5,380
Impairment of tangible fixed assets – see note 14	-	49,268
Amortisation of intangible fixed assets – see note 13	564	563
Services provided by the company's auditors		
- fees payable for the audit	96	80
- fees payable for other services	-	48
Profit on sale of tangible fixed assets	(1,572)	(452)
Impairment of fixed asset investments – see note 15	12,188	18,102
Exchange losses	128	153
Government grants amortisation – see note 21	(834)	(3,620)
Stock recognised as an expense	492,784	502,965
Impairment of stock – see note 16	(3,710)	4,462
Restructuring provisions – see note 23	6,679	99,069
Impairment of trade debtors	(95)	216
Bad debts written off	89	1,287
Lease payments for short term leases and low value assets	717	-

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 7 Interest receivable and similar income

	2019	2018
	£'000	£'000
Interest on current accounts with group undertakings	168	178

### 8 Interest payable and similar expenses

	2019	2018
	£'000	£'000
Bank loans and overdrafts	4	3
Interest on current accounts with group undertakings	3,231	3,159
Net cost of post-employment benefits (see note 11)	2,408	3,397
Finance lease interest	920	-
Other	1,232	1,178
	7,795	7,737

### 9 Directors' emoluments

The directors received £456,413 (2018: £572,190) in respect of their qualifying services to the company. Benefits are accruing to 3 directors (2018: 4) under defined benefit schemes and to 5 directors (2018: 6) under defined contribution schemes. The aggregate value of company contributions paid to the defined contribution pension scheme during the year was £81,119 (2018: £134,191). No directors (2018: 2 directors) received shares in Compagnie Générale des Etablissements Michelin, the ultimate parent company, during the year.

No directors (2018: no directors) exercised share options during the year with Compagnie Générale des Etablissements Michelin, the ultimate parent company.

Highest paid director	2019	2018
	£'000	£'000
Total emoluments	136	156
Company contribution to defined contribution pension scheme	20	43
	156	199

One director received £163,474 compensation for loss of office in 2019 (2018: one director received £354,327).

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 10 Particulars of employee costs

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

	2019	2018
	Number	Number
By activity:		
- Production, selling and distribution	1,230	1,674
- Administration	61	60
	<b>1,291</b>	<b>1,734</b>
	2019	2018
	£'000	£'000
Their total remuneration was:		
- Wages and salaries	57,444	67,140
- Social security costs	6,169	7,273
- Other pension costs	5,783	7,467
	<b>69,396</b>	<b>81,880</b>

Other pension costs relate to life insurance and income protection premiums of £0.9 million (2018: £1.2 million) and company contributions in relation to the defined contribution scheme of £4.9 million (2018: £6.2 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.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 11 Post-employment benefits (continued)

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.

#### 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 24% return seeking assets and 76% liability matching assets (bonds and property).
- 95% of interest rate and inflation risk is 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 2019 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:	2019	2018
Discount rate	2.05%	2.90%
Rate of compensation increase	2.90%	2.50%
Rate of increase of pensions in payment	2.80%	3.00%
Rate of increase of pensions in deferment	1.90%	2.15%
Rate of inflation	2.90%	3.15%

# 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:	2019	2019	2018	2018
	Male	Female	Male	Female
Member age 65 (current life expectancy)	21.1	24.0	21.1	24.0
Member age 45 (life expectancy at age 65)	22.6	25.8	22.8	25.9

Reconciliation of scheme assets and liabilities	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 January 2019	1,564,144	(1,570,546)	(6,402)
Interest cost (see note 8)	41,372	(43,775)	(2,403)
Administrative expenses	-	(3,065)	(3,065)
Actuarial gains / (losses)	155,127	(187,101)	(31,974)
Employer contributions	112,267	-	112,267
Benefits paid	(93,359)	93,359	-
At 31 December 2019	1,779,551	(1,711,128)	68,423

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, 27% to former employees and 59% 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	-7.8%	8.9%
Compensation increase rate	0.3%	-0.3%
Inflation rate	4.0%	-3.5%

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 asset or 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 recognised as an expense:	2019	2018
	£'000	£'000
Administrative expenses	3,065	2,709
Past service cost	-	14,667
Net interest cost (see note 8)	2,403	3,377
	<b>5,468</b>	<b>20,753</b>

The past service cost in 2018 of £14.7 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 (see page 4) and a prior service pension curtailment credit of £4.4 million in respect of the Dundee factory closure (see note 23).

The fair value of the plan assets was:	2019	2018
	£'000	£'000
Equities	52,349	32,117
Bonds	1,511,591	1,104,572
Property	89,923	124,613
Cash / Alternatives	125,688	302,842
	<b>1,779,551</b>	<b>1,564,144</b>

The return on plan assets was:

	2019	2018
	£'000	£'000
Interest income	41,372	39,217
Re-measurements	155,127	(41,529)
	<b>196,499</b>	<b>(2,312)</b>

The accounting valuation at 31 December 2019 showed a net asset of £68.4 million compared to a deficit of £6.4 million in the previous year. Company contributions were £112.3 million, which represented lump sum contributions in relation to the PPF levy of £1.8 million, scheme expenses of £1.2 million and £109.3 million for the company's share of the special mitigation payment of £146.3 million following the announcement to close the Dundee factory (see page 5). The recovery plan payment due in 2019 was paid over early in 2018. 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. The company has recognised the net asset in relation to the pension scheme on the basis that it has an unconditional right to a refund.

A deferred tax liability of £11.6 million (2018: asset of £1.1 million) has been recognised in relation to the pension and medical scheme.



# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 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:	2019	2018
Discount rate	2.0%	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:	2019	2019	2018	2018
	Male	Female	Male	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 2019	-	(702)	(702)
Actuarial gains	-	491	491
Benefits paid	-	42	42
Interest cost (see note 8)	-	(5)	(5)
At 31 December 2019	-	(174)	(174)

Total cost recognised as an expense:

	2019	2018
	£'000	£'000
Net interest cost (see note 8)	5	20

#### Defined contribution schemes

During the year the company paid contributions amounting to £5.1 million (2018: £6.2 million) in relation to defined contribution schemes. At the end of the year, there was an accrual outstanding of £0.9 million (2018: £1.1 million) in relation to such schemes. The company also incurred life insurance and income protection premiums of £0.9 million (2018: £1.2 million) under the scheme.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 12 Tax on loss

<b>Tax (income) / expense included in profit or loss</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
UK corporation tax on loss of the year	(3,597)	(175)
Total current tax credit	(3,597)	(175)
<b>Deferred tax</b>		
Origination and reversal of timing differences	-	(30,901)
Adjustment in respect of prior period	-	(1,299)
Partial write-off of deferred tax asset	-	46,026
Total deferred tax (see note 25)	-	13,826
Tax on loss	(3,597)	13,651

<b>Tax expense included in other comprehensive income or expense</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(5,352)	11,176
Write off of deferred tax asset	37,865	22,265
Total tax expense included in other comprehensive income or expense	32,513	33,441

The tax assessed for the year is lower (2018: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2019 of 19.00% (2018: 19.00%). The differences are explained below:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Loss before taxation</b>	<b>(24,966)</b>	<b>(189,201)</b>
Loss multiplied by the standard rate of tax in the UK of 19.00% (2018: 19.00%)	(4,744)	(35,948)
Expenditure not deductible for tax purposes	2,297	2,151
Difference between standard tax rate of 19.00% (2018: 19.00%) and rate used for deferred tax	258	3,557
Adjustment in respect of prior period	3,175	(1,299)
Partial write-off of deferred tax asset	-	45,365
Increase in timing differences not recognised	(986)	-
Group relief	(3,597)	(175)
<b>Total tax (credit) / charge for the year</b>	<b>(3,597)</b>	<b>13,651</b>

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 12 Tax on loss (continued)

Following a review of forecast future taxable profits, the company has derecognised the deferred tax asset booked at 31 December 2018 on the basis that the directors no longer consider the likelihood of deriving future economic benefit from the asset to be reasonably certain. At the same time a deferred tax liability of £11.2 million has been recognised, of which £11.6m is in relation to the pension and medical scheme, less other timing differences.

#### Factors affecting current and future tax charge

The standard rate of corporation tax in the UK has been 19% with effect from 1 April 2017. Accordingly, the company's results for this accounting period are taxed at 19%.

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

In the Chancellor's Budget on 11 March 2020 it was confirmed that the rate of corporation tax will remain at 19% from 1 April 2020. This measure (cancelling the enacted cut to 17%) will be made under a Budget resolution which has statutory effect under the provisions of the Provisional Collection of Taxes Act 1968. As such, it is substantively enacted on the passing of the resolution. The rate will also stay at 19% for the following year. As this change was not substantively enacted at the balance sheet date, its effect is not included in these financial statements. However, if it were to be included the impact would be to increase the recognised deferred tax liability by £1.3 million and to increase the unrecognised deferred tax asset of £12.3 million.

### 13 Intangible assets

Cost	Software £'000	Software in progress £'000	Total £'000
As at 1 January 2019	4,820	10	4,830
Transfers from assets in the course of construction	10	(10)	-
<b>As at 31 December 2019</b>	<b>4,830</b>	<b>-</b>	<b>4,830</b>
<b>Accumulated amortisation</b>			
As at 1 January 2019	4,260	-	4,260
Amortisation charge	564	-	564
<b>As at 31 December 2019</b>	<b>4,824</b>	<b>-</b>	<b>4,824</b>
<b>Net book value</b>			
<b>At 31 December 2019</b>	<b>6</b>	<b>-</b>	<b>6</b>
At 31 December 2018	560	10	570

The amortisation charge is included within administrative expenses.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 14 Tangible assets

	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 2019	51,856	288,642	31,498	12,394	384,390
Opening adjustment re IFRS 16	13,089	3,002	76	-	16,167
Additions	124	203	261	1,128	1,716
Transfers from assets in the course of construction	1,849	8,544	114	(10,507)	-
Disposals	(196)	(120,038)	(14,041)	(102)	(134,377)
<b>Cost at 31 December 2019</b>	<b>66,722</b>	<b>180,353</b>	<b>17,908</b>	<b>2,913</b>	<b>267,896</b>
Accumulated depreciation at 1 January 2019	33,047	249,148	27,845	9,042	319,082
Charge for the year	5,495	8,580	962	-	15,037
Transfers from assets in the course of construction	-	7,507	-	(7,507)	-
Disposals	(26)	(119,671)	(14,053)	-	(133,750)
<b>Accumulated depreciation at 31 December 2019</b>	<b>38,516</b>	<b>145,564</b>	<b>14,754</b>	<b>1,535</b>	<b>200,369</b>
<b>Net book value</b>					
<b>At 31 December 2019</b>	<b>28,206</b>	<b>34,789</b>	<b>3,154</b>	<b>1,378</b>	<b>67,527</b>
At 31 December 2018	18,809	39,494	3,653	3,352	65,308

Included within freehold land and buildings is £0.2 million (2018: £0.2 million) which represents land not depreciated.

Included in assets in the course of construction is £0.3 million (2018: £1.2 million) in relating to Dundee, which are assets (mainly moulds) that can be transferred to other group companies. The remaining £1.1 million (2018: £2.2 million) relates to projects for Stoke factory and Logistics.

Following the announcement relating to the closure of the Dundee factory (see page 5) an impairment provision of £49.3 million was booked in 2018 to write down the value of the Dundee assets to the future anticipated profits that could be generated between then and the closure of the factory. The remaining net book value of the Dundee assets is being depreciated over the remaining life of the factory. The impairment charge was included in exceptional items in 2018 (note 23).

Sale proceeds received on the disposal of assets were £2.2 million (2018: £7.5 million), of which £0.3 million relates to the sale of company houses and the majority of the rest relates to the sale of assets to other group companies as a result of the closure of the sites.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 14 Tangible assets (continued)

Following the implementation of IFRS 16, an adjustment was made during the year to recognise assets now classified as right of use assets. The company adopted the simplified transition approach and consequently did not restate comparative amounts (see note 2.1.2). The net carrying value of right of use assets at 31 December 2019 and the movements during the year included in the table on page 35 are as follows:

Cost	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and vehicles £'000	Total £'000
Opening adjustment re IFRS 16	13,089	3,002	76	16,167
Additions	124	203	261	588
Disposals	-	(5)	-	(5)
<b>Cost at 31 December 2019</b>	<b>13,213</b>	<b>3,200</b>	<b>337</b>	<b>16,750</b>
<b>Accumulated depreciation</b>				
Charge for the year	1,420	975	103	2,498
Disposals	-	(5)	-	(5)
<b>Accumulated depreciation at 31 December 2019</b>	<b>1,420</b>	<b>970</b>	<b>103</b>	<b>2,493</b>
<b>Net book value at 31 December 2019</b>	<b>11,793</b>	<b>2,230</b>	<b>234</b>	<b>14,257</b>

### 15 Investments

	Shares in subsidiary undertakings £'000	Shares in other group undertakings £'000	Total £'000
Cost at 1 January 2019	202	69,213	69,415
Additions	-	24,624	24,624
<b>Cost at 31 December 2019</b>	<b>202</b>	<b>93,837</b>	<b>94,039</b>
Provision at 1 January 2019	202	68,202	68,404
Impairment provision	-	12,188	12,188
<b>Provision at 31 December 2019</b>	<b>202</b>	<b>80,390</b>	<b>80,592</b>
<b>Net book value</b>			
<b>At 31 December 2019</b>	<b>-</b>	<b>13,447</b>	<b>13,447</b>
At 31 December 2018	-	1,011	1,011

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 15 Investments (continued)

The subsidiary undertakings as at 31 December 2019 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

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 the company's investment in Euromaster Services and Management SAS was increased by £24.6 million (2018: £nil). In addition, an impairment provision of £12.2 million (2018: £18.1 million) was booked to write the investment down to the company's share of the consolidated net assets.

The company received no dividends during the year.

During the year the company entered into a joint venture with Scottish Enterprise and Dundee City Council. The joint venture, Michelin Scotland Innovation Parc Limited, is incorporated in Scotland and its registered address is 15 Atholl Crescent, Edinburgh, EH3 8AH. Its issued share capital is 1 ordinary share of £1 and the company holds 33.3% of the share capital.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 16 Stocks

	2019	2018
	£'000	£'000
Raw materials and consumables	1,183	2,255
Work in progress	995	2,520
Finished goods and goods for resale (includes £20.1 million (2018: £18.3 million) of mileage contract assets)	44,974	48,078
	<b>47,152</b>	<b>52,853</b>

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 £4.4 million (2018: £8.1 million), which includes £nil (2018: £nil) for net realisable value provisions. £3.7 million was credited to the profit and loss account in the year in relation to stock provisions (see note 6). Provisions against consumable stocks were reduced by £3.3 million, which mainly related to the release of provisions when the consumable stocks were written off. Provisions for obsolescence of finished products were reduced by £0.4 million as they were no longer required.

The amount of stock recognised as an expense is £492.8 million (2018: £503.0 million).

### 17 Debtors: amounts falling due within one year

	2019	2018
	£'000	£'000
Trade debtors	92,304	91,549
Amounts owed by group undertakings	70,827	82,990
Other debtors	4,389	5,707
Prepayments and accrued income	810	426
	<b>168,330</b>	<b>180,672</b>

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

Trade debtors are stated after provisions for impairment of £0.2 million (2018: £0.3 million). Under IFRS9, effective from 1 January 2018, the company elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

### 18 Debtors: amounts falling due after more than one year

	2019	2018
	£'000	£'000
Deferred tax (see note 25)	-	21,297

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 19 Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Bank loans and overdrafts	799	1,059
Trade creditors	36,532	42,345
Amounts owed to group undertakings	134,048	283,005
Taxation and social security	11,736	14,134
Other creditors	4,435	5,100
Finance lease creditor (see note 22)	2,275	-
Accruals and deferred income (includes £0.6 million (2018: £0.8 million) of deferred government grants – see note 21)	8,765	9,470
	<b>198,590</b>	<b>355,113</b>

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

Amounts owed to group undertakings are analysed as follows:

	2019	2018
	£'000	£'000
Current accounts (unsecured and repayable on demand)	18,082	42,567
Trading accounts (unsecured and repayable on demand)	98,888	116,821
Drawn down from £125 million facility ( term 3 years and unsecured)	17,078	123,617
	<b>134,048</b>	<b>283,005</b>

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.

The 3 year multi-currency credit facility for £125 million with the group expires in July 2021. The funds are drawn down for short periods of usually one-month duration. The amount of £17.1 million drawn down at the year-end is repayable in January 2020. 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

	2019	2018
	£'000	£'000
Accruals and deferred income (government grants – see note 21)	2,225	2,804
Finance lease creditor (see note 22)	12,018	-
Loan (term 5 years and unsecured)	75,000	75,000
	<b>89,243</b>	<b>77,804</b>

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



# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 21 Deferred income

	2019	2018
	£'000	£'000
Deferred income due within one year (see note 19)	579	834
Deferred income due after more than one year (see note 20)	2,225	2,804
<b>Deferred government grants</b>	<b>2,804</b>	<b>3,638</b>
The movement on deferred grant in the year was as follows: -		
- credited to profit and loss account	(834)	(3,620)
- transferred to restructuring	-	(5,893)
- new grants	-	1,500
	<b>(834)</b>	<b>(8,013)</b>

Grants totalling £5.9 million relating to Dundee factory were transferred to the restructuring provision in 2018 (see note 23). There remain grants of £3.9 million (2018: £3.9 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 Finance leases

Following the implementation of IFRS 16, leases which were previously treated as operating leases are now classified as finance leases. The company adopted the simplified transition approach and consequently did not restate comparative amounts (see note 2.1.2).

The future minimum finance lease payments are as follows:

	2019
	£'000
Not later than one year (see note 19)	3,119
Later than one year and not later than five years (see note 20)	9,576
Later than five years (see note 20)	6,053
Total gross payments	18,748
Impact of finance charges	(4,455)
Carrying value of liability	14,293

The finance leases primarily relate to property leases and fork lift trucks. The remaining lease terms are between 1 and 12 years for the property leases and between 1 and 5 years for the fork lift trucks.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 23 Provisions for liabilities

	Restructuring costs £'000	Dilapidation provision £'000	Deferred taxation (note 25) £'000	Other provisions £'000	Total £'000
At 1 January 2019	103,015	1,599	-	3,256	107,870
Utilised in the year	(38,411)	-	-	(423)	(38,834)
Charged in the year	6,679	158	11,216	701	18,754
<b>At 31 December 2019</b>	<b>71,283</b>	<b>1,757</b>	<b>11,216</b>	<b>3,534</b>	<b>87,790</b>

The restructuring provisions can be analysed as follows:

	Ballymena £'000	Dundee £'000	Other £'000	Total £'000
At 1 January 2019	6,846	94,975	1,194	103,015
Utilised in the year	(1,326)	(36,288)	(797)	(38,411)
Charged in the year	17	6,662	-	6,679
<b>At 31 December 2019</b>	<b>5,537</b>	<b>65,349</b>	<b>397</b>	<b>71,283</b>

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 relates to 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 7 years.

The Dundee restructuring provision includes social costs, site dismantling, contractual commitments and revitalisation costs. The increase in the year relates to the recognition of the company's commitment regarding Michelin Scotland Innovation Parc Limited (see page 5), the unwinding of the discounting of the provision less the release of provisions for social costs, site dismantling and contractual costs that are no longer required. The expected period of utilisation is 1 year for social and dismantling costs and 8 years for revitalisation. The commitment to Michelin Scotland Innovation Parc Limited will be over a longer period but has still to be determined. In addition to the provision above, there is an impairment provision of £49.3 million against fixed assets and £2.6 million has been booked against stock (an increase of £0.5 million compared to last year). Therefore, the total cost booked through the profit and loss account relating to the restructuring and shown within exceptional items is as follows:

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 23 Provisions for liabilities (continued)

	2019	2018
	£'000	£'000
Increase of provision for social and dismantling costs for Ballymena	-	495
Unwinding of discounting for Ballymena	17	713
Unwinding of discounting for Dundee	940	-
Provision for Michelin Scotland Innovation Parc Limited (see page 5)	20,000	-
(Release of provision) / provision for social and dismantling costs for Dundee	(14,278)	97,629
Discounting of Dundee provision	-	(1,646)
Impairment of Dundee assets (see note 14)	-	49,268
Impairment of Dundee consumables stock	464	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
<b>Total exceptional items relating to restructuring</b>	<b>7,143</b>	<b>140,227</b>

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 14 years.

### 24 Called up share capital

	2019	2018
	£'000	£'000
<b>Authorised</b>		
12,700,000 (2018: 12,700,000) ordinary shares of £10 each	<b>127,000</b>	127,000
<b>Allotted and fully paid</b>		
5,742,400 (2018: 5,142,400) ordinary shares of £10 each	<b>57,424</b>	51,424

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

On 18 March 2019 the share capital of the company was increased. The company issued 600,000 ordinary shares of £10 each for a cash consideration of £300 million. The allotted share capital was increased by £6 million and £294 million was booked to the share premium account.

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 25 Deferred taxation

Deferred tax (liability) / asset:	2019		2018	
	£'000	£'000	£'000	£'000
	Recognised	Unrecognised	Recognised	Unrecognised
Unrelieved tax losses	-	79,068	13,023	42,060
Accelerated capital allowances	-	12,938	-	10,820
Deferred tax relating to pension and medical scheme	(11,216)	3,533	8,274	-
Other timing differences	-	6,000	-	11,780
Surplus ACT	-	3,134	-	3,134
<b>Total deferred tax (liability) / asset</b>	<b>(11,216)</b>	<b>104,673</b>	<b>21,297</b>	<b>67,794</b>

Analysis of movements in provided deferred tax:

	Unrelieved tax losses	Accelerated capital allowances	Relating to pension and medical scheme	Other timing differences	Surplus ACT	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 January 2018</b>	<b>19,004</b>	<b>529</b>	<b>39,427</b>	<b>6,470</b>	<b>3,134</b>	<b>68,564</b>
(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)
<b>At 31 December 2018</b>	<b>13,023</b>	<b>-</b>	<b>8,274</b>	<b>-</b>	<b>-</b>	<b>21,297</b>
<b>At 1 January 2019</b>	<b>13,023</b>	<b>-</b>	<b>8,274</b>	<b>-</b>	<b>-</b>	<b>21,297</b>
(Charge) in other comprehensive income	(13,023)	-	(19,490)	-	-	(32,513)
<b>At 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>(11,216)</b>	<b>-</b>	<b>-</b>	<b>(11,216)</b>

In 2018, following the announcement to close the factory in Dundee (see strategic report page 5), future results forecasts were reviewed and a decision was made to write down the deferred tax asset brought forward by £47.3 million and to recognise a deferred tax asset at the year-end of £21.3 million on the basis that that the directors considered the likelihood of deriving future economic benefit from the asset to be reasonably certain.

The forecasts were reviewed again in 2019 and it was decided to write off the remaining deferred tax asset on the basis that the likelihood of deriving future economic benefit from the asset was no longer reasonably certain. A deferred tax liability of £11.6 million has been booked in relation to the pension and medical scheme and a £0.4m deferred tax asset has been recognised in relation to other timing differences. The unrecognised deferred tax asset in relation to the pension and medical scheme relates to the spreading the tax relief available on significant contributions.

### 26 Capital commitments

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

	2019	2018
	£'000	£'000
<b>Contracted</b>	<b>126</b>	<b>238</b>

# Michelin Tyre Public Limited Company

## Notes to the financial statements (continued)

### 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.

There are no other related party transactions.

### 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

The appearance of the Coronavirus COVID-19 in China in December 2019 and its recent global expansion in many countries in the first months of 2020, led to classification of the viral epidemic as a pandemic by the World Health Organization since March 2020. The consequences on the company's operations are uncertain and will depend largely on the development and the spread of the pandemic in the coming months, as well as on the capacity of everyone affected to react and adapt.

The company is taking all the measures required to safeguard the health of its employees. Home working has been introduced where possible for employees and special health and safety procedures have been implemented at Stoke factory and in the company's logistics warehouses. Dundee factory was closed on 23 March and on 27 March a decision was made that the factory would not be re-opened. The factory was due to close permanently at the end of June and it was decided that implementing the safety measure required to resume production was not viable.

No adjustments have been made in these financial statements as a result of Covid-19, as it is considered a non-adjusting event.

This pandemic will have a negative impact in 2020, although it is not possible to anticipate or quantify its impact, nor to assess whether this situation will continue and to what extent in the future. The spread of the Coronavirus is being continually monitored and the company is taking all the actions required to minimize as much as possible the negative impacts of this pandemic on its operations and its financial statements as well as to safeguard the health of its employees. As referred to on page 10, the company's liquidity risk is managed by the group. The group continues to manage the liquidity risk and has the sources of financing in place to deal with the uncertainty surrounding this crisis.