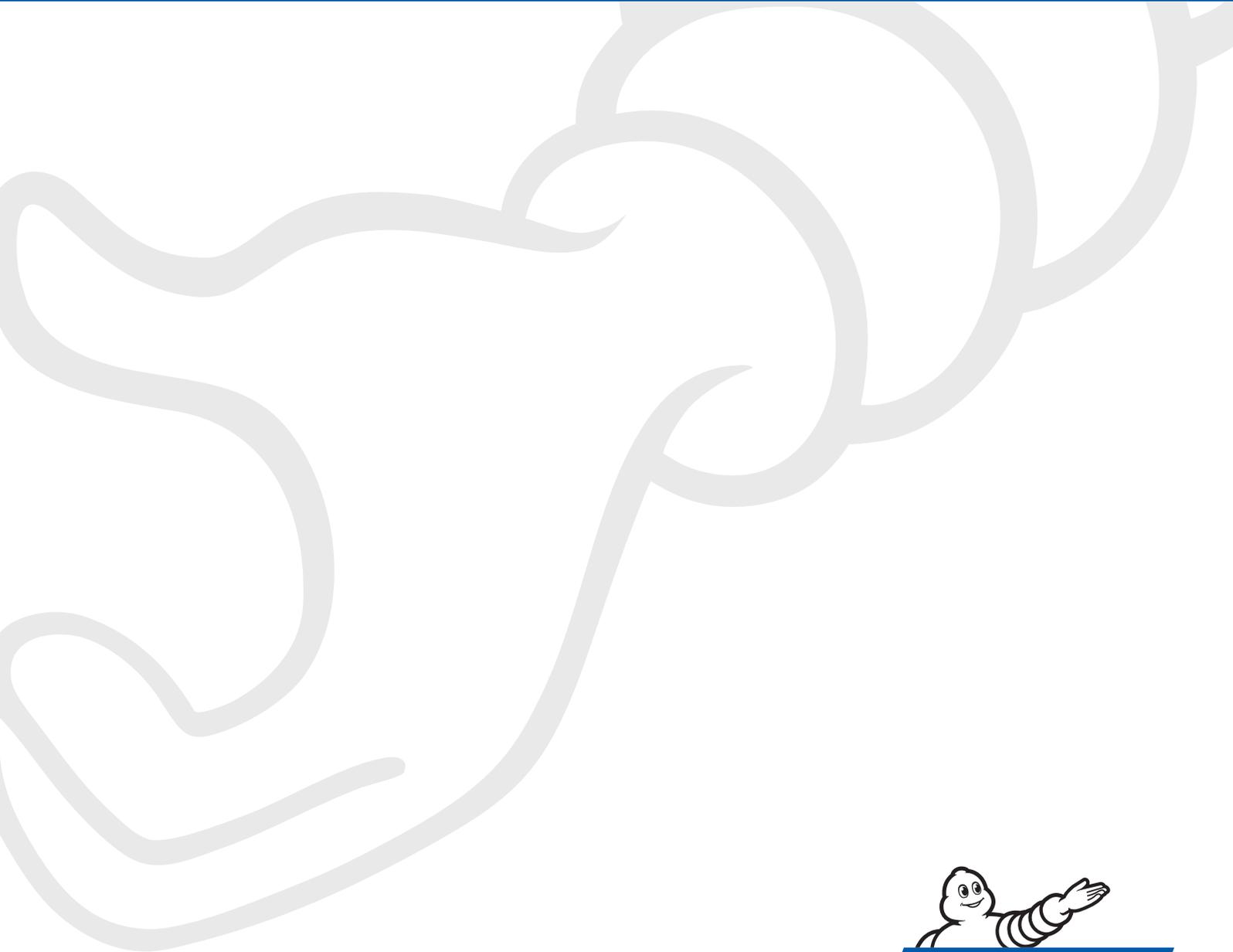


**METIERS  
REFERENCES**

# **MICHELIN PURCHASING PRINCIPLES**

**GROUP PURCHASING**

EDITION 2017





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# ***FOREWORD***

*Michelin is built on deep-seated values that are expressed in the Michelin Performance and Responsibility Charter. These values, which have guided our Company since it was founded, have shaped our culture and helped forge our reputation as a provider of quality products and services that enhance the mobility of people and goods.*

*At Michelin, we are strategically committed to nurturing long-term relationships with our suppliers, with respect for their interests and cultures.*

*The Michelin Purchasing Principles reflect our core values and provide a foundation for establishing the crucial relationships of trust that must exist between the Group, its purchasing teams and its suppliers worldwide. By compiling our basic shared guidelines, this publication provides everyone in the process with a common reference to be consulted and complied with in all circumstances.*

*Although non-exhaustive, these guidelines, combined with a clear sense of individual responsibility, offer a useful roadmap for everyone at Michelin and all of our partners.*

*Inside and outside the Company, the Purchasing Principles will provide a framework for our actions, guide our decisions and help us express our values on a daily basis. It is our duty to comply with these guidelines and rules of conduct, from which we draw our integrity and ethical standing. More than ever, we will be an enterprise that inspires trust and respect and that creates value both for partners and for ourselves.*

*By promoting strong values and complying with high ethical standards, our Purchasing teams provide a precious interface for our suppliers, with whom we are pursuing an approach of continuous progress and shared performance.*

Luc Minguet  
Chief Procurement Officer

A handwritten signature in black ink, appearing to read 'Luc Minguet', is written over a horizontal line that serves as a baseline for the signature.



***MICHELIN'S  
PRINCIPLES  
AND VALUES***

Driven by its founders' vision, Michelin has devoted itself to improving mobility responsibly. This is summed up in our tagline: "A better way forward". We have chosen to pursue this mission through innovation and quality, by basing our development on the core values of **Respect for Customers, Respect for People, Respect for Shareholders, Respect for the Environment and Respect for Facts**.

The Michelin Performance and Responsibility approach (PRM), introduced in 2002, guides our operating procedures and shapes the way we act and innovate.

The **Michelin Performance and Responsibility Charter: "A better way forward"** structures this corporate culture and coordinates our commitment to the principles of sustainable, balanced and responsible development.

Integrated into all projects and cascaded throughout the enterprise, this structured, global approach reflects Michelin's desire to take a long-term view towards its development, while maintaining a fair balance between business performance, environmental stewardship and our ongoing commitment to sustaining quality relationships with employees and partners.

The principles in the Michelin Performance and Responsibility Charter: "A better way forward" reflect:

### **A KNOW-HOW SPECIFIC TO MICHELIN**

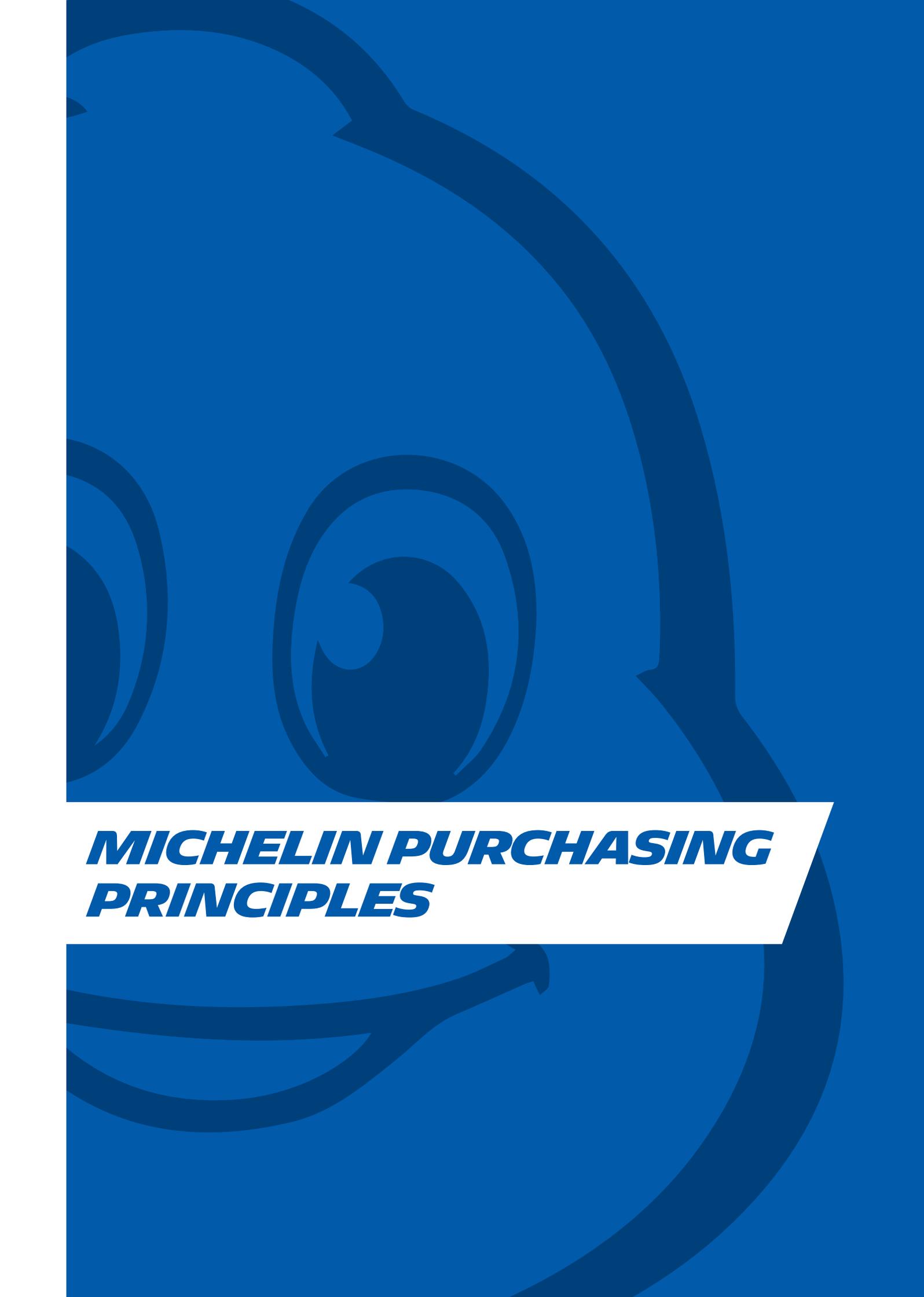
- Listen to customers and satisfy their needs
- Contribute to the Group's economic performance
- Integrate our operations seamlessly into our host countries and communities throughout the world
- Make our business more environmentally friendly
- Establish relationships of honesty and integrity with our industrial and commercial partners and with our suppliers

### **A UNIQUE CULTURE**

- Respect People
- Guarantee Quality
- Promote Innovation
- Make continuous progress
- Respect Facts
- Have a long-term vision

**These historic values represent a significant advantage allowing us to successfully meet the major challenges facing us now and in the future.**





***MICHELIN PURCHASING  
PRINCIPLES***

## MICHELIN PURCHASING PRINCIPLES

Michelin works with suppliers that comply with its quality, cost, timeliness and reliability standards and pledge to continuously improve their performance related to respect of people and of the environment.

Our supplier relations are driven by the core principles outlined in the **Michelin Performance and Responsibility Charter, "A better way forward"**, as described above. They are also guided by the principles of impartiality, fairness and loyalty.

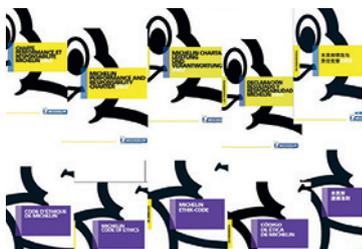
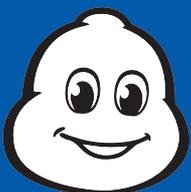
We want our suppliers to be familiar with the fundamentals that govern our relationships, as described in these Purchasing Principles, and to ensure that they respect them.

## MISSION

The Purchasing Department's mission is to guarantee the availability of the products and services requested by its internal customers by selecting suppliers who meet our technical and cost requirements, as well our expectations concerning environmental and social issues.

Creating long-term partnerships with suppliers is also part of our Purchasing teams' mission. In particular, this means supporting growth for more shared value, maintaining quality dialogue, providing regular information updates and developing innovation.

Our goal is to contribute to the Group's operating units' competitiveness while promoting the **core values** presented in the Michelin Performance and Responsibility Charter and the Group's Code of Ethics.



## DEONTOLOGY, ETHICAL GUIDELINES AND ANTI-CORRUPTION CODE OF CONDUCT IN SUPPLIER RELATIONS

*“In all of the countries where Michelin is present, our ambition is to conduct all our professional activities with integrity. Michelin’s Code of Ethics and anti-corruption code of conduct are based on the fundamental values expressed in our Performance and Responsibility Charter. They define the standards of behavior for our workplace activities and give us precise guidelines on how to make to decisions so we can conduct ourselves appropriately in ethical and anticorruption situations. They precisely outline the policies that employees of Michelin must follow.” Excerpt from the Code of Ethics, Message from the Managing Partners, 2014 and anti-corruption code of conduct, 2016.*

The Michelin Code of Ethics, completed by the anti-corruption code of conduct outline the Group’s policy on ethical business practices and individual conduct.

They supplement and build on the guidelines presented in the Michelin Performance and Responsibility Charter.

The underlying values and the principles of action and conduct that the Code of Ethics instills throughout the Michelin community provide a foundation for the indispensable relationships of trust that must exist between the Group and its stakeholders.

Our objective in this document is to review the deontology, ethical guidelines and rules of professional and anti-corruption conduct presented in the Code of Ethics which apply to the entire Purchasing Function and all Michelin employees in their relations with suppliers and subcontractors.

Each of us, as a Michelin ambassador, is responsible for complying fully with these **Purchasing ethical guidelines and rules of professional conduct**. Michelin’s reputation depends on us.

### MICHELIN ADHESION TO INTERNATIONAL PRINCIPLES (GLOBAL COMPACT AND HUMAN RIGHTS)

**PRM Principle:** *“We want to pursue the Michelin Group’s worldwide expansion based on three guiding principles:*

- *Maintain a strong, open and shared Company culture, a source of social cohesion and motivation;*
- *Encourage personal development and self-realization within the Company for one and all, in the exercise of their responsibilities;*
- *Ensure constant compliance with the regulations and respect for cultures of the countries in which we operate.*

*We are fundamentally opposed to child and forced labor, in full compliance with the principles of the International Labor Organization.*

*We are aware of the responsibilities arising from our commercial and industrial presence in numerous countries. Wherever we are located, we are determined to act as a responsible and honest Company, respectful of mankind and the law.*

*We shall achieve this integration by constantly pursuing our goal of reducing negative impact, inherent in any industrial activity, and by paying great attention to compliance with operational safety regulations on our sites.” (PRM Charter 2002 version, Implementing Our Values)*

By adhering in 2010, to the Global Compact, Michelin undertook to fully respect the Human Rights in all its activities and in all countries where the Group operates, and to ensure the promotion of the said Global Compact.

Furthermore, Michelin undertakes to respect the following international regulations: the Universal Declaration of Human Rights; fundamental rules of International Labour Organization (ILO); and Organisation for Economic Co-operation and Development (OECD) guidelines concerning human rights, environment protection and fights against corruption.

Michelin undertakes to ensure labor conditions and relationships respecting human dignity, and to ensure that these labor conditions are safe and in compliance with ILO norms and local laws and regulations.

Michelin ensures, in case of industrial installation, to identify and prevent and repair the negative environmental, social and human rights relative impacts that this installation may have on local communities and their environment, and participate in the harmonious development of such communities.

Michelin wants to ensure that its suppliers and services providers respect principles equivalent to those defined in the Group Code of Ethics, notably regarding the respect of human rights, and that they promote similar principles in their relationships with their own suppliers and subcontractors.

Michelin notably requests that its suppliers and subcontractors respect the following:

- International rules notably the Universal Declaration of Human Rights, the Global Compact, the OECD guidelines.
- Legal and regulatory provisions of labor law in force in the country (level of remuneration, duration of work, freedom of association).
- Fundamental rules of ILO, in particular conventions on child labor, forced labor, compulsory labor, respect of freedom of association and right of collective negotiation, and non-discrimination.
- Human dignity through acceptable work conditions.
- Security, safety and health rules, in order to limit the activities effects on safety and security of the personnel, and the communities which are near the installations.
- Safety rules applicable in the Michelin sites where they work.

This undertaking, taken by the Michelin Group, to act in a responsible and ethical way regarding the employees, partners and local communities, has to be understood and respected by all of you. The vigilance and involvement for each person are essential for this approach to be perennial.

### COMPLIANCE WITH LAWS AND REGULATIONS

**PRM Principle:** *“Ensure constant compliance with the regulations and respect for cultures of the countries in which we operate. (...) Wherever we are located, we are determined to act as a responsible and honest company, respectful of mankind and the law.” (PRM Charter 2002 version, Implementing Our Values)*

Michelin and its suppliers undertake to fully comply with all applicable laws and regulations in their activities, international decisions (Embargo, ...) laws and settlement. Each Purchasing team member is responsible for complying with applicable laws and regulations.

### CONFLICTS OF INTEREST

**PRM Principle:** *“We want to prevent potential conflicts of interest between the employees’ responsibilities in their lives inside and outside the company. We therefore expect our employees to avoid personal, financial, commercial or other activities which could be contrary to the legitimate interests of the Michelin Group or that could lead to ambiguous perceptions, given their responsibilities within the Company.” (PRM Charter 2002 version, Implementing Our Values)*

- In their professional relations with suppliers and subcontractors, Purchasing team members and other Group employees are expected at all times to carry out their duties in accordance with the Group’s interests and in compliance with legal requirements.
- In dealing with suppliers and subcontractors, Purchasing team members and Group employees are not allowed to engage in any business transactions other than those for which they have been authorized within the scope of their mission, either on their own behalf or for a third party.
- In the event that the supplier is also a Michelin customer, this fact must not be taken into account in negotiations. The Group’s interests in the areas of purchasing and sales shall remain separate.

### **A conflict of interest may exist if an employee:**

- negotiates a contract in Michelin's name from which he or she will derive a current or future interest;
- has a financial interest of any kind in a company controlled by Michelin suppliers;
- uses a business opportunity available to Michelin for personal gain;
- uses confidential Michelin information obtained in the course of employment for personal profit or benefit or to benefit a third party.
- Etc...

More generally, purchasing agents are expected to inform their supervisors as transparently as possible in the event of a conflict of interest.

## **GIFTS AND INVITATIONS**

**PRM Principle:** *"Ensure constant compliance with the regulations and respect for cultures of the countries in which we operate. (...) Wherever we are located, we are determined to act as a responsible and honest company, respectful of mankind and the law."* (PRM Charter 2002 version, [Implementing Our Values](#))

- Gifts and invitations may affect an individual's ability to make fully unbiased decisions in relations with suppliers or subcontractors.
- For this reason, employees are not allowed to accept any gifts from suppliers or subcontractors. This includes money, goods, services, entertainment, travel or any other type of present.
- However, employees may accept corporate gifts of negligible value. (For instance, promotional articles, an occasional meal, invitations to social gatherings or participation in an event sponsored by the supplier or subcontractor.)
- If the gift or invitation acceptance is inevitable in order to respect countries customs, the buyer would inform his manager, who would decide on an appropriate follow-up to give.
- In respect of this matter, a gift and invitation register is filled by Purchasing teams in accordance with local laws and regulation. The acceptance of the gift must not, under any circumstances, distort the decision capacity of the buyer and prescriber towards the supplier.

## **GOVERNMENT RELATIONS AND ANTI-CORRUPTION**

**PRM Principle:** *"Wherever we operate, throughout the world, we are firmly against any and all forms of corruption, irrespective of the organizations and bodies concerned, whether public or private. We refuse any and all remuneration to third parties if such remuneration does not correspond to an actual service, for a justified amount, duly posted in our accounts."* (PRM Charter 2002 version, [Implementing Our Values](#))

Michelin rejects, directly or indirectly by interposed intermediary, all bribes or other illegal payments to civil servants, members of government, politicians or political parties or any other public official.

By « public official and/or Intermediary » in this context refers to a third party contracted to negotiate a partnership, a public market or other commercial relationship

This means, for example, that employees may not offer or agree to commissions, discounts, rebates, consulting fees or compensation for services rendered - either in cash or in the form of a financial advantage - if the aim of such payments is to sway a government official, civil servant or public agent to make a favorable decision or grant an unfair advantage to Michelin. Such payments are also considered illegal if made by an intermediary or external consultant.

To ensure full compliance with the law in this area, purchasing teams should apply rules written in the Code of Ethics and in the Code of Anti-Corruption, Group's reference documents.

### CONFIDENTIALITY

**PRM Principle:** *"We see confidentiality as a duty, whenever the interests of our customers, shareholders, partners, employees and, more generally, our Group are at stake."*  
(PRM Charter 2002 version, Implementing Our Values)

Michelin Purchasing team members may have access to information about the Group that must remain confidential if disclosure or premature announcement could be harmful to the Group. Examples include information on products, studies, technical know-how, manufacturing or marketing projects, financial data, and future strategic, tactical, budget or other plans that are not in the public domain.

All employees are responsible for ensuring that such information is not disseminated directly or indirectly outside the Company or disclosed to persons who have not been authorized to receive it.

Similarly, sensitive supplier information received in a consultation process must remain strictly confidential and, in particular, must not be disclosed to competitors.

During negotiations, Michelin and its suppliers may sign non-disclosure agreements.

### FAIR COMPETITION

**PRM Principle:** *"We are in favor of fair commercial competition from all players, within the framework of competition law."* (PRM Charter 2002 version, Implementing Our Values)

Michelin strives to select subcontractors and suppliers of goods and services utilizing a transparent process on the basis of objective criteria.

**Michelin complies with the following rules and principles of free competition:**

- Requests for proposals (RFPs) are sent to suppliers simultaneously and all responses are due on the same day.
- The list of suppliers is confidential and remains so even after the bid is awarded, notably to avoid price fixing among suppliers.
- All suppliers involved in the RFP receive exactly the same documents at the same time. Supplier requests for further information during the tender process must be directed specifically to the purchasing agent or to the technical manager indicated in the request for proposals.
- Out of fairness, any answers to supplier questions, as well as any additional information of a general nature (i.e., not related to a particular supplier's specific solution) that could enhance understanding of the original RFP documents must be shared with all participating suppliers.
- Suppliers should be encouraged to submit proposals that offer alternatives or options in parallel with the main solution.
- All RFP documents are confidential, and as such must not be passed on to a third party by suppliers without written authorization from Michelin.
- Any due date extensions are generally granted to the entire list of participating suppliers.
- The prices, terms and other technical details provided in a supplier's response must not be shared with the other suppliers consulted, even after the winning bid has been selected.
- The RFP process is not to be used just to obtain price quotes. The purchasing agent and the specifier choose the winning bid on the basis of pre-determined criteria, established beforehand and applied to all proposals.
- Michelin does not commit to selecting the lowest-price solution, but rather the solution best aligned with its interests.
- Suppliers whose bids are not retained should be thanked appropriately, in line with the nature of their response. Feedback on why their proposals were not chosen will allow them to tailor their responses more effectively in the future and dispel any feeling of unfairness.
- The Purchasing function must be able to present and justify all of its decisions in the RFP process.

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## FRAUD

**PRM Principle:** *“Ensure constant compliance with the regulations and respect for cultures of the countries in which we operate. (...) Wherever we are located, we are determined to act as a responsible and honest company, respectful of mankind and the law.” (PRM Charter 2002 version, Implementing Our Values)*

Fraudulent activities in-house represent a significant threat for Michelin’s operations and can negatively impact the Company’s reputation and business.

Fraud, dishonesty and any type of criminal activity are strictly prohibited at Michelin and can result in civil or criminal proceedings against the employee in question.

Michelin has issued a Group Directive on Fraud to ensure that all Group companies and all employees share a common vision of the Group’s anti-fraud requirements and deploy effective safeguards to combat fraud.

## MEDIATION

Should a supplier fail to obtain a satisfactory response from Michelin after initial discussions, it may turn to the supplier-customer relations mediator for help in resolving the issue quickly in a cooperative process. The Quality Director within the Purchasing Department is responsible for handling mediation.

The mediator gets involved only after the supplier has attempted to resolve the issue with its regular contacts within the Company, for example the purchasing agent in charge of a bid, the payment center or the contract manager. The mediator will not consider any requests that do not abide by this principle.

To launch the mediation process, the supplier must e-mail a formal request via the Internet Website <https://purchasing.michelin.com/en/purchasing-mediation/>

If no solution is found with the assistance of the internal mediator, the parties commit to use the services of a conventional external mediator.

## CONCLUSION

Purchasing agents are expected to be completely clear and transparent with their supervisors. They should always contact their supervisors if they have the slightest question or doubt about their course of action.

## **SUPPLIER APPROVAL**

**This section only concerns new suppliers.**

The Group's teams follow a structured process for integrating new suppliers. This process is designed to validate the supplier's potential and ability to meet Michelin's expectations concerning commercial matters, technical performance, quality, deadlines and sustainable development. Approved suppliers must comply with the values described above.

This phase involves:

### **A PRELIMINARY EVALUATION**

Initially, this evaluation is based on a questionnaire that enables Michelin to evaluate the potential supplier's:

- financial and economic situation;
- quality approach;
- ability to respond to Michelin's technical specifications;
- commitment and sustainable development approach.

This preliminary evaluation may be supplemented by:

### **AN ON-SITE VISIT**

The on-site visit provides an opportunity to verify the preliminary evaluation and obtain additional information if necessary. It may include:

- a supplier audit;
- tours of one or several supplier sites;
- tests at a Michelin site.

**To be approved, a supplier must agree to:**

- respond to and satisfactorily answer the evaluation questionnaire;
- comply with the principles and requirements in this manual;
- set up a quality management system that complies with current ISO 9001 requirements. Certification to ISO 9001, ISO 14001 and IATF16949 standards are an advantage in the selection process of suppliers. For registered suppliers in raw materials, the ISO 9001 certification is required and the ISO 14001 certification has to form integral progress areas by our engaged suppliers
- Implement a corporate social responsibility approach, (ex:ISO26000)
- allow a Michelin team to come on-site for an audit or technical visit;
- ensure that its subcontractors comply with the principles and requirements in this document;
- inform Michelin ahead of time of any changes in:
  - its manufacturing process, quality system or outsourcing;
  - its Corporate structure (manufacturing sites, mergers, acquisitions, affiliations, etc.).

Once a supplier is approved, it may take part in Michelin's competitive bidding process.

**NB :** It might be required from the supplier to provide upon request any relevant information for conducting a product or service life cycle analysis.



# QUALITY

## QUALITY CULTURE

*“For more than a century, Michelin has been committed to delivering the best tire at the best price in each market segment and to setting the standard for quality of service.”*

*Excerpt from Michelin’s Quality principles.*

This objective, which drives us each day to satisfy and anticipate customer expectations in all areas of quality, also drives us to strive for continuous improvement.

Our Purchasing teams, along with our suppliers, are responsible for ensuring that all delivered products - no matter where they are from or where they are going - and all services meet our customers’ requirements and comply with the Group’s values, including the Michelin Quality Statement.

**TOGETHER**, we must deploy the necessary resources to achieve and guarantee quality excellence, while remaining constantly focused on carefully managing the related costs.

**MICHELIN and its SUPPLIERS must work hand in hand to move forward in this area.**

## PRINCIPLES

Ever since Michelin was founded, we have maintained a powerful culture of responsibility that is reflected in our uncompromising attitude towards the safety and quality of all our products and services.

Delivering quality products and services to our customers is our absolute priority. This depends greatly on the quality of the raw materials and services we purchase externally.

The Supplier Quality Assurance system clarifies how Michelin intends to apply its quality policy in its supplier relations and in managing the quality of purchased products and services. **This system is essential for ensuring Michelin’s long-term performance and for enabling the Group to meet its strategic challenges.**

Through this system, Michelin intends to:

- create the necessary conditions, along with suppliers, to ensure total quality for all purchased products, throughout their lifecycle, as well as for all services provided;
- establish strong, lasting relationships with suppliers based on mutual trust;
- challenge suppliers to manage their quality processes and maintain a continuous improvement approach;
- encourage suppliers to make suggestions and proposals for innovation and/or differentiation.

## PRODUCT APPROVAL

Depending on the level of quality risk, Michelin approves products for one or several sites.

To obtain approval, a supplier must demonstrate that it is able to deliver, at the best price, a product that complies fully with Michelin specifications in terms of quality, quantity, deadlines, related services and repeatability.

Approval concerns products:

- described by Michelin specifications;
- manufactured using a defined process, production line or machine;
- produced at a specific site.

The product approval process is described in the appendix.

## CURRENT PRODUCTION

For current production, Michelin expects that its suppliers trend towards the following performance target:

**“100% of product deliveries to be made within the specified deadline, with zero defects and at the best price, or 100% of services to be provided in line with specifications.”**

All delivered products and services provided must comply fully with the terms of the contract and purchase order, as well as with the requirements defined in the specifications. Delivery of non-compliant products or services is prohibited.

At this stage, the supplier and Michelin will have exchanged:

- ➔ contact information for their purchasing, supply chain and technical representatives;
- ➔ their bank details;
- ➔ information on communication procedures, including the working language and IT interface (EDI, order processing, supply chain, etc.);
- ➔ information on crisis procedures.

## 1. PACKAGING - TRANSPORTATION

Delivered products must be:

- ➔ **shipped with the necessary administrative documents** containing all the information required by the specifications or requested in the purchase order and/or delivery order;
- ➔ **packaged in such a way as to preserve their integrity and conformity** during handling, storage and transportation.

Individual and bulk packaging must meet the legal requirements of the countries of destination.

Depending on the situation and the products in question, the supplier and Michelin work together to optimize packaging by defining the types of containers, the packaging material used, procedures for handling, returns, recyclability, etc. This process helps both to reduce costs and to preserve the environment.

## 2. DELIVERY

The supplier must inform Michelin as soon as possible of any volume or deadline discrepancies with respect to the order.

In the event that such delivery variances exist, the supplier must request an acceptance from the designated Michelin purchasing and supply chain contacts before the delivery can be made. Michelin will then conduct a risk analysis and indicate how to proceed.

The supplier must inform Michelin of any additional freight charges, regardless of whether they are to be paid by Michelin or the supplier. The supplier must also produce and present the delivery summary report on request.

## 3. QUALITY GUARANTEE – PRODUCT CONFORMITY

**The supplier is fully responsible for the quality of the products delivered and services provided.**

The supplier must implement quality system procedures and verify their effectiveness to ensure that all products delivered and services provided comply with Michelin’s specified requirements.

Michelin may ask the supplier to:

- ➔ Identify a secure product manager, in charge of quality of the products delivered to the customers
- ➔ provide information on quality management processes and documentation, including production control, monitoring plans, statistical tools, identification and traceability resources, product preservation, and management of product characteristics, conformity and non-conformity, etc...
- ➔ participate in the validation or alignment of its laboratory
- ➔ report or identify all batches delivered to Michelin that have been sorted or reworked as a result of internal non-compliance;
- ➔ provide a sample of each delivered batch in a separate shipment;

- keep a representative sample of each delivered batch for a defined period of time;
- keep the product/process results for a defined period of time;
- allow Michelin to verify all or part of its quality management system on site, etc...

Michelin shall specify the parameters for ensuring that these points are applied properly.

For each product, Michelin shall define, with the supplier, the type of documents that must be provided with each delivery, the content of those documents and the method of transmission, for example:

- the delivery slip;
- the Certificate of Analysis (COA), which must notably, include the following information:
  - order, batch and product identification
  - amount delivered
  - results of batch tests
  - etc...

Michelin defines the list of required COA information in cooperation with the supplier. These informations are available on <https://purchasing.michelin.com/en/documents> area. It includes:

- a Certificate of Conformity;
- a product conformity marking.

Quality is assessed using performance measurement indicators that are:

- established by Michelin and the supplier;
- tracked and reported periodically by the supplier.

Michelin may conduct internal audits at any time to verify the information provided by the supplier. The submission of false data can lead to the termination of the supplier relationship.

#### 4. COMPLAINTS PROCESSING

**Suppliers are expected to handle complaints and resolve issues efficiently and in a timely manner.**

Claims may be filed when a defect is identified on receipt or during use.

Each complaint must be backed by supporting evidence and/or a calculation of the cost of non-conformity. Michelin shall transmit all the information needed to understand and resolve the non-conformity to the supplier as quickly as possible.

For each complaint, the supplier must comply with the steps in the Michelin complaint resolution process:

- acknowledge and process the complaint;
- take the appropriate action depending on the decision made concerning the product;
- provide Michelin with evidence that:
  - immediate measures have been deployed to resolve the real or potential impact of non-conformity (supply continuity, protection of Michelin products, etc.);
  - the causes of the defect have been identified and corrective measures have been taken;
  - it can guarantee that non-conformity will not reoccur;
  - it has measured the effectiveness of the corrective measures taken and can provide proof that the product is now fully compliant.
- resolve the issue within the requested timeframe.

In all cases, Michelin reserves the right to:

- call in the supplier to discuss its improvement plan;
- charge the supplier for any expenses incurred in connection with additional inspections and shipping, repair work, sorting and waste disposal, lost productivity, or other procedures;
- demand that the supplier fulfill additional requirements, at its own expense, to ensure product conformity. These can include validation of the monitoring plan, evidence of results, assessments of product and process performance, and audits of corrective measures;
- conduct an audit of the corrective action plan.

## 5. CONTINUOUS IMPROVEMENT

Suppliers from whom Michelin sources for current production are expected to define a continuous improvement master plan and transmit it to Michelin as quickly as possible.

These suppliers are expected to demonstrate that they are actively involved in:

- total quality programs, to achieve targeted, useful improvements in quality;
- cost-reduction programs;
- technology monitoring and anticipation of changing requirements (safety, legislation, quality, sustainable development, eco-design, etc.).

These programs may lead the supplier to make modifications that could have an impact on the performance of products and services delivered to Michelin.

Suppliers must inform Michelin as early as possible of any plans to:

- modify their production sites or structure;
- modify their processes, production lines or machines, inputs, quality system or any service provided.

This information must be provided **before** any changes are made that may affect products or services delivered to Michelin.

Following a risk analysis, Michelin will define a procedure for validating the innovation or modification with the supplier.

Michelin reserves the right to initiate a new approval procedure if it considers that the planned modification is likely to affect product performance in its plants.

The supplier and Michelin must agree on the delivery terms and schedule for the products manufactured and services provided after the proposed change. All modifications must be submitted to Michelin for prior approval, as must all changes in a supplier's outsourcing.

## 6. SUPPLIER MANAGEMENT

Michelin tracks, monitors and audits suppliers on a regular basis, according to the level of confidence built up in the relationship.

Depending on results and in case of no compliance of the Purchasing Principles, Michelin reserves the right to itself sanction the supplier by:

- reducing its purchases;
- withdrawing its product approval (this may also occur during a period with no deliveries - Michelin determines the triggering threshold by product);
- removing the supplier from Michelin's list of approved suppliers.



## SUPPLIER RELATIONSHIP MANAGEMENT (SRM)

The Group's purchasing teams are focused on establishing an active, high-quality working relationship with suppliers to construct a purchasing strategy that responds effectively to Michelin's specific needs and challenges.

The key factors in this strategy are dialogue, cooperation, transparency, a desire to develop the future of mobility together and a responsible attitude in our current and future actions. Michelin's Supplier Relationship Management (SRM) approach is based on these key factors.

To manage our relationships effectively, we have segmented our suppliers in four categories. Our teams develop different levels of relationships and specific tools for each category, as follows:

- **Tier 1:** Establish a full-fledged strategic relationship based on innovation and/or partnership projects.
- **Tier 2:** Develop the business relationship to obtain mutually beneficial competitive advantage.
- **Tier 3:** Optimize the current relationship based on continuous improvement.
- **Tier 4:** Pursue a commercial relationship based on respect for mutual commitments.

This collaborative approach is designed to allow Michelin and its suppliers to create and share more value by devising improvement plans and measuring the long-term effects.

## BUSINESS CONTINUITY MANAGEMENT (BCM)

Michelin has developed specific expertise to continuously improve its ability to keep operations running in the event of a major crisis. Building on this expertise and within the framework of supplier relations, our Business Continuity Management (BCM) process also addresses the risk of an interruption in supplies of raw materials, production goods and equipment and services.

With a view to creating shared value, the BCM approach to purchasing focuses on managing risks at the source by encouraging suppliers to implement BCM themselves so as to minimize the impact of an incident or crisis.

We could conduct BCM audits to ensure that our suppliers also have effective business continuity plans in place.



## **OUR CSR POLICY, MICHELIN PERFORMANCE AND RESPONSIBILITY: "A BETTER WAY FORWARD" FOR PURCHASING**

Maintaining quality relations with suppliers and their subcontractors are part of Michelin's Corporate Social Responsibility (CSR).

Michelin has practiced responsible purchasing with its suppliers for many years by integrating and applying the principles of sustainable development.

To establish win-win relationships with our suppliers, we ask them to comply with the following principles of our sustainable development policy and to apply these principles throughout their own supply chain.

**A description of these principles and how Michelin's Purchasing Department intends to apply the Group's values in supplier relations is provided below. For the Group, its purchasing teams and its suppliers, "A better way forward" means:**

### **A KNOW-HOW SPECIFIC TO MICHELIN**

#### **LISTEN TO CUSTOMERS AND SATISFY THEIR NEEDS**

Suppliers help us meet our customers' expectations by providing a precise, consistent and reliable response to our needs.

#### **CONTRIBUTE TO THE GROUP'S ECONOMIC PERFORMANCE**

The Purchasing function analyzes total cost of ownership to obtain the best business performance. It focuses in particular on ensuring that the quality of products and services provided is aligned with the Group's needs. The lifespan cost analysis approach can also be used to calculate the full range of costs incurred during the lifespan of goods or services.

#### **INTEGRATE OUR OPERATIONS SEAMLESSLY INTO OUR HOST COUNTRIES AND COMMUNITIES THROUGHOUT THE WORLD**

**PRM Principle:** *"Each employee fulfills his or her responsibilities by striving to ensure the balanced integration of our activities in the diverse economic and social environment that surrounds our industrial and commercial activities." (Performance and Responsibility Charter 2011)*

Despite of Michelin's global presence, we do our utmost to source from local supplier firms from the adapted sector, in addition to major international suppliers, who meet our exacting requirements and comply with the principles of sustainable development.

#### **MAKE OUR BUSINESS MORE ENVIRONMENTALLY FRIENDLY**

**PRM Principle:** *"Our passion for innovation also contributes to improving the environmental performance of our products. We constantly seek the optimal balance between fuel savings achieved through our tires' energy efficiency and reducing raw material use through our tires' longevity, while providing safer products."*

*"In each of our industrial sites, we manage our environmental performance to help control the impact of all our activities. We guarantee our regulatory compliance." (Performance and Responsibility Charter 2011)*

In the context of increasing scarcity of raw materials and combatting climate change, mobility needs to progress even further. The impact on natural resources, energy, materials and water can be improved throughout the life-cycle of a tire, using a **circular economy** approach. The Michelin proposal involves the simultaneous mobilization of 4 action levers throughout the tire life-cycle, providing a combination of solutions to promote a more efficient use of resources. This is the **4R strategy**: **Reduce** (reducing the quantity of resources to achieve the same usage by making the best possible use of materials), **Reuse** (repairing, re-grooving and retreading leading to savings in raw materials), **Recycle** (projects recycling and regenerating used tires) and **Renew** (increasing the share of renewable raw materials).

With respect to environmental protection and to limit environmental risks throughout the supply chain, we expect our suppliers and their subcontractors to:

- ➔ comply with the standards and regulations in effect in their home countries, as well as with those in effect in with more stringent Michelin standards for certain projects or certain regions;
- ➔ implement an environmental management system that allows them to measure any negative environmental impacts of their operations;
- ➔ reduce and effectively manage waste, toxic/hazardous substances and packaging throughout the life cycle of their products;

NB. All suppliers working with chemical substances in Europe must comply with the REACH regulation and meet legal obligations regarding traceability and declarations.

- ➔ reduce the production of greenhouse gases;
- ➔ preserve natural resources, ecosystems and biodiversity;
- ➔ develop products and services with a low environmental impact to reduce their impact throughout the life-cycle, whilst maintaining and/or improving quality;
- ➔ collaborate with life-cycle analyses conducted by Michelin.

These approaches will cover not only the supplier's own activities, but he will have to commit to promoting these good practices with its own suppliers. The reduction of transport related CO2 footprint from or to the supplier's sites will require special attention

## ESTABLISH RELATIONSHIPS OF HONESTY AND INTEGRITY WITH OUR SUPPLIERS

**PRM Principle:** *"We establish honest relationships with our industrial and commercial partners, notably with our suppliers, based on fair contractual conditions and targeting the best possible balance between improving our results and establishing long-lasting partnerships."* (Performance and Responsibility Charter 2011)

Michelin is committed to building relationships of honesty and integrity with all its suppliers.

We expect our suppliers to:

- ➔ operate transparently and in compliance with laws concerning competition;
- ➔ combat all types of corruption;
- ➔ promise to protect intellectual property;
- ➔ guarantee the confidentiality of all information exchanged.

Michelin adopts a responsible attitude towards its suppliers by paying their invoices in accordance with the laws and regulations of the countries in which the Group operates and by respecting such regulations strictly and sincerely.

## COMMIT TO RESPONSIBLE PROCUREMENT

### Minerals originating from conflict-affected areas

Michelin complies with the requirements of the Dodd-Frank law and with the Consumer Protection Act that requires greater transparency as to the minerals used.

The rules require disclosure of whether certain products contain "conflict minerals" that are necessary for the "functioning or production" of those products.

The term “**conflict minerals**” refers to **gold** as well as to **tin, tantalum, and tungsten** (“3T & G”), the derivatives of cassiterite, columbite-tantalite, and wolframite, regardless of where they are sourced, processed or sold. The intent of these requirements is to further the humanitarian goal of ending violent conflict in the Democratic Republic of the Congo (DRC) and surrounding countries, which has been partially financed by the exploitation and trade of “conflict minerals”.

To comply with these requirements and to check the origin of these minerals in our supply chain, we require that some of our suppliers and subcontractors fill in the **Conflict Minerals Reporting Template**.

### CONTRIBUTE TO A RESPONSIBLE AND SUSTAINABLE MANAGEMENT OF THE NATURAL RUBBER INDUSTRY

As a producer and processor of natural rubber, Michelin respects and undertakes to promote **the five commitments** listed in the Michelin Purchasing Principles in the area of natural rubber.

#### Respecting people

- ➔ Encourage the resolution of conflicts related to land ownership.
- ➔ Improve working conditions and living conditions.

#### Protecting the environment

- ➔ Combat deforestation.
- ➔ Control the potential impact of rubber growing activities on the local fauna, flora and environment.

#### Improving agricultural practices

- ➔ Promote the best agricultural practices with its suppliers, professional organizations, local cooperatives or planters’ groups.
- ➔ Take action to increase agricultural yields.

#### Using natural resources carefully

- ➔ Increase the material efficiency of natural rubber.

#### Good governance

- ➔ Fight all forms of corruption.
- ➔ Conduct dialogue with the local or international stakeholders to contribute to the development of a sustainable natural rubber industry.
- ➔ Act transparently.

Due to its environmental and social impact, natural rubber is the subject of a specific approach. Drafted with the assistance of all stakeholders, in particular NGOs specialized in environmental protection and human rights, the Sustainable Natural Rubber policy was formalized in 2016 and is a contractually-binding reference for Group suppliers. This document, which can be downloaded from the Group procurement site ([purchasing.michelin.com](http://purchasing.michelin.com)) sets out the conditions in detail for producing rubber, both from an environmental standpoint [zero deforestation, securing HCV (High Conservation Value) and HCS (High Carbon Storage) areas, as well as peat zones] and from a social and human rights standpoint (working conditions and the free prior consent of populations involved, in full knowledge of the facts, etc.). We encourage all those involved in the supply chain to adopt responsible social and environmental practices to maintain the virtuous dynamic of rubber production.

The full text of our Michelin documents in the area of natural rubber is available on <https://purchasing.michelin.com/en/document-area/>

For the Group, its purchasing teams and its suppliers, “A better way forward” also means:

### **A UNIQUE CULTURE**

Our culture is a competitive advantage and a major strength that our suppliers and their subcontractors value.

## RESPECTING PEOPLE

We expect our suppliers and their subcontractors to comply with:

- international standards, notably the Universal Declaration of Human Rights, the United Nations Global Compact, OECD guidelines and UN guiding principles with respect to corporations and human rights,
- the legal and regulatory provisions of labor laws in force in the country (compensation, working hours, freedom of association, etc..),
- the conventions of the International Labour Organization (ILO) notably as concerns child labor, forced labor and non-discrimination;
- the principle of respecting human dignity through acceptable working conditions;
- security rules applying to the Michelin sites in which they operate. In this respect, it is the responsibility of the supplier to notify any anomalies observed to the Michelin Group Director of the site in question.

## PROMOTE INNOVATION

**PRM Principle:** *“Keep an open mind and strive to innovate. While quality is the cornerstone of the brand, innovation makes it unique.” (Performance and Responsibility Charter 2011)*

Innovation has always been at the center of Michelin’s strategy. We have played a major role in moving our industry and markets forward by leading the way and providing innovations that are useful to customers and aligned with societal changes.

The Michelin process of open and collaborative innovation involves both its internal resources and its innovative ecosystem including its suppliers.

Encouraging innovation among our suppliers to create value together is part of the Purchasing department’s mission.

## MAKE CONTINUOUS PROGRESS

Michelin works with suppliers that comply with its quality, cost and reliability standards and pledge to continuously improve their human rights and environmental performance. More broadly, suppliers are assisted in developing improvement plans to enhance the value of their products and services.

We carefully track our suppliers on a regular basis through **performance assessments, including in the area of Corporate Social Responsibility (CSR)**. Our key suppliers undertake to define specific targets in these areas, to ensure they obtain the necessary information for assessment and to deploy any necessary corrective measures. They also authorize Michelin and its official representatives to conduct on-site audits.

### **Michelin has assessed its key suppliers’ CSR performance since 2012.**

In addition to quality audits, we measure suppliers’ CSR maturity levels with the help of a CSR rating company. This assessment, which takes place after a risk analysis, is done by an online questionnaire to be filled out by the supplier.

A strength and weakness analysis covering environmental, social and ethical issues may result in the deployment of action plans or, depending on the level of urgency, a more targeted on-site audit.

As part of its continuous CSR progress approach, Michelin is increasingly investing in digital technology to develop new, innovative tools to assist with its corporate responsibility and sustainable development strategy.

Michelin carefully monitors and manages its overall sustainable purchasing performance and undertakes to publish the results of its suppliers’ CSR assessments.

## HAVE A LONG-TERM VISION

As part of its Supplier Relationship Management (SRM), Michelin builds long-term partnerships with its suppliers. We want our supplier relationships to be fair and in the best interest of all parties concerned.

## **PERFORMANCE ASSESSMENT**

Michelin periodically organizes performance assessment meetings with its main suppliers.

The frequency and agenda of these meetings are defined in agreement with the supplier.

These meetings are designed to:

- ➔ review the situation and sign off on:
  - the supplier's performance report. This comprehensive, factual report covers quality, performance in meeting commitments, competitiveness of the product offer, engagement in driving progress, innovation and value creation, corporate social responsibility and business continuity management;
  - the continuous improvement plan, for which targets and timelines have been defined;
  - the supplier's evaluation of the quality of relations with Michelin in terms of payment conditions, supplier relationship management, supply chain management, etc.
- ➔ align the vision of our technical and commercial relationship.

## **CONCLUSION**

Michelin operates in a large number of countries, representing a wide variety of cultural, legal and political systems.

The basic rule for the Company and each employee is to comply with host country laws and regulations and to embrace the values and principles formalized in the **Michelin Performance and Responsibility Charter: "A better way forward"**.

The guidelines presented in this document may not correspond exactly to the laws and customs of each host country. When the standards set by local legislation are more stringent than those expressed in the Michelin Purchasing Principles, the local standards shall apply.

Conversely, when the standards in the Michelin Purchasing Principles are more demanding, they shall apply.

Michelin suppliers understand that compliance with the principles and guidelines described in this document is an essential part of our commercial relationship and undertake to apply them or to deploy an improvement process to achieve compliance. **In the event that a supplier fails to apply these principles and guidelines despite repeated warnings, the Group will terminate the commercial relationship.**

NB. Purchasing Principles are published in 12 languages, applicable at worldwide level, and regularly revised.



**MOVIN'ON**  
by Michelin





# ***APPENDICES***

## QUALITY - PRODUCT APPROVAL PROCESS

Depending on the level of quality risk, Michelin approves products for one or several sites.

To obtain approval, a supplier must demonstrate that it is able to deliver, at the best price, a product that complies fully with Michelin specifications in terms of quality, quantity, deadlines, related services and repeatability.

Approval concerns products:

- ➔ described by Michelin specifications;
- ➔ produced using a defined process, production line or machine;
- ➔ produced at a specific site.

Hereafter, the word "product" refers to these three components (product, process and site).

### 1. PRODUCT APPROVAL REQUIREMENTS

To initiate an approval process, the supplier must:

- ➔ **meet the requirements and legal and regulatory constraints** of the country of destination as concerns the content and use of the delivered product (for example, the REACH<sup>(1)</sup> Directive on chemical substances in products sold in the European Union, etc...);
- ➔ **agree to and sign Michelin's specifications** (technical specifications and, if necessary, any stated needs concerning identification, traceability, protection, packaging, shipping, delivery, handling, etc.). Michelin and the supplier must agree on the measurement methods to be used;
- ➔ **provide, in the stipulated languages, the health and safety information** required by the laws and regulations of the country of destination. This information must be validated by Michelin before the product can be used;
- ➔ **describe and provide information on product characteristics not defined** by Michelin if the supplier feels these characteristics are necessary for the product's specific or foreseeable use.

If necessary, Michelin may also ask the supplier to:

- ➔ **provide additional information** (included in the supplier audit questionnaire) concerning:
  - design and development
  - supplier management
  - manufacturing processes and their robustness
  - production, preservation, storage, packaging and shipping resources
  - identification and traceability systems
  - communication resources (including EDI<sup>(2)</sup> order processing and services)
  - materials recycling, handling and disposal
- ➔ **demonstrate effective control over:**
  - its production processes (FMECA<sup>(3)</sup> results, manufacturing process, process capability: Cp, Cpk<sup>(4)</sup>)
  - the quality of manufactured, stored and delivered products (product conformity management: monitoring plan, product capability, measurement quality, etc.)
  - inputs and outsourced products
  - production and supply chain management
- ➔ **demonstrate its ability to manage:**
  - business continuity risks (ability to supply expressed needs, exceptional needs and emergency needs)
  - special product characteristics
  - non-conformity and complaints
  - modifications
- ➔ **to be ISO 9001 Certified, the ISO 14001 certification must be part of progress area, provided by the supplier**

Michelin reserves the right to carry out technical inspections or audits of any or all of the expressed requirements, depending on the product's criticality and Michelin's knowledge of the supplier.

The results of the above will determine whether or not the product approval process continues.

(1) Registration, Evaluation, Authorisation and Restriction of Chemical substances (EC 1907/2006).

(2) Electronic Data Interchange

(3) Failure Mode, Effects and Criticality Analysis

(4) Process capability and Process capability index

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## 2. PRODUCT APPROVAL PROCESS

Depending on the information presented by the supplier and the product's criticality, Michelin establishes an approval protocol that defines:

- the number and type of steps to be deployed;
- the amount of product to be delivered in stages and the Michelin sites involved;
- the list of administrative, supply chain and technical data to be provided by the supplier;
- the level of performance required for approval, as concerns the product's:
  - intrinsic properties (in relation to specifications)
  - behavior in the Michelin manufacturing process
  - ability to meet Michelin's needs

In addition, Michelin and its supplier must agree on:

- batch definition, identification and traceability;
- quality records and compliance test results for delivered products.

Michelin is responsible for deploying the necessary resources to execute and finalize the product approval process in a timely manner.

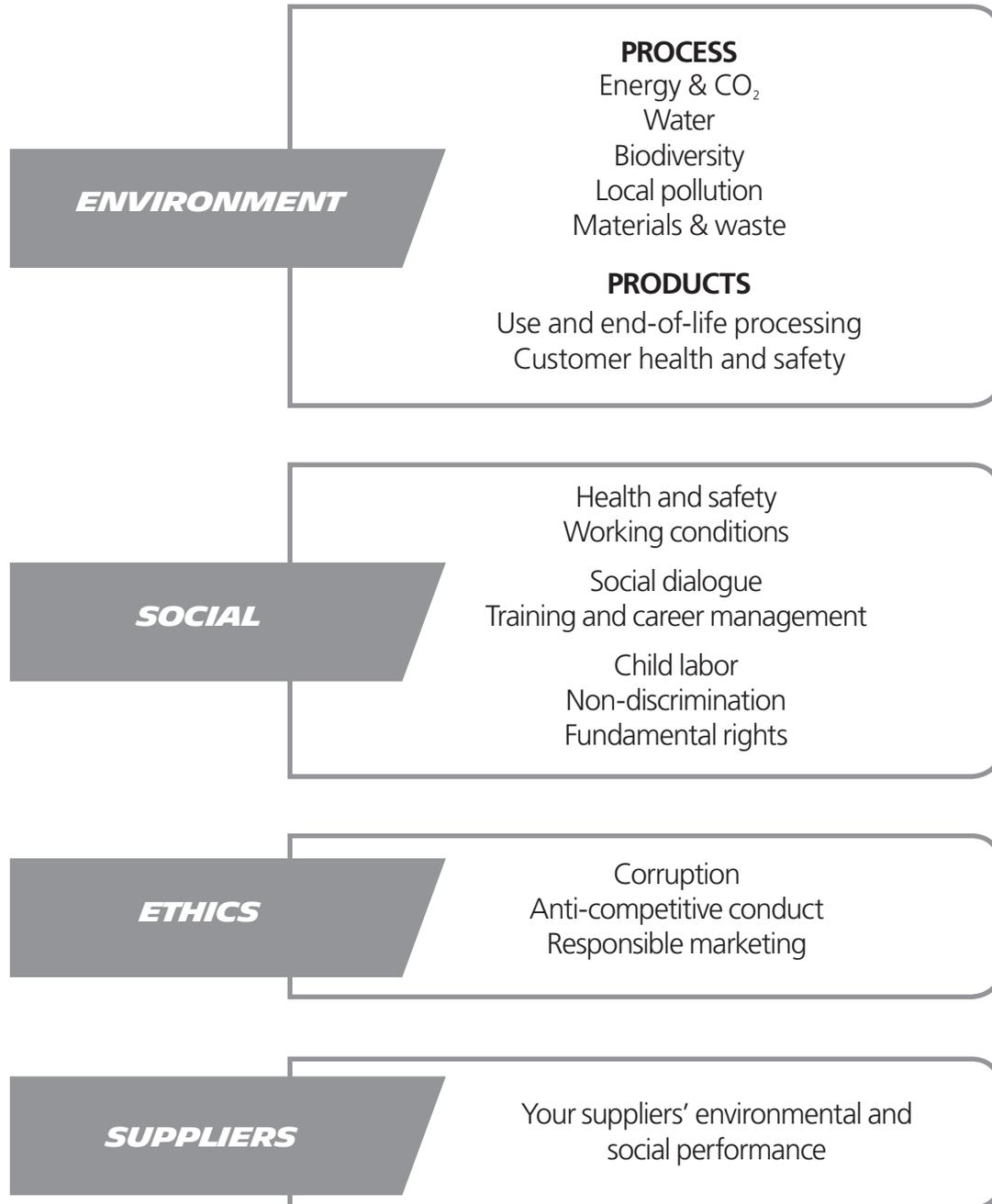
**Once Michelin has determined that all technical, supply chain, commercial and communication requirements are fulfilled, it will grant product approval.**

This approval may be revised if Michelin decides to expand its scope of use or if the supplier makes a modification.

In this case, a risk analysis will be conducted, notably to determine compliance with legal and regulatory constraints in the host country and any specific characteristics of local production.

## **CSR EVALUATION CRITERIA**

The methodology used is based on international CSR standards, as set out in the Global Compact and ISO 26000. It is divided into four core topics. Only the criteria specific to the issues raised by the supplier's operations are retained.



# **MICHELIN'S PURCHASING ORGANIZATION**

## **A global network, with representatives in more than 27 countries**



### **4 PURCHASING DOMAINS**

- Raw Materials
- Natural Rubber
- Industrial Purchases
- Services

### **4 REGIONS**

- Europe
- North America
- South America
- Asia-Pacific

## **TO FIND OUT MORE ABOUT**

➤ The Michelin Performance and Responsibility Charter: "A better way forward"  
[www.michelin.com/corporate](http://www.michelin.com/corporate)

➤ Our supplier guidelines (Quality, Purchasing terms and conditions, etc.)  
[www.michelin.com/purchasing](http://www.michelin.com/purchasing)

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