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THE ROLE OF THE SUSTAINABILITY REPORT AND ANNUAL FINANCIAL STATEMENTS - CASE STUDY OF MICHELIN

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Abstract: *In the context of increasing economic, social, and environmental pressures, corporate reporting has evolved toward an integrated approach that combines financial and non-financial information. This paper analyzes the role of sustainability reporting and annual financial statements in assessing overall corporate performance, highlighting their complementarity in decision-making processes. Using Michelin as a case study, the research examines sustainability reports and financial statements for the years 2023 and 2024 in order to identify the relationship between sustainability strategies, financial performance, and long-term value creation. The findings indicate that integrating sustainability objectives into corporate strategy contributes to enhanced transparency, resilience, and competitive positioning. The study underscores the importance of integrated reporting as a strategic tool for investors, managers, and other stakeholders in the contemporary business environment.*
Key words: *sustainability reporting; annual financial statements; integrated reporting; ESG; financial performance; Michelin.*

1. INTRODUCTION

In recent decades, the global economic environment has undergone profound transformations driven by the intensification of globalization, accelerated technological progress, and increasing social and environmental pressures placed on companies. These changes have significantly altered the way organizations are evaluated, no longer solely from a financial performance perspective, but also in relation to their responsibility toward society and the environment. Consequently, corporate reporting has evolved from a strictly financial approach to an integrated model that encompasses economic, social, and environmental dimensions, reflecting the growing relevance of corporate social responsibility and sustainable value creation (Aguinis & Glavas, 2012).

In this context, sustainability reports and annual financial statements represent fundamental instruments for assessing a company's overall performance. Financial statements provide essential information regarding profitability, liquidity, solvency, and the ability to generate cash flows, being indispensable for investors, creditors, and management. At the same time, sustainability reports reflect the impact of economic activities on the environment, the organization's commitment to social responsibility, and the way relationships with stakeholders are managed.

The topic of this paper, "The Role of the Sustainability Report and Annual Financial Statements – Case Study of Michelin," aims to highlight the importance of an integrated approach to corporate reporting. Correlating financial and non-financial information enables a comprehensive and realistic analysis of organizational performance, contributing to an understanding of how sustainability strategies influence economic results and long-term market positioning.

Currently, investors and regulatory authorities place increasing emphasis on non-financial reporting, recognizing that economic performance cannot be separated from social and environmental impact. Recent European directives, such as the Corporate Sustainability Reporting Directive (CSRD), impose stricter transparency requirements on companies, strengthening the role of sustainability reporting as a strategic communication tool and emphasizing the need for comparable and decision-useful non-financial information (European Commission, 2022). In this regard, integrated reporting has become a key element of modern corporate governance.

Michelin represents a relevant example of a multinational organization that has adopted a strategic approach to sustainability, integrating economic objectives with social and environmental goals. The comparative analysis of sustainability reports and financial statements for the years 2023 and 2024 allows for highlighting how sustainability policies are reflected in

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financial performance and in the company's ability to create long-term value.

1.1. Motivation for choosing the topic

The choice of this topic is justified by the growing importance of sustainability reporting in the current global economic context. Climate change, environmental degradation, depletion of natural resources, and increasing social inequalities have led to a paradigm shift in the evaluation of corporate performance. Today, a company's success is no longer measured exclusively through financial indicators, but also through its capacity to generate sustainable value for society.

Michelin was selected as a case study due to its financial stability and its demonstrated ability to adapt to complex and volatile economic environments. The diversification of its product portfolio, expansion into various geographic markets, and constant investments in research and development have contributed to consolidating its competitive position. At the same time, the adoption of environmental policies aimed at reducing CO_2 emissions, using recyclable materials, and promoting the circular economy further supports the relevance of analyzing sustainability reporting.

Another reason for choosing this topic is the practical relevance of correlating financial statements with non-financial reporting. Such information is essential for managerial decision-making, investment risk assessment, and the formulation of long-term strategies. Therefore, the analysis contributes to a deeper understanding of how sustainability becomes a determinant factor of financial performance and corporate reputation.

1.2 Presentation of the Topic

This paper is based on the analysis of specialized literature regarding sustainability reporting and the role of annual financial statements, with the aim of creating a solid theoretical framework for the case study. Concepts such as corporate social responsibility, non-financial reporting, corporate governance, and financial performance are examined, along with the interdependencies between them.

Additionally, the main standards and regulations applicable to sustainability reporting are presented, including the Global Reporting Initiative (GRI), the GHG Protocol, the United Nations Global Compact, and the European Union Taxonomy. These reporting frameworks provide a common language for assessing the impact of economic activities and facilitate comparability between companies.

The case study focuses on Michelin and aims to analyze comparatively the sustainability reports and financial statements for the years 2023 and 2024. This approach highlights the relationship between sustainability strategy, financial performance, and investment decisions in an industrial sector characterized by a significant environmental impact.

1.3 Objectives of the Project

The main objective of this paper is to analyze the role and impact of sustainability reports and annual financial statements on the financial performance and public image of Michelin. In order to achieve this general objective, the paper aims to:

– analyze the regulatory framework governing sustainability and integrated reporting;
– highlight the role of annual financial statements in evaluating economic performance;
– conduct a comparative analysis of Michelin's sustainability reports for 2023 and 2024;
– analyze the company's financial statements for the same period;
– identify the links between sustainability, financial performance, and strategic positioning;
– formulate relevant conclusions regarding the importance of integrated reporting in the current context.

2. THE ROLE OF THE SUSTAINABILITY REPORT

Sustainability reporting represents an essential communication tool through which companies present their impact on the environment, society, and the economy. It reflects organizations' commitment to sustainable development principles and provides stakeholders with relevant information regarding the management of non-financial risks.

Initially, sustainability reporting was voluntary and predominantly descriptive, serving primarily as a reputation-building instrument, with limited standardization and comparability across organizations (Global Reporting Initiative, 2021). Over time, pressure from investors, civil society, and regulatory authorities led to the standardization and regulation of this type of reporting. As a result, sustainability reporting has become a mandatory component of corporate reporting for an increasing number of companies.

The standardization of sustainability reporting emerged from the need for transparency and comparability of information. Among the most widely used reporting frameworks are the Global Reporting Initiative (GRI), the GHG Protocol, the United Nations Global Compact, and the European Union Taxonomy, all of which aim to enhance transparency, accountability, and consistency in sustainability disclosures (GRI, 2021; United Nations, 2015). These frameworks provide companies with clear guidelines for identifying, measuring, and reporting environmental, social, and governance indicators.

2.1 The Role of the Sustainability Report within the Company

From an internal perspective, the sustainability report represents a strategic management tool. It enables the monitoring of non-financial performance, the identification of risks and opportunities, and the substantiation of strategic decisions. Through sustainability reporting, companies can assess the effectiveness of environmental, social, and governance policies and adjust their strategies based on obtained results.

The implementation of sustainability policies contributes to the optimization of internal processes, long-term cost reduction, and increased operational efficiency. For instance, investments in energy efficiency and renewable resources can lead to significant savings, while occupational health and safety policies reduce operational risks and costs associated with workplace accidents.

Furthermore, sustainability reporting facilitates employee engagement and strengthens organizational culture. Employees are more motivated to work in organizations that demonstrate social responsibility and environmental concern, which contributes to increased productivity and reduced staff turnover.

2.2 The Role of the Sustainability Report for Investors

For investors, sustainability reports are an important source of information regarding long-term risks and opportunities, particularly in relation to environmental, social, and governance factors that may affect future cash flows and firm valuation (Aguinis & Glavas, 2012). ESG factors are increasingly integrated into investment decisions, as they influence financial stability and companies' adaptive capacity.

Investors use ESG ratings to evaluate non-financial performance and compare companies within the same industry. Companies with high ESG scores are perceived as more resilient and better prepared to face economic and environmental challenges. The credibility of reporting is essential and depends on transparency, management quality, and the existence of internal and external assurance mechanisms.

3. THE ROLE OF ANNUAL FINANCIAL STATEMENTS

Annual financial statements constitute the primary instrument for evaluating a company's economic and financial performance. They provide a faithful representation of financial position, results, and cash flows, being essential for the decision-making processes of investors, creditors, and management.

Financial reporting contributes to reducing information asymmetry between companies and stakeholders, facilitating efficient capital allocation and supporting informed investment decisions (Aguinis & Glavas, 2012). Financial indicators calculated based on financial statements allow for assessing profitability, liquidity, solvency, and resource-use efficiency.

3.1 The Role of Financial Statements within the Company

From an internal perspective, financial statements are used for strategic planning, performance control, and result evaluation.

Periodic financial analysis enables the identification of strengths and vulnerabilities and supports informed investment and financing decisions.

The accuracy and transparency of financial information are critical for maintaining investor and creditor confidence. Distorted or erroneous reporting may lead to incorrect decisions, damage corporate reputation, and generate legal risks.

3.2 The Role of Financial Statements for Investors

For investors, annual financial statements represent the main source of information regarding performance, risk, and growth prospects. Financial indicator analysis enables comparisons between companies in the same sector and assessments of their capacity to generate future cash flows.

4. CASE STUDY – MICHELIN

4.1 Presentation of Michelin

Founded in 1889 in France, Michelin has established itself as one of the global leaders in the tire manufacturing industry. Over time, the company has expanded beyond tire production, developing innovative solutions in high-technology materials and related services.

Michelin's business model is characterized by integration across the entire value chain, diversification, and a strong orientation toward innovation. The company's solid reputation is based on product quality, safety, performance, and a consistent commitment to sustainability.

4.2 Analysis of Michelin's Sustainability Report

a) Analysis for 2023

In 2023, Michelin integrated sustainability reporting into its Universal Registration Document, adopting the "All Sustainable" vision and aligning its disclosures with internationally recognized reporting standards (Michelin, 2023). The company's strategy focused on balancing profitability, employee well-being, and environmental protection. Reported indicators highlight significant progress in reducing greenhouse gas emissions, increasing energy efficiency, and promoting the circular economy.

b) Analysis for 2024

In 2024, Michelin continued implementing the CSRD requirements and strengthened its sustainability policies, further improving the scope and quality of non-financial disclosures (Michelin, 2024; European Commission, 2022). The focus was placed on the use of recyclable materials, the development of sustainable mobility solutions, and reducing environmental impact throughout the entire value chain.

c) Comparative Analysis

The comparative analysis of the 2023 and 2024 sustainability reports highlights the continuity of Michelin's sustainability strategy and the constant improvement of non-financial indicators. These developments are correlated with maintained financial performance and the strengthening of the company's competitive position.

4.3 Analysis of Michelin's Financial Statements

a) Analysis for 2023

The 2023 financial statements indicate solid performance, characterized by increases in revenue, profitability, and return on invested capital. Activity diversification and operational efficiency contributed significantly to these results.

b) Analysis for 2024

In 2024, Michelin managed to maintain financial stability despite economic uncertainty, demonstrating the resilience of its business model.

c) Comparative Analysis

The comparative analysis of financial statements for 2023 and 2024 confirms a positive correlation between investments in sustainability and the company's financial performance.

5. CONCLUSIONS

This paper highlights the importance of sustainability reports and annual financial statements in assessing a company's overall performance. The Michelin case study demonstrates that integrating sustainability into business strategy contributes to increased resilience, transparency, and long-term value creation.

The analysis of the consolidated financial position of the Michelin Group for the 2023–2024 period highlights the company's ability to maintain financial stability and profitability in a challenging economic environment characterized by inflationary pressures, exchange rate volatility, and weakened market demand. Although sales declined in 2024, the Group's overall financial performance remained solid, supported by effective cost management and a strategy focused on high value-added products.

The evolution of profit margins indicates an improvement in operational efficiency, as the gross margin increased slightly despite lower revenues, reflecting tight control over the cost of sales. At the same time, the moderate contraction in segment operating profit underscores the pressure on core operations, mainly driven by declining volumes and adverse external factors. Nevertheless, the continued positive price and mix effect demonstrates the strength of the Michelin brand and the Group's ability to partially offset demand contraction through its premium product positioning.

The balance sheet structure confirms a robust financial position, marked by growth in total assets and ongoing investments in both tangible and intangible assets aimed at supporting long-term development. The reduction in net working capital and the significant increase in cash and cash equivalents highlight prudent liquidity management, while the decrease in the gearing ratio and the improvement in the net debt-to-EBITDA ratio indicate a strengthening of the financing structure and a low level of financial risk.

The cash flow analysis reveals the Group's continued strong capacity to generate cash, with free cash flow remaining at a robust level despite a slight decline compared to the previous year. This performance enabled the Group to finance investments, reward shareholders, and continue share buyback programs without compromising its financial balance.

With regard to returns on capital, although ROE and operating ROCE recorded moderate declines, they remained at competitive levels, reflecting the efficient use of invested capital. Furthermore, the significant reduction in net debt costs contributed to an improved ability to cover financial expenses, thereby reinforcing the Group's financial resilience.

In conclusion, the financial results of the Michelin Group for the period under review demonstrate a **balanced financial strategy** focused on prudence, operational efficiency, and long-term value creation. Despite a less favorable economic context, the Group maintains a strong financial position and sustainable growth prospects, confirming its adaptability and competitiveness over the medium and long term.

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Rolul raportului de sustenabilitate și al situațiilor financiare anuale – studiu de caz al Michelin

Abstract: *In the context of increasing economic, social, and environmental pressures, corporate reporting a evoluat către o abordare integrată care combină informații financiare și non-financiare. Această lucrare analizează rolul raportării privind sustenabilitatea și a situațiilor financiare anuale în evaluarea performanței generale ale companiei, evidențiind complementaritatea acestora în procesele decizionale. Folosind Michelin ca studiu de caz, cercetarea analizează rapoartele de sustenabilitate și situațiile financiare pentru anii 2023 și 2024 pentru a identifica relația dintre strategiile de sustenabilitate, performanța financiară și crearea de valoare pe termen lung. Constatările indică faptul că integrarea obiectivelor de sustenabilitate în strategia corporativă contribuie la o transparență sporită, reziliență și poziționare competitivă. Studiul subliniază importanța raportării integrate ca instrument strategic pentru investitori, manageri și alți factori interesați în mediul de afaceri contemporan.*

Cuvinte cheie: *raportare de sustenabilitate; situații financiare anuale; raportare integrată; ESG; performanța financiară; Michelin.*

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