RESULTS 2014

MICHELIN

A better way forward

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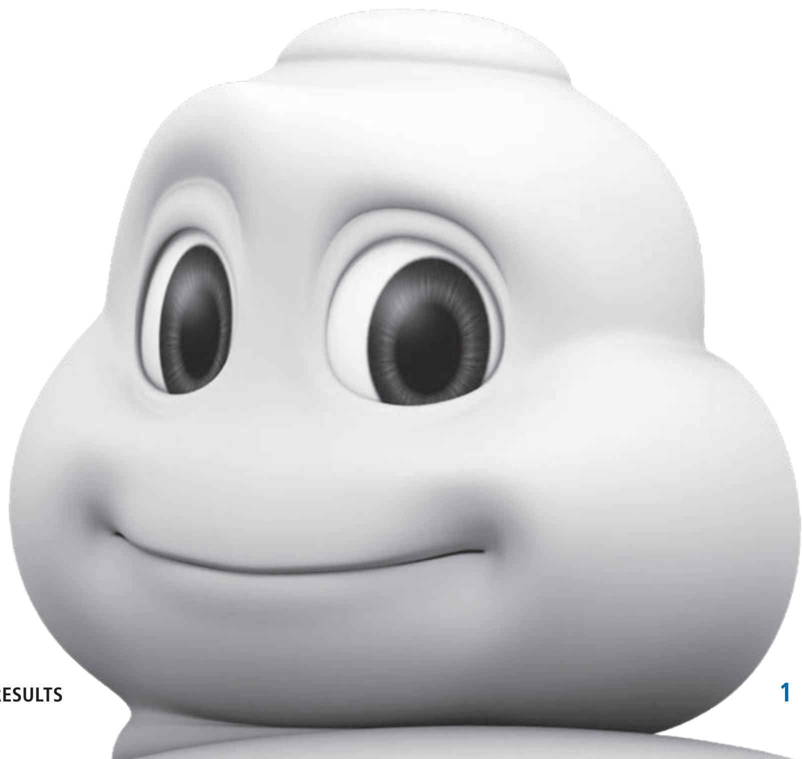
PRESS RELEASE



Press release

Clermont-Ferrand – February 10, 2015

Financial Information for the Year Ended December 31, 2014

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

2014: Strong free cash flow generation before acquisitions, at €722 million.

Solid operating income before non-recurring items, at €2,170 million, up €81 million at constant scope of consolidation and exchange rates.

2015: Growth in line with the markets.

- Sluggish markets, except in North America and China:
  - weaker demand for Passenger car/Light truck and Truck tires, in the winter segments in Europe, and for original equipment (OE) in the new markets, except for China;
  - decline in the Agricultural and Mining sectors, softened by a recovery in the OE and Infrastructure market in the Earthmover tire segment;
  - continued robust growth in North America and China.
- In this environment, volumes up by a slight 0.7%:
  - sales of MICHELIN brand Passenger car and Light truck tires in line with market trends;
  - Specialty tire volumes nearly stable despite the narrower Mining tire and Agricultural segments.
- Changes in price mix and raw materials prices had a €118 positive million impact, as expected.
- Competitiveness plan's gain once again absorbing the effects of inflation on production costs and overheads.
- Strong free cash flow generation at a high €722 million, before the €400-million investment in Sascar but after €1,883 million of capital expenditure.
- Dividend of €2.50 per share, unchanged from last year, to be recommended at the Annual Shareholders Meeting of May 22, 2015, reflecting confidence in the Group's future.

Jean-Dominique Senard, Chief Executive Officer, said: "Last year's results provide further confirmation of the Group's strong fundamentals. This year, we will focus on stepping up our growth drivers, including the launch of new MICHELIN brand ranges and a revamped line-up of our other brands, a significant improvement in the quality of our customer service, and more assertive distribution. The competitiveness plan will also be accelerated and now aims to achieve cumulative savings of €1,200 million over the period 2012-2016, versus €1,000 previously."

Outlook for 2015

In 2015, demand in the Passenger car/Light truck and Truck segments should continue to grow in North America and China, and also in Europe albeit at a modest rate, while holding firm to last year's trend in the new markets and rebounding in Southeast Asia.

Mining tire customers are likely to make further inventory drawdowns and OE sales in the Agricultural tire segment are expected to be lower, while in the Earthmover segment, OE and Infrastructure business should continue to grow at a modest rate.

In this environment, Michelin is aiming to grow unit sales in line with global trends in the markets in which it operates. In addition, the Group has set a 2015 target of delivering an increase in operating income before non-recurring income, beyond exchange rate effect, a return on capital employed in excess of 11%, and structural free cash flow of approximately €700 million, with €1.7-1.8 billion in capital expenditure.

(in € million)	2014	2013
Net sales	19,553	20,247
Operating income before non-recurring items	2,170	2,234
of which: currency effect	*-145*	
Operating margin before non-recurring items	11.1%	11.0%
Passenger car/Light truck tires and related distribution	10.5%	10.2%
Truck tires and related distribution	8.1%	7.8%
Specialty businesses	19.3%	20.6%
Operating income after non-recurring items	1,991	1,974
Net income	1,031	1,127
Capital expenditure	1,883	1,980
Net debt	707	142
Gearing	7%	2%
Employee benefit obligations	4,612	3,895
Free cash flow (1)	322	1,154
Return on capital employed	11.1%	11.9%
Number of employees (2)	112,300	111,200

(1) Free cash flow: Net cash from operating activities - Net cash from investing activities.
(2) At December 31.

MARKET REVIEW

PASSENGER CAR AND LIGHT TRUCK TIRES

2014 % change year-on-year *(in number of tires)*	Europe*	North America	Asia (excluding India)	South America	Africa/India/ Middle East	Total
Original Equipment	+3%	+5%	+4%	-16%	+2%	+3%
Replacement	+1%	+6%	+4%	+5%	+4%	+4%

Fourth Quarter 2014 % change year-on-year *(in number of tires)*	Europe*	North America	Asia (excluding India)	South America	Africa/India/ Middle East	Total
Original Equipment	-0%	+4%	-0%	-9%	+12%	+1%
Replacement	-7%	+6%	+3%	+5%	+4%	+1%

* *Including Russia and Turkey.*

Original Equipment

- In Europe, the 3% increase in demand reflected the combined effects of 5% growth in Western Europe on the back of a weak market in early 2013, and a 12% decline in Eastern Europe (including a 25% drop in the fourth quarter) in a difficult geopolitical and economic environment.
- In North America, the market remained buoyant, expanding by 5% over the year. Growth was led by robust demand in the vehicle market and by the favourable economic conditions.
- In Asia (excluding India), the market grew by 4% overall. In China, the market continued to grow rapidly, expanding by 9% over the year, although the region's economic climate caused a loss of momentum in the second half. The Japanese market was up 1%, with the pace of growth slowing in the second half in line with the long-term trend, after being stimulated in the early part of the year by buying ahead of the April 1 increase in VAT. The Southeast Asian market continued to decline, contracting by 8% over the year due mainly to the political and economic environment in Thailand.
- In South America, the 16% drop in demand compared with 2013 was due to the economic situation in Brazil and Argentina.

Replacement

- In Europe, the market expanded by a slight 1% over the year. Demand in Western Europe rose 2%, despite an 8% decline in the fourth quarter that was mainly due to weak demand for winter tires. The winter tire market was stable over the year, with some competitors starting to make deliveries to dealers in June, but with warm weather during the fall causing a sharp drop in demand that left dealers with large inventories of certain brands. In Eastern Europe, the market was hit by the political and economic problems in Russia and ended the year down 3%.
- In North America, the market grew 6%, lifted by higher inventory building in tire imports from China ahead of the introduction of customs duties, as well as by sustained demand for winter tires in Canada and by the vibrant Mexican market.
- In Asia (excluding India), demand rose by 4% overall. A further improvement in mix shaped the markets in China, where demand rose by 8% over the year but growth slowed in the second half in the less buoyant economic environment. The Japanese market grew by 2%, led by demand for winter tires. The Southeast Asian market expanded by 4%, reflecting growth in Indonesia and Vietnam in particular.
- In South America, demand rose 5%, led by Brazil and by the artificial stimulus provided by cut-price deals on unsold tires originally intended for the OE market.

TRUCK TIRES

2014 % change year-on-year *(in number of new tires)*	Europe**	North America	Asia (excluding India)	South America	Africa/India/ Middle East	Total
Original Equipment*	-9%	+16%	+1%	-21%	+3%	-1%
Replacement*	+1%	+8%	+1%	-4%	-1%	+1%

Fourth Quarter 2014 % change year-on-year *(in number of new tires)*	Europe**	North America	Asia (excluding India)	South America	Africa/India/ Middle East	Total
Original equipment*	-15%	+25%	-4%	-34%	-0%	-4%
Replacement*	-4%	+5%	-2%	-10%	-1%	-2%

* *Radial & bias.*
** *Including Russia and Turkey.*

Original Equipment

- In Europe, the market contracted by a significant 9%. This included a 4% decline in Western Europe, where sales were adversely affected by weaker export demand and the introduction of new Euro VI standards, and a 35% drop in Eastern Europe, in an unfavourable geopolitical and economic environment.
- In North America, the market continued to expand rapidly (up 16%), led by demand from OEMs operating at full capacity and by an especially steep increase in the Class 8 segment.
- In Asia (excluding India), demand for radial and bias tires was up 1%. In China, the 1% increase in the market reflected the net impact of the transport industry's efficiency improvement drive and softer demand in the Coach & Bus segment due to competition from train operators. In Southeast Asia, demand was down 16% due to the economic slowdown and unstable political situation in Thailand. In Japan, the OE tire market grew by a strong 19% over the year, led by vibrant demand in the Construction segment and by a recovery in export volumes.
- In the less buoyant South American economy, demand fell sharply, by 21% over the year and 34% in the fourth quarter alone, after growing strongly in 2013 on brisk demand for heavy-duty trucks in the farming industry.

Replacement

- In Europe, the replacement market edged up 1% over the year. In Western Europe, 4% market growth was led by the transport segment, inventory building among dealers and a shortage of casings for re-treads. In Eastern Europe, the replacement tire market contracted by 2% over the year, with demand falling more sharply in the fourth quarter; the year also saw a sharp rise in demand for entry-level tires.
- The North American market continued to expand rapidly, growing 8% over the year, with the period-on-period decline in the fourth quarter being due to high prior period comparatives. Macro-economic factors and transport industry trends remained favourable, while the market share of imported tires increased, particularly in Mexico.
- The Asian markets (excluding India) grew a slight 1%. In China, the market was up 1%, despite a slowdown in the freight segment and a stable passenger transport segment. The market gained 6% in Japan, where growth was led by demand for winter tires at the end of the year, after being stimulated in the early part of the year by buying ahead of the April 1 increase in VAT. In Southeast Asia, the market was stable overall despite a steep 18% drop in Thailand.
- The South American market contracted by 4% in a more challenging socio-economic environment. In Brazil, the year-on-year 1% decline was amplified by high prior-year comparatives that were due to the flourishing farming sector in 2013.

SPECIALTY TIRES

- **Earthmover tires:** the market for mining tires contracted sharply compared with 2013, as mining companies reduced their tire inventories and operations at certain mines were scaled back in response to sharply lower commodity prices.

  OE demand rebounded in mature markets, following the previous year's inventory drawdowns by manufacturers.

  Demand for tires used in infrastructure and quarries rose in mature markets, thanks in particular to the year-on-year reduction in dealer inventories.
- **Agricultural tires:** global OE demand ended the year down sharply in mature markets, due to the extensive replacement sales of farm machinery in recent years, falling grain prices and the reduction in agricultural tax incentives in the United States.

  The replacement market in Europe was stable in 2014, although demand declined in the second half. The North American replacement market was significantly lower.
- **Two-wheel tires:** the motorcycle tire market expanded in Europe, helped by last year's good weather, while in North America demand was down year-on-year.
- **Aircraft tires:** demand in the commercial aircraft segment rose compared with the previous year, led by the increase in passenger traffic.

2014 NET SALES AND RESULTS

NET SALES

Net sales for 2014 amounted to €19,553 million compared with €20,247 million the previous year. The 2014 figure is stated net of a €304 million negative currency effect and the €75 million negative effect of changes in the scope of consolidation.

Unit sales were up 0.7% in sluggish markets, attesting to a resilient performance by the MICHELIN brand, in line with markets.

Changes in the price mix had a negative impact of €449 million or 2.2%. Price adjustments trimmed €596 million from net sales, of which around 35% concerned the effect of applying indexation clauses based on raw materials prices. This was partly offset by the €147 million favourable impact of improvements in the product mix, linked notably to the MICHELIN brand's premium strategy in the Passenger car/Light truck segment.

The currency effect was a negative €304 million or 1.5%. The euro/dollar exchange rate was highly unfavourable in the first eight months, although it was positive during the rest of the year. Added to this, the euro's strength against the Brazilian real, the Russian rouble, the Argentine peso, the Canadian dollar and certain other currencies also had a negative impact.

RESULTS

Operating income before non-recurring items amounted to €2,170 million compared with €2,234 million in 2013. Non-recurring items, in the amount of €179 million, consisted mainly of restructuring costs related to the Group's competitiveness improvement projects.

Excluding the €145 million negative currency effect, operating income before non-recurring items reflects the €118 million net positive effect of actively managing the price mix, with the €449 million negative mix effect offset by the €567 million positive effect from lower raw materials costs. It also reflects the modest increase in unit sales (€51 million positive impact), the benefits of the competitiveness plan (€238 million positive impact), in line with the target for the year, production and other cost inflation (€256 million negative impact), the change in spending on the new OPE business process management system and the stabilization of start-up costs and costs incurred in new markets.

Net income came in at €1,031 million.

NET FINANCIAL POSITION

During the year, the Group generated **free cash flow of €722 million,** excluding the Sascar acquisition but after capital expenditure of €1,883 million.

At December 31, 2014, **gearing stood at 7%,** with net debt at €707 million. At the previous year-end, the ratio was 2% and net debt was €142 million.

SEGMENT INFORMATION

	Net sales		Operating income before non-recurring items		Operating margin before non-recurring items	
(in € million)	2014	2013	2014	2013	2014	2013
Passenger car/Light truck tires and related distribution	10,498	10,693	1,101	1,086	10.5%	10.2%
Truck tires and related distribution	6,082	6,425	495	503	8.1%	7.8%
Specialty businesses	2,973	3,129	574	645	19.3%	20.6%
GROUP	**19,553**	**20,247**	**2,170**	**2,234**	**11.1%**	**11.0%**

Passenger car/Light truck tires and related distribution

Net sales in the Passenger car/Light truck tires and related distribution segment stood at €10,498 million, including a negative currency effect of 1.3%, compared with €10,693 million in 2013.

Operating income before non-recurring items amounted to €1,101 million or 10.5% of net sales, compared with €1,086 million and 10.2% in 2013.

Excluding the negative currency effect, the year-on-year increase primarily reflects the 2% growth in unit sales, despite the disappointing performance of mid-range brands, and a positive change in the price mix that was achieved on the back of lower raw materials prices, thanks to the Group's price management strategy. The steady improvement in the mix was supported by the successful strategy in the 17-inches and over segment, and by well-received new products such as the MICHELIN Premier A/S, MICHELIN Alpin 5, MICHELIN Pilot Sport Cup 2 and, at the end of the year, the BFGoodrich KO2.

Truck tires and related distribution

Net sales in the Truck tires and related distribution segment amounted to €6,082 million compared with €6,425 million in 2013. Unfavourable exchange rates had a negative impact of 2.2%.

Operating income before non-recurring items came in at €495 million, representing 8.1% of net sales, compared with €503 million and 7.8% the previous year.

This performance, which was in line with the target of improving profitability, reflected effective price management in a highly competitive environment linked to the decline in raw materials prices. It also reflected a modest 1% increase in unit sales, tight management of production costs and overheads, and the currency effect.

Specialty businesses

Net sales in the Specialty businesses amounted to €2,973 million versus €3,129 million in 2013, after taking into account the negative currency effect (-1.7%) and the decline in unit sales, which was limited to 1% despite tire inventory drawdowns by mining companies and lower demand in the Agricultural tire segment.

Operating income before non-recurring items amounted to €574 million or 19.3% of net sales compared with €645 million or 20.6% in 2013.

The decline was due in part to negative volume and currency effects, and it also reflected price adjustments designed to pass on to customers the benefits of lower raw materials prices through the application of indexation clauses.

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Compagnie Générale des Établissements Michelin ended the year with net income of €555 million, compared with €303 million in 2013.

The financial statements were presented to the Supervisory Board for approval at its meeting of February 5, 2015. An audit was performed and the auditors' report was issued on February 9, 2015.

The Chief Executive Officer will call an Annual Shareholders Meeting on Friday 22 May, 2015 at 9:00 a.m. in Clermont-Ferrand.

The Chief Executive Officer will ask shareholders to approve the payment of a dividend of €2.50 per share, unchanged from the previous year.

2014 HIGHLIGHTS

- MICHELIN® Premier® A/S, a self-regenerating tire – always safe, even when worn (January 15, 2014).
- The French Alternative Energies and Atomic Energy Commission (CEA), Michelin, Protéus (PCAS Group) and SDTech join forces to develop two innovative uses for scrap tires (January 28, 2014).
- Michelin Canada announces it will reduce the production of small-size tires at its Pictou County plant in Nova Scotia between now and July 2015. Michelin also announces that it will invest C$66.5 million to strengthen manufacturing resources in its three Canadian plants (March 3, 2014).
- Michelin awarded Boeing 737 MAX 7 & 8 Original Equipment tire supply contract (March 10, 2014).
- The new lineup of MICHELIN X® LINE™ Energy™ 80 and 65 series tires: more performance in the same tire (March 21, 2014).
- Michelin plans to reconfigure production base in Hungary and Michelin announces a project to close its truck tire plant in Budapest (May 6, 2014).
- Engaging with stakeholders in mobility and sustainable development issues (May 13-14, 2014).
- The MICHELIN X-STRADDLE 2 tire: enhanced safety and productivity for port equipment operators (May 14, 2014).
- Michelin completes the acquisition of Sascar, Brazil's leading fleet management and freight security company (September 1, 2014).
- Dealerships: 1,000th TYREPLUS Unit Opens in China (September 8, 2014).
- The first race in the FIA Formula E Championship was run on the grounds of the Beijing Olympic Stadium. Michelin is an official partner of the Championship (September 13, 2014).
- MICHELIN Ultraflex Technologies – Improving Crop Yields by Up to 4%. 2004-2014: a decade of low-pressure tires improving crop yields, productivity and soil protection (September 30, 2014).
- MICHELIN X® MULTI™ line launched in Asia (October 7, 2014).
- Michelin scores industry best in innovation management and five other sustainable development categories (October 23, 2014).
- Renewal of the term of office of Jean-Dominique Senard, the Managing General Partner (November 3, 2014).
- Michelin Challenge Bibendum "Think and Action Tank" dedicated to tomorrow's mobility (November 11-14, 2014).
- Michelin opens world's first manufacturing plant to build revolutionary Airless Radial Tire: the MICHELIN® TWEEL® (November 20, 2014).

A full description of 2014 highlights may be found on the Michelin website http://www.michelin.com/eng.

PRESENTATION AND CONFERENCE CALL

The 2014 results will be reviewed with analysts and investors during a conference call today, Tuesday, February 10, at 11:00 a.m. CET (10:00 a.m. UT). The conference will be in English, with simultaneous interpreting in French. If you wish to participate, please dial-in one of the following numbers from 10:50 a.m. CET:

- In France 01 70 77 09 36 (in English)
- In the UK 0207 107 1613 (in English)
- In North America +1 866 907 5923 (in English)
- From anywhere else +44 207 107 1613 (in English)

The presentation of financial information for 2014 may be viewed at http://www.michelin.com/eng, along with practical information concerning the conference call.

INVESTOR CALENDAR

- **Quarterly information for the three months ended March 31, 2015:** Wednesday, April 22, 2015 after close of trading
- **First-half 2015 net sales and results:** Tuesday, July 28, 2015 before start of trading

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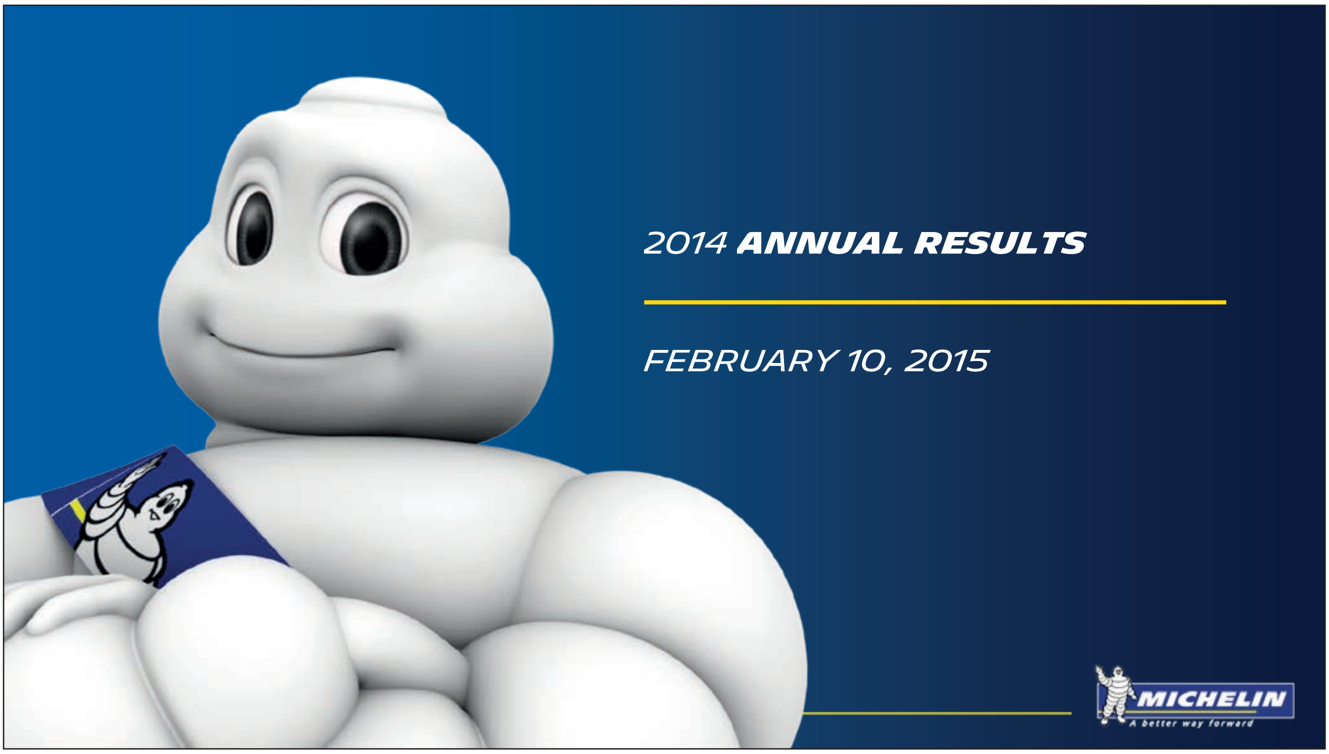
2 SLIDESHOW



Solid results in generally sluggish markets

- Strong free cash flow generation before acquisitions: €722m
- €118m positive impact from changes in price mix/raw materials costs, as expected
- Competitiveness plan absorbing the effects of inflation on production costs and overheads
- Volumes up by a slight 0.7%:
  - in an environment shaped by slower market growth
  - insufficiently responsive supply chain and strong pressure on Tier 2 brands
  - MICHELIN brand growing in line with markets
- Operating income before non-recurring income at €2,170m, up €81m at constant scope of consolidation and exchange rates
- Recommended dividend of €2.50 per share*, unchanged from 2013

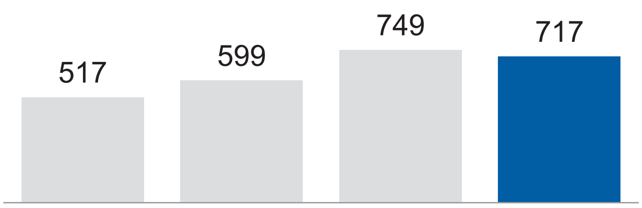
** Subject to approval by the Annual Shareholders Meeting of May 22, 2015*

2 2014 ANNUAL RESULTS – February 10, 2015

MICHELIN A better way forward

A business that structurally generates Free Cash Flow

▶ **Structural free cash flow**



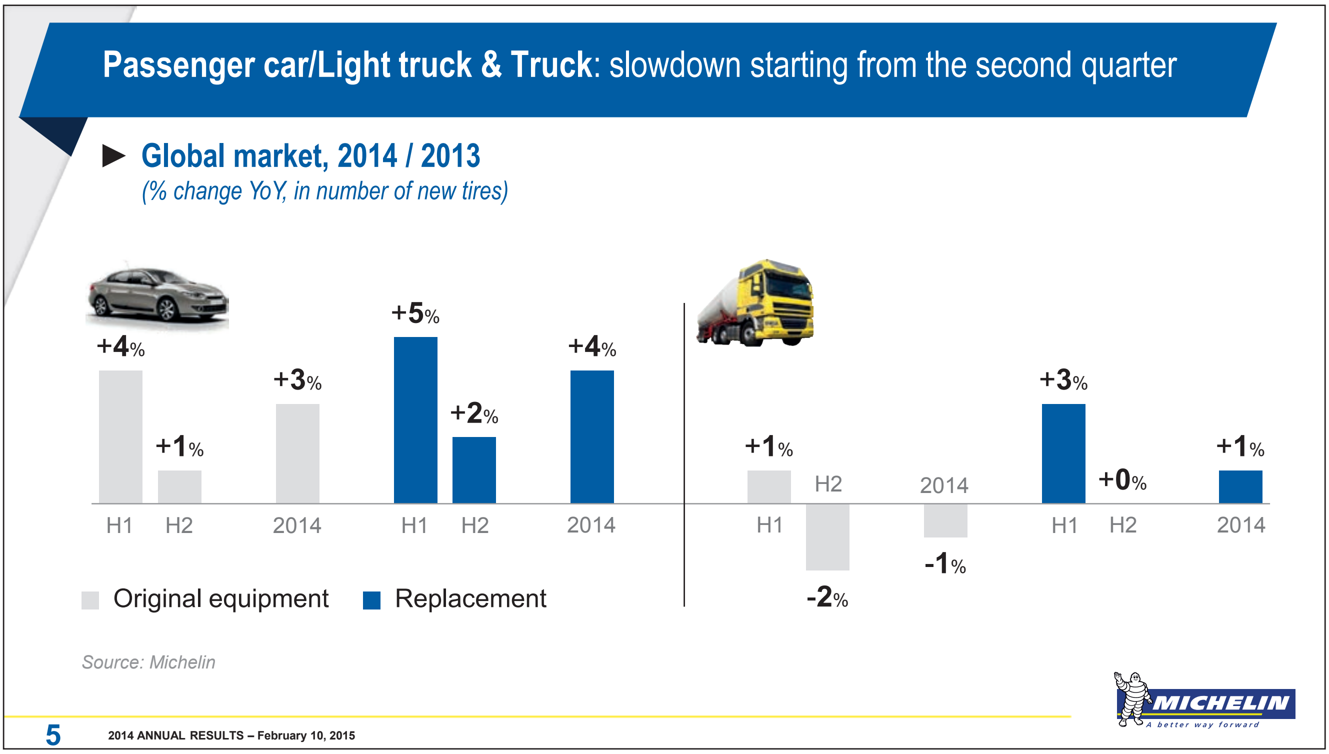
In € millions	2011	2012	2013	**2014**	**Total**
Reported free cash flow [1]	(19)	1,075	1,154	**322**	**2,532**
WCR impact of raw materials costs [2]	(739)	21	405	**177**	**(136)**
Year-end volume effect on WCR [3]	(200)	344	nm	**(172)**	**(28)**
Non-recurring items [4]	403	111	-	**(400)**	**114**
Structural free cash flow [(1) – (2) – (3) – (4)]	517	599	749	**717**	**2,582**

3 2014 ANNUAL RESULTS – February 10, 2015

Shareholder commitment and use of cash: dividend maintained, anti-dilution measures, acquisitions

- **Dividend unchanged at €2.50 per share**:
  - Recommended to shareholders at the May 22, 2015 Annual Meeting
- **Steady shareholder commitment**:
  - Scrip dividend discontinued
  - €293m worth of share buybacks in 2013-2014
  - Share cancellations
- **Acquisitions consistent with Group's strategy**:
  - Sascar acquisition (€400m)
- **Employee benefit obligations**:
  - Defined benefit obligation funding rate > 85% (USA, Canada, UK plans)
  - €70m in contributions paid in 2014

4 2014 ANNUAL RESULTS – February 10, 2015


Passenger car/Light truck & Truck: slowdown starting from the second quarter
Global market, 2014 / 2013
(% change YoY, in number of new tires)
+4%
+1%
+3%
+5%
+2%
+4%
H1
H2
2014
H1
H2
2014
Original equipment
Replacement
+1%
H2
2014
+3%
+0%
+1%
H1
H1
H2
2014
-2%
-1%
Source: Michelin
MICHELIN
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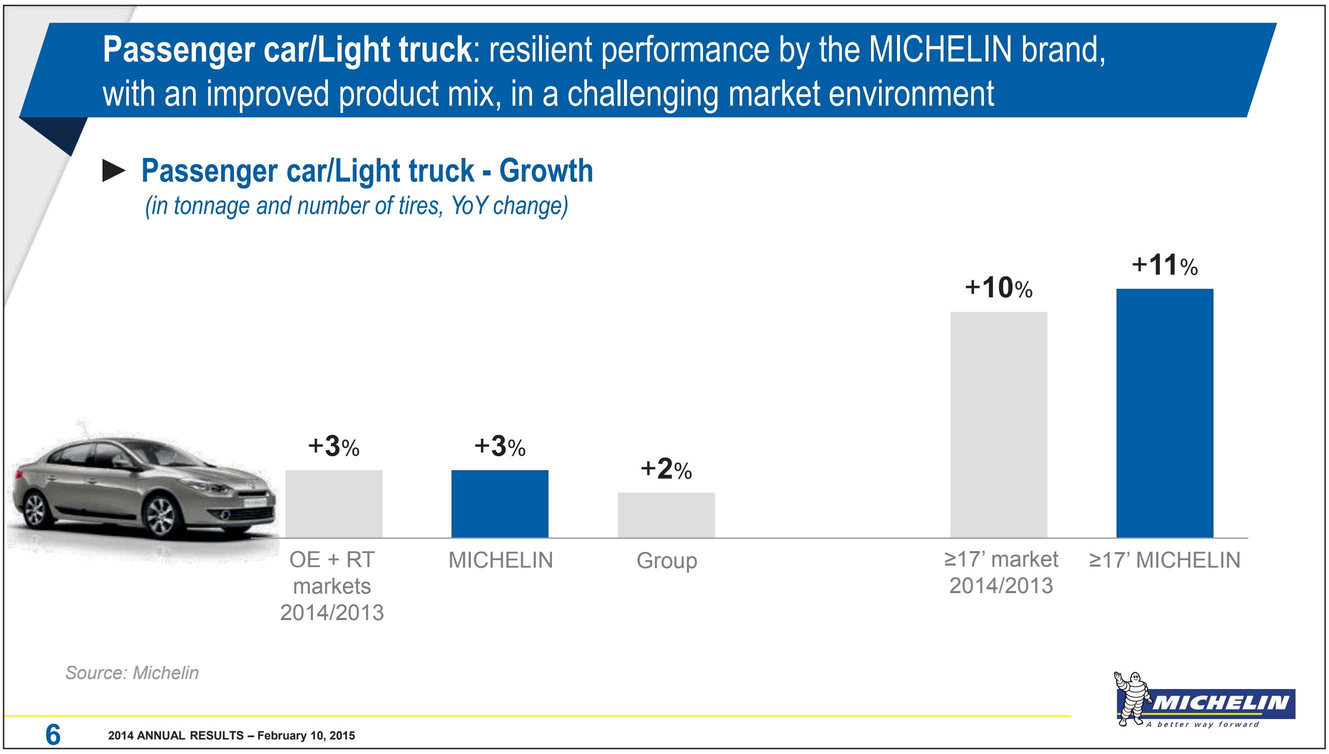
2014 ANNUAL RESULTS – February 10, 2015


Passenger car/Light truck: resilient performance by the MICHELIN brand, with an improved product mix, in a challenging market environment
Passenger car/Light truck - Growth
(in tonnage and number of tires, YoY change)
+3%
+3%
+2%
+10%
+11%
OE + RT markets 2014/2013
MICHELIN
Group
≥17' market 2014/2013
≥17' MICHELIN
Source: Michelin
MICHELIN
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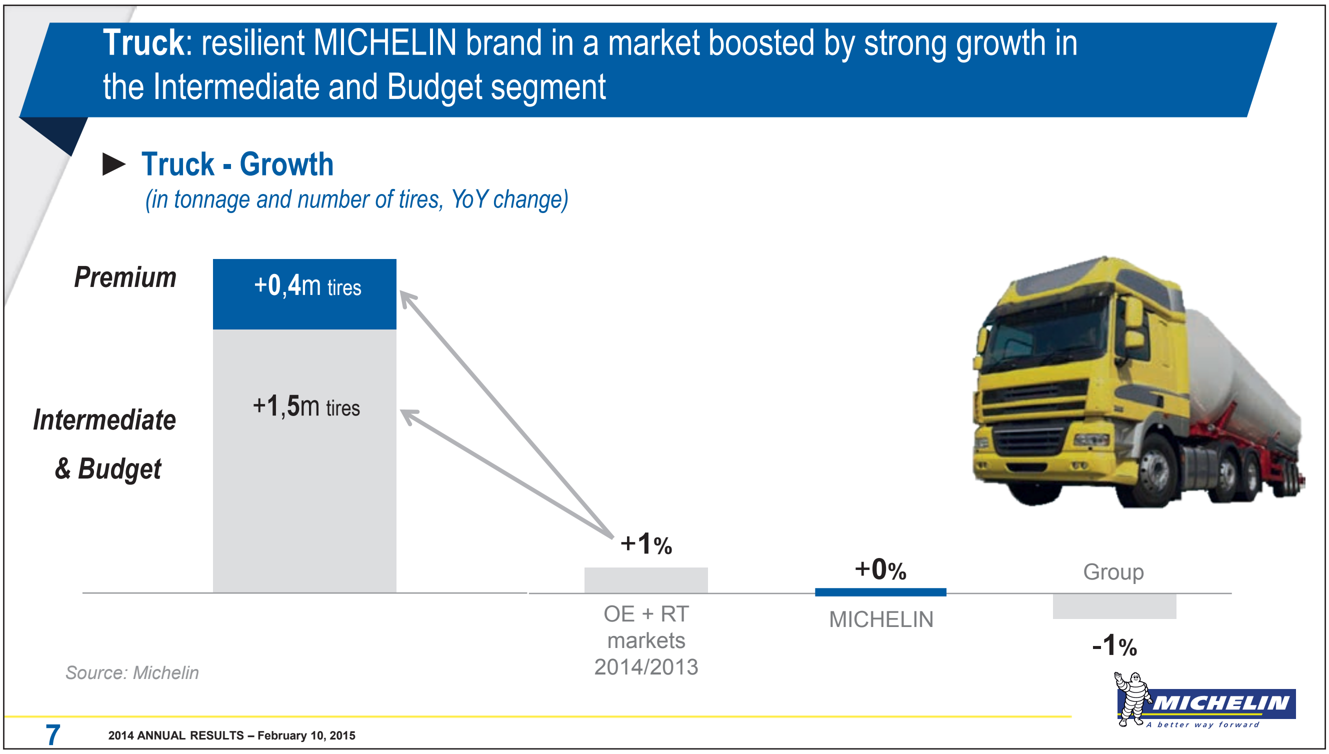
2014 ANNUAL RESULTS – February 10, 2015


Truck: resilient MICHELIN brand in a market boosted by strong growth in the Intermediate and Budget segment
Truck - Growth
(in tonnage and number of tires, YoY change)
Premium
+0,4m tires
Intermediate & Budget
+1,5m tires
+1%
OE + RT markets 2014/2013
+0%
MICHELIN
Group
-1%
Source: Michelin
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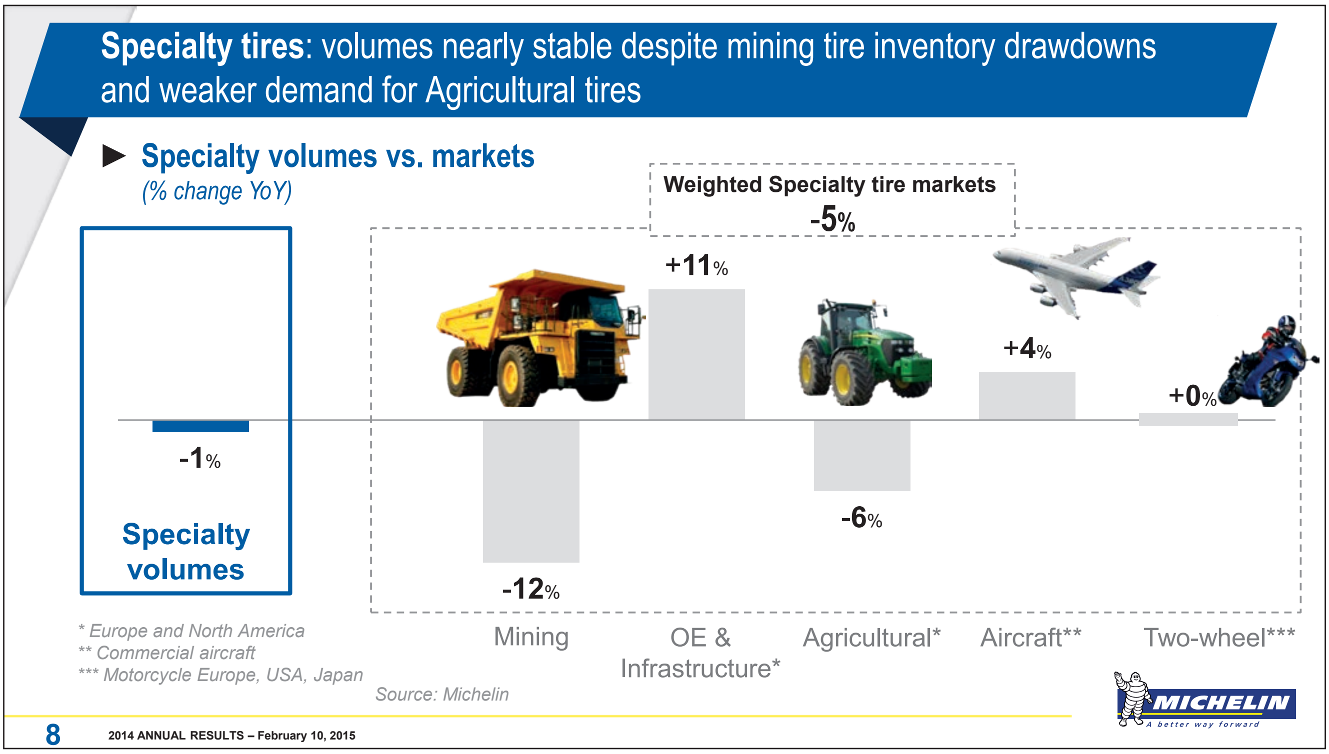
2014 ANNUAL RESULTS – February 10, 2015


Specialty tires: volumes nearly stable despite mining tire inventory drawdowns and weaker demand for Agricultural tires
Specialty volumes vs. markets
(% change YoY)
Weighted Specialty tire markets
-5%
-1%
Specialty volumes
-12%
Mining
+11%
OE & Infrastructure*
-6%
Agricultural*
+4%
Aircraft**
+0%
Two-wheel***
* Europe and North America
** Commercial aircraft
*** Motorcycle Europe, USA, Japan
Source: Michelin
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2014 ANNUAL RESULTS – February 10, 2015

Focus on the Group's agility and competitiveness

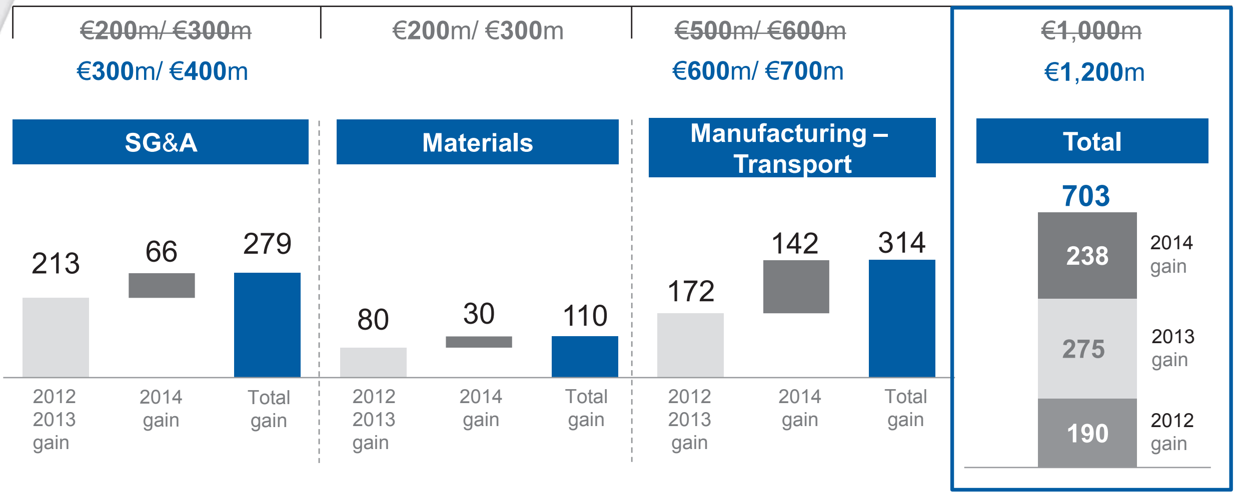
- Customer focus:
  - 2010-2014: 50% acceleration in time-to-market, with 600 product launches in 2014
  - Reorganization of the logistics network to offer our customers greater product availability
- SG&A efficiency focus:
  - Michelin Business Solutions (MBS) in charge of leading and optimizing internal and external Shared Services Centers (CESPs)
  - A leaner organizational structure in Europe enabling greater responsiveness
    - Administrative tasks centralized in a Services Center in Bucharest (200 people)
- Manufacturing efficiency focus:
  - Ramp-up of plants in Brazil, India and China, and stabilization of start-up costs
  - Product standardization PC & TB in Europe over the 2010-2014 period:
    - Production line-up extended by 70% while reducing number of components by 4%
  - European turnover in the size catalogue enhanced by 60% between 2010 et 2014
- Increasingly committed employees, with an engagement rate of 74% vs. 72% in 2013 (2014 Moving Forward Together Survey, IBM-Kenexa)
  - IBM-Kenexa global benchmark: 69% in 2014

MICHELIN A better way forward

9 2014 ANNUAL RESULTS – February 10, 2015

Speeding up the 2012-2016 competitiveness plan: target raised to €1,200m

TARGETED GAINS*, 2012 – 2016



* *Before inflation and including avoided costs*

MICHELIN A better way forward

10 2014 ANNUAL RESULTS – February 10, 2015

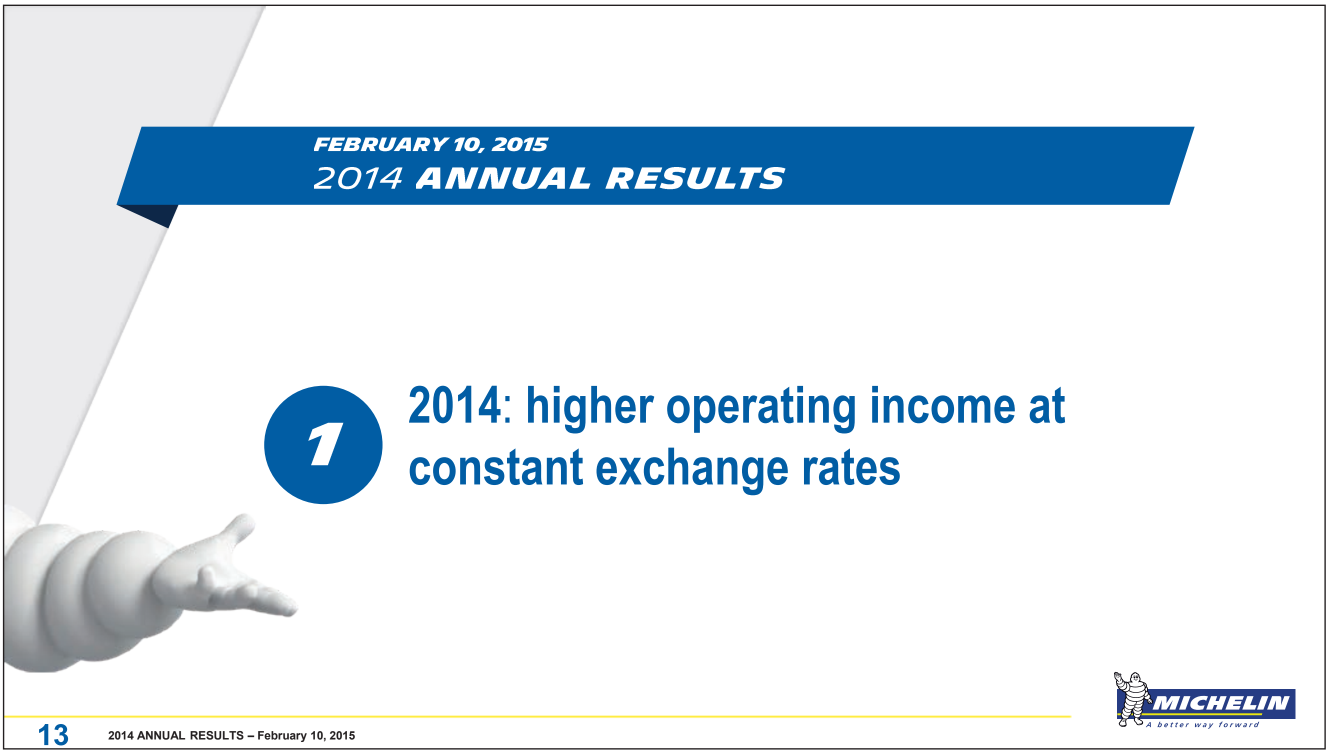
2013 and 2014 industrial footprint optimization will deliver more than €100 million in annual gains

In € millions	2013	2014	2015e	2016e	2017e	Total
Non-recurring expenses	(250)	(84)				(337)
of which cash costs	(42)	(46)	(64)	(25)	0	(177)
Cash in (asset sales)			23			23

						Annual gains beyond 2017
Productivity gains	0	54	71	110	114	114

FEBRUARY 10, 2015
2014 ANNUAL RESULTS

1. 2014: higher operating income at constant exchange rates
2. Operating margins by reporting segment in line with objectives
3. 2015: growth in line with markets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2014 ANNUAL RESULTS
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2014: higher operating income at constant exchange rates
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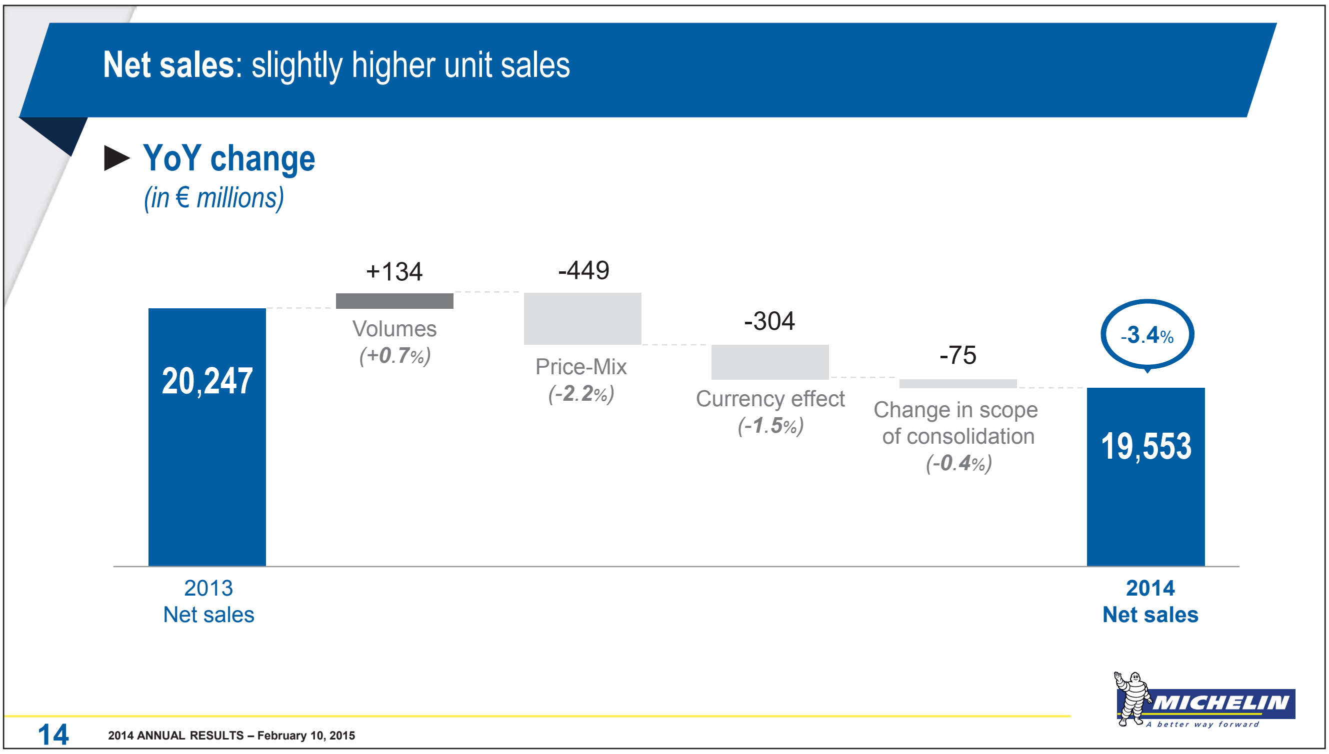
Net sales: slightly higher unit sales
YoY change
(in € millions)
20,247
+134
Volumes
(+0.7%)
-449
Price-Mix
(-2.2%)
-304
Currency effect
(-1.5%)
-75
Change in scope of consolidation
(-0.4%)
-3.4%
19,553
2013
Net sales
2014
Net sales
MICHELIN
A better way forward
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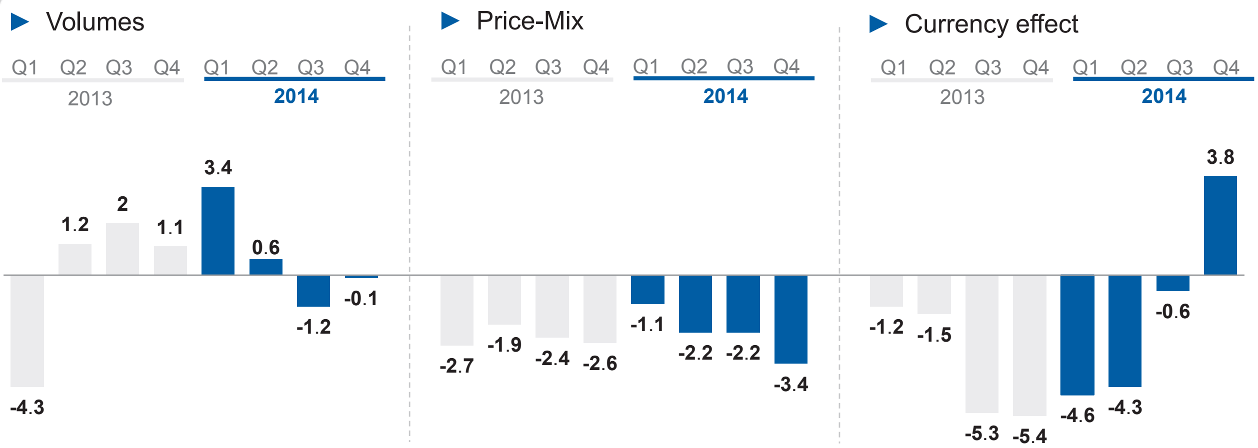
2014 ANNUAL RESULTS – February 10, 2015

Q4: unit sales affected by weaker demand; pricing strategy designed to ensure product competitiveness in 2015

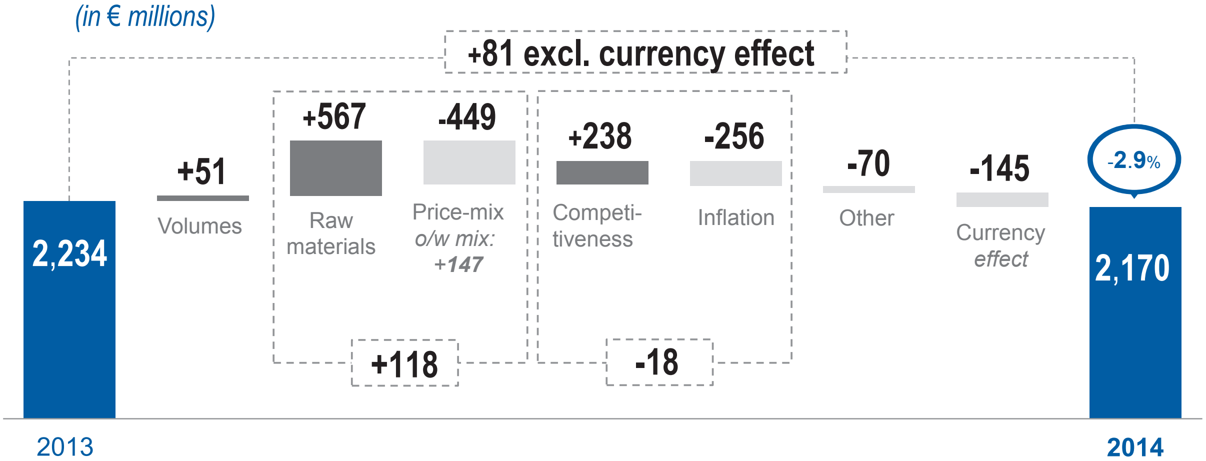
▶ Q-on-Q change, 2014/2013 in %



15 2014 ANNUAL RESULTS – February 10, 2015

Operating income before NR up by €81m before currency effect: effective price-mix vs. raw materials management and good cost discipline, as expected

▶ YoY change
(in € millions)



16 2014 ANNUAL RESULTS – February 10, 2015

A business that structurally generates Free Cash Flow

In € millions	2014	2013
EBITDA	**3,286**	**3,285**
Change in operating WCR	**250**	818
Restructuring cash costs	**(76)**	(119)
Contributions paid to pension funds	**(70)**	(185)
Taxes and interest paid	**(760)**	(586)
Other	**(108)**	(124)
Cash flow from operations	**2,522**	**3,089**
Routine capital expenditure *(Maintenance, IS/IT, Dealerships)*	**(840)**	(772)
Available cash flow	**1,682**	**2,317**
Growth investments	**(1,043)**	(1,208)
Sascar acquisition	**(400)**	-
Other	**83**	45
Free cash flow	**322**	**1,154**

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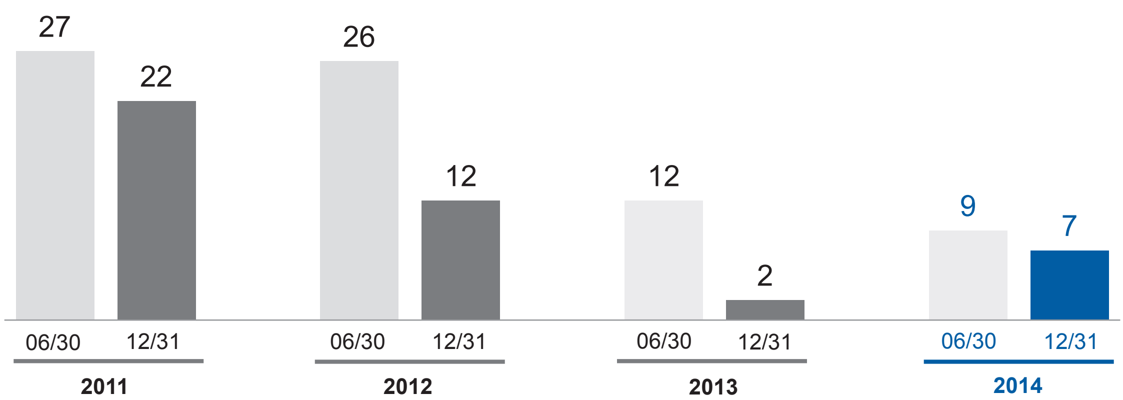
Robust financial position

▶ Gearing – Net debt / Equity
(in %)



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2014 and 2013 financial highlights as reported

In € millions	2014	2013
Net sales	**19,553**	20,247
Operating income *(before non-recurring items)*	**2,170**	2,234
Operating margin *(before non-recurring items)*	**11.1%**	11.0%
Non-recurring items	**-179**	- 260
Net income	**1,031**	1,127
Earnings per share *(in €)*	**5.52**	6.08
Capital expenditure *(excluding acquisitions)*	**1,883**	1,980
Free cash flow before Sascar acquisition*	**722**	1,154
Gearing	**7%**	2%
Employee benefit obligations	**4,612**	3,895
ROCE	**11.1%**	11.9%
Dividend per share	**€2.50****	€2.50

**Cash flows from operating activities less cash flows used in investing activities before Sascar acquisition*
***Submitted to shareholders for approval at the May 22, 2015 Annual Meeting*

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2 Operating margins by reporting segment in line with objectives

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Car and Light truck tires & related distribution: operating margin in line with objectives

▶ Car and Light truck tires

(in € millions)

	2014	2013	% change
Net sales *Volume growth*	**10,498** **+2%**	10,693	*-1.8%*
Operating income *(before non-recurring items)*	**1,101**	1,086	*+1.4%*
Operating margin *(before non-recurring items)*	**10.5%**	10.2%	*+0.3 pts*

- Excluding 0.4pts negative currency effect,10.9% operating margin at constant exchange rates in line with our objectives
- MICHELIN volumes up 3%, in line with the market and up 11% in Premium to represent 42% of 2014 sales
- Strong growth in OE sales, with a record 253 technical certifications o/w 72% in the premium segment
- Many new ranges: MICHELIN-branded Premier A/S *(Evergrip technology),* Latitude Sport 3, Pilot Sport Cup 2 *(Premium Touch technology),* Agilis R, and BFGoodrich 4x4 (*KO2*)

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Truck tires and related distribution: operating margin in line with objectives

▶ Truck tires

(in € millions)

	2014	2013	% change
Net sales *Volume growth*	**6,082** **-1%**	6,425	*-5.3%*
Operating income *(before non-recurring items)*	**495**	503	*-1.6%*
Operating margin *(before non-recurring items)*	**8.1%**	7.8%	*+0.3 pts*

- Excluding 1pt negative currency effect, 9.1% operating margin at constant exchange rates in line with our objectives
- Resilient performance by the MICHELIN brand
- Record product launches featuring innovative technologies (*Infinicoil™, Energyflex™, Regenion™* and *Carbion™*) aligned with customers' needs
- Successful launch of competitively priced Tier 2 brands bringing the expected performance and profitability (Uniroyal, BFGoodrich, Kormoran, Siamtyre)

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Specialty businesses: continued high underlying margins

▶ Specialty businesses
(in € millions)

	2014	2013	% change
Net sales *Volume growth*	**2,973** ***-1%***	3,129	*-5%*
Operating income *(before non-recurring items)*	**574**	645	*-11%*
Operating margin *(before non-recurring items)*	**19.3%**	20.6%	*-1.3 pts*

- Excluding 0.6pts negative currency effect, 19.9% operating margin at constant exchange rates in line with our objectives
- Performance in Earthmover, Agricultural, Aircraft and Two-Wheel tires, offsetting the slowdown in Mining (-12%) and OE Agricultural markets

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3 2015: growth in line with the markets

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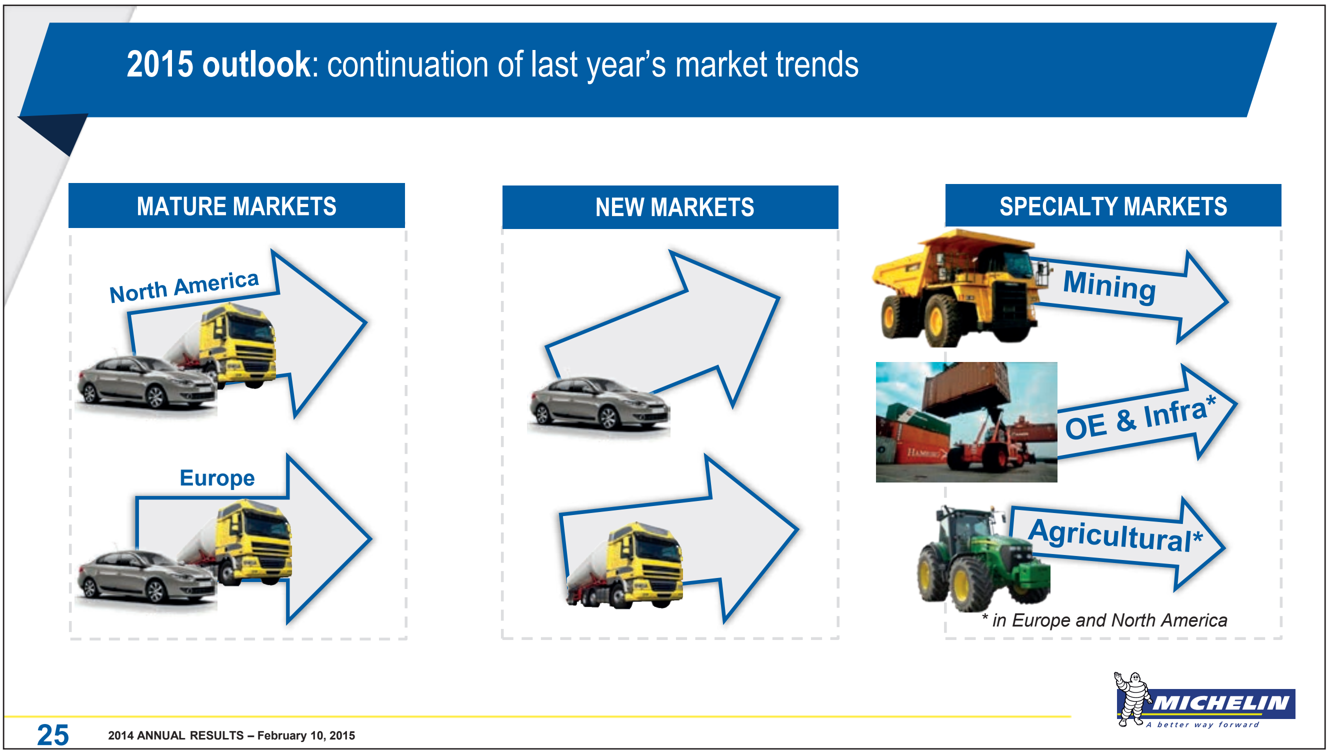
2015 outlook: continuation of last year's market trends
MATURE MARKETS
North America
Europe
NEW MARKETS
SPECIALTY MARKETS
Mining
OE & Infra*
Agricultural*
* in Europe and North America
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Products, distribution and services matching customer needs to capture growth opportunities
SERVICE INNOVATION
sascar
MICHELIN ONCall 2.0
MICHELIN
MICHELIN TRUCK CARE
RFID
EFFITIRE™ by MICHELIN solutions
MARKET ACCESS
kormoran
EUROMASTER
TCi Tire Centers Centered On Service
TIGAR
IHLE
SIAMTYRE
PRODUCT INNOVATION
X MULTIWAY
BFGoodrich All Terrain T/A KO2
2015
TYREPLUS
UNIROYAL
TAURUS
ALPIN 5
MICHELIN COMMERCIAL SERVICE NETWORK
RIKEN
X COACH
POP GOM
回力 WARRIOR
TWEEL
PREMIER A/S
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2015 guidance

	FY 2015
Volumes	**Growth in line with the markets**
Impact of raw materials prices	**Around €450m tailwind**
Competitiveness/cost inflation	**Neutral**
Currency effect on operating income	**Around + €150m*** o/w +€250m from EUR/USD
Operating income before non-recurring items	**Up beyond currency effect**
ROCE	**More than 11%**
CAPEX	**Between €1,700m and €1,800m**
Structural free cash flow	**Approx. €700m**

** Based on January 2015 average exchange rates*

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2015 investor calendar

- **April 22, 2015**: First-quarter 2015 net sales
- **May 22, 2015**: Annual Shareholders Meeting
- **July 28, 2015**: First-half 2015 results
- **October 22, 2015**: Third-quarter 2015 net sales

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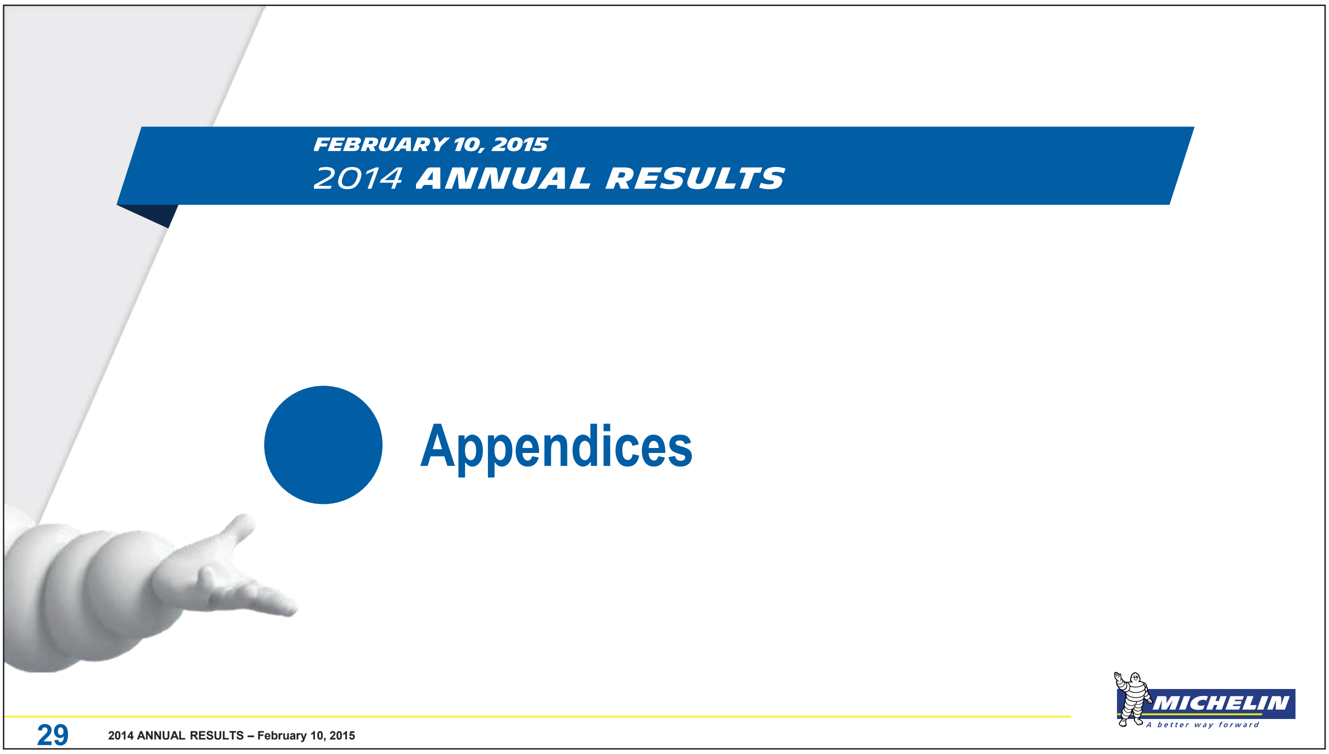
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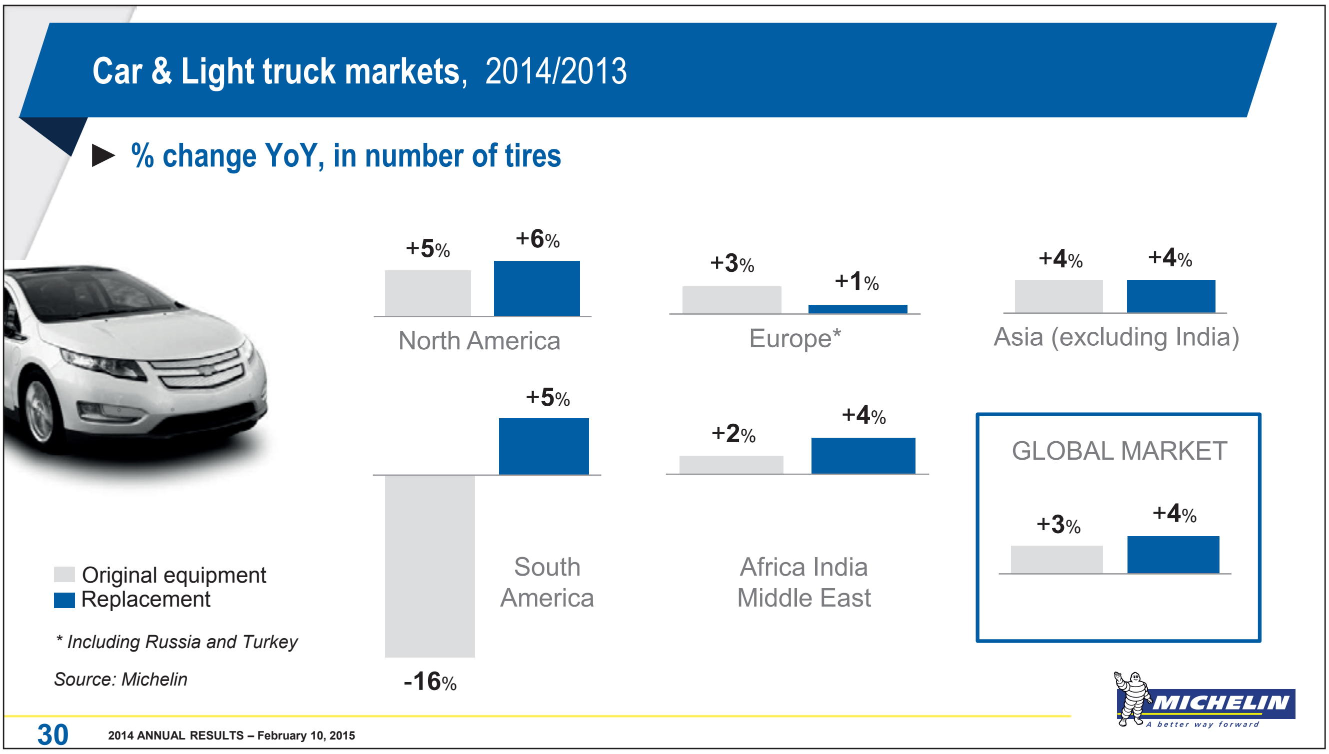
Car & Light truck markets, 2014/2013
% change YoY, in number of tires
+5%
+6%
North America
+3%
+1%
Europe*
+4%
+4%
Asia (excluding India)
+5%
-16%
South America
+2%
+4%
Africa India Middle East
GLOBAL MARKET
+3%
+4%
Original equipment
Replacement
* Including Russia and Turkey
Source: Michelin
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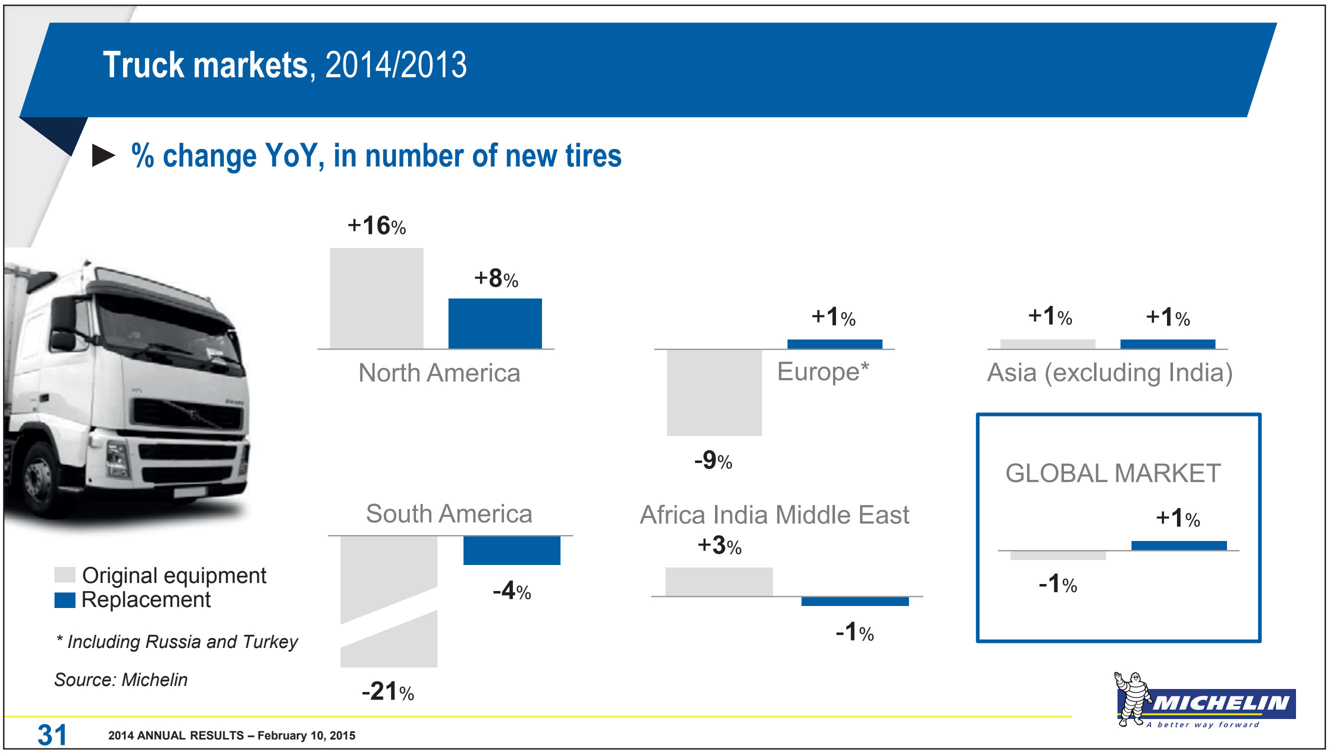
Truck markets, 2014/2013
% change YoY, in number of new tires
+16%
+8%
North America
+1%
Europe*
-9%
+1%
+1%
Asia (excluding India)
GLOBAL MARKET
+1%
-1%
South America
-4%
-21%
Africa India Middle East
+3%
-1%
Original equipment
Replacement
* Including Russia and Turkey
Source: Michelin
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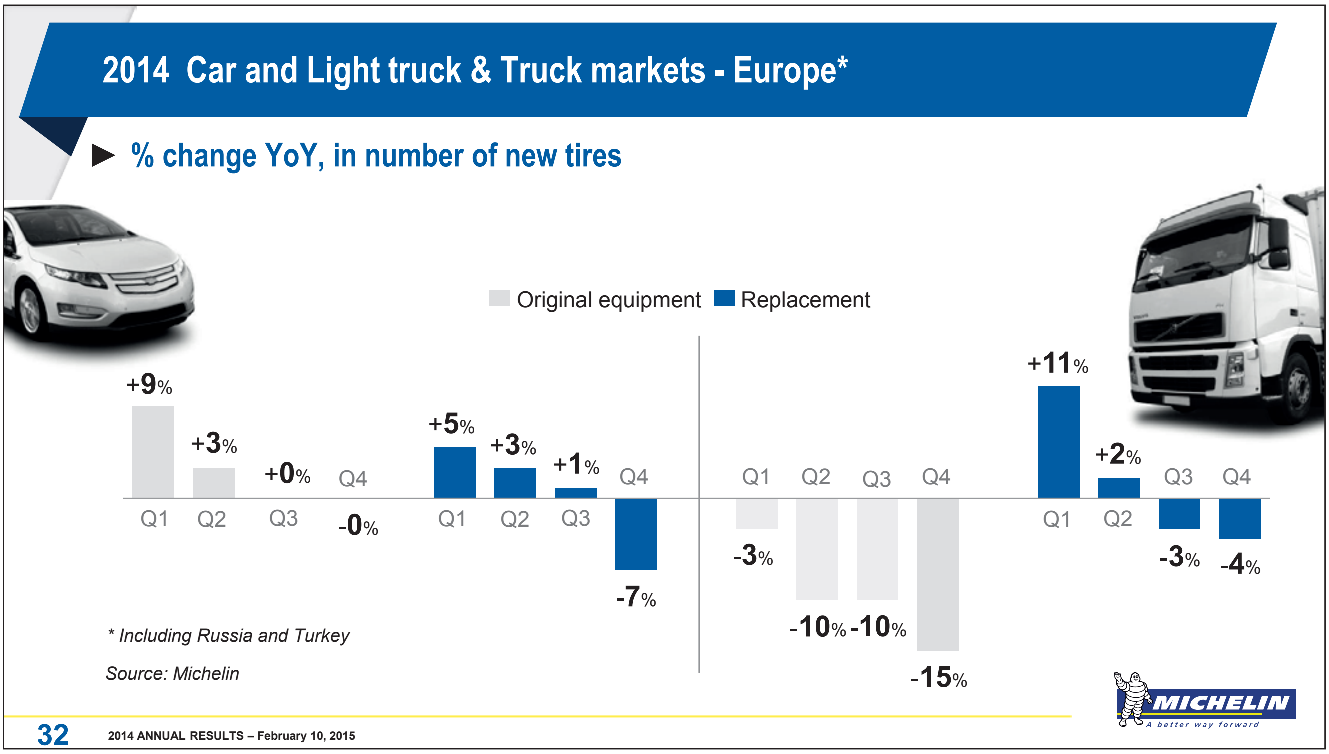
2014 Car and Light truck & Truck markets - Europe*
% change YoY, in number of new tires
Original equipment
Replacement
+9%
+3%
+0%
Q4
-0%
Q1
Q2
Q3
+5%
+3%
+1%
Q4
-7%
Q1
Q2
Q3
Q1
Q2
Q3
Q4
-3%
-10%
-10%
-15%
+11%
+2%
Q3
Q4
Q1
Q2
-3%
-4%
* Including Russia and Turkey
Source: Michelin
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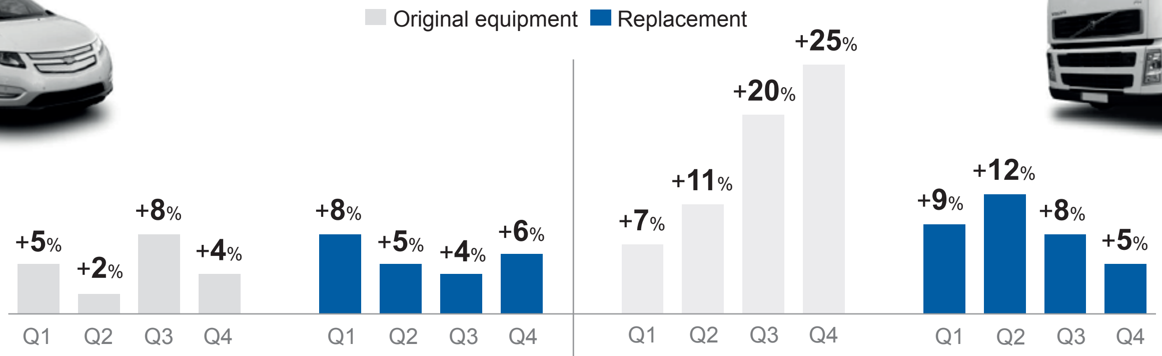
2014 Car and Light truck & Truck markets - North America

► % change YoY, in number of new tires



Source: Michelin

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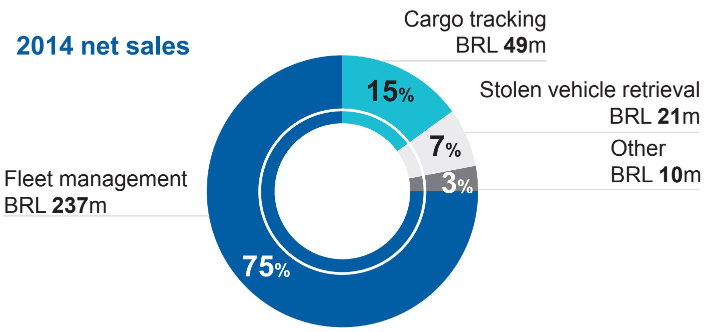
SASCAR acquisition, accretive for the Group

► SASCAR: an emerging market champion with leading technology

2014 net sales



- 2014 net sales: BRL **317**m
- 2014 net sales growth: **11**%
- 2014 EBITDA excl. acquisition costs: **40**% of net sales
- Vehicle base: **238,000** (TB & PC)
- Employees: **942** as of December 31, 2014

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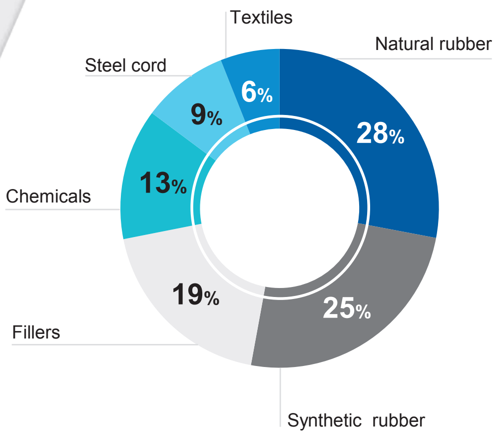
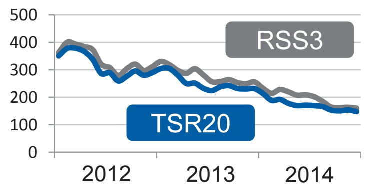
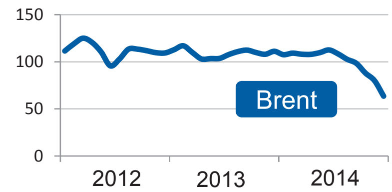
Raw materials in 2014

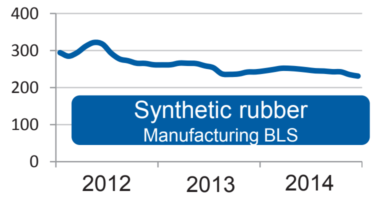
► Raw material purchases FY 2014
(€4,958m)



€/$ exchange rate:
Average FY13: **1.33**
-9%
12/31/2014: **1.21**

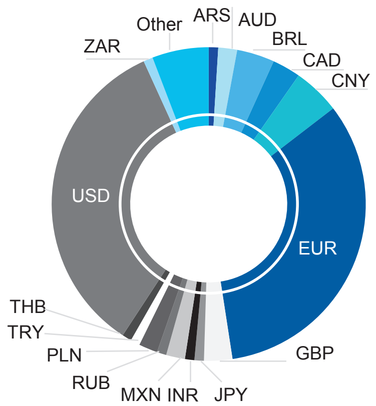






3.8% positive currency effect in Q4

► 2014 net sales by currency



	% of net sales
ARS	1%
AUD	2%
BRL	3%
CAD	3%
CNY	5%
EUR	34%
GBP	3%
INR	1%
JPY	1%
MXN	2%
PLN	1%
RUB	1%
THB	1%
TRY	1%
USD	36%
ZAR	1%
Other	4%

EBIT sensitivity to €/$ exchange rate:

A one cent change in the average annual €/$ exchange rate would lead to a €15-20 million change in EBIT for the year.

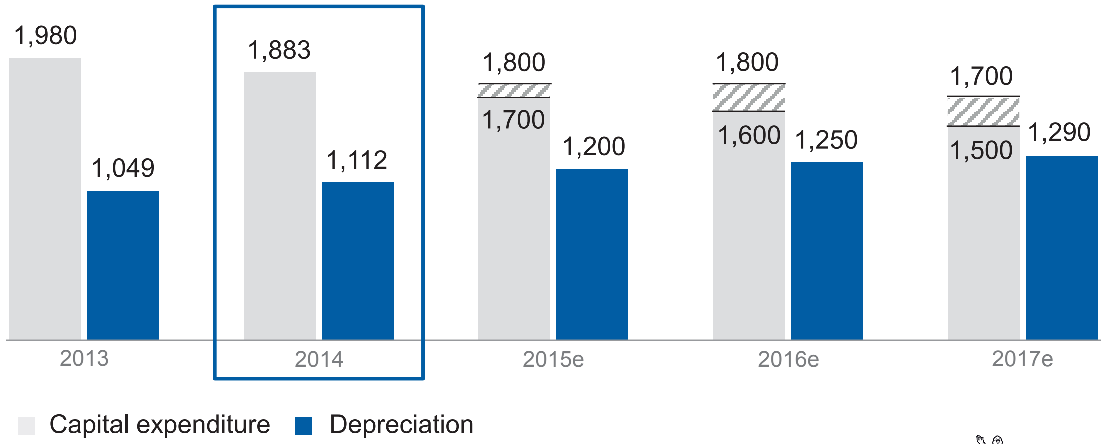
€/$ exchange rate – Dec. 31, 2011 / January 30, 2015

Source: Thomson One

Adjusted capital expenditure budgets for 2015 & 2016 to improve asset turnover

▶ Capital expenditure and depreciation

(In € millions)



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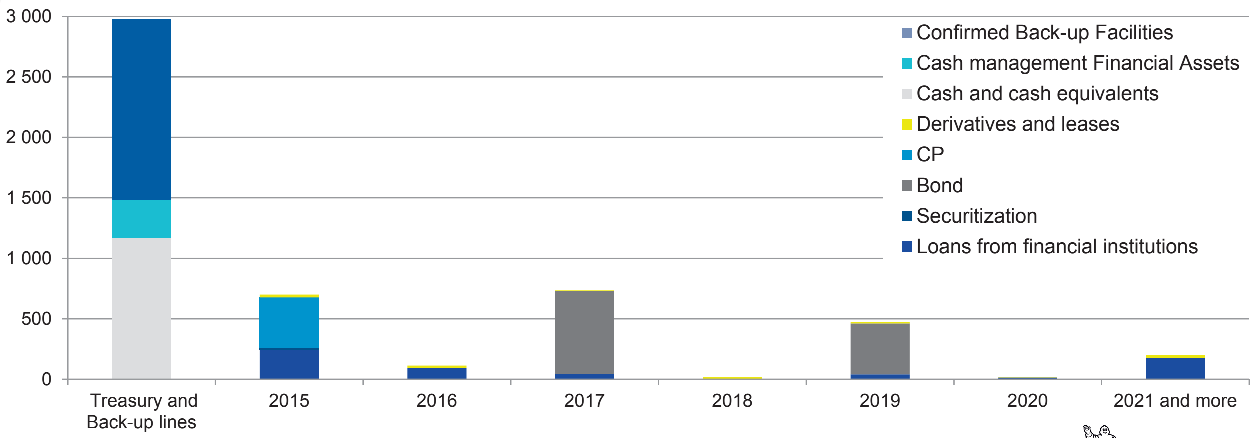
A comfortable cash position

▶ Debt maturities at December 31, 2014

(Nominal value, in € millions)



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Disclaimer

"This presentation is not an offer to purchase or a solicitation to recommend the purchase of Michelin shares. To obtain more detailed information on Michelin, please consult the documentation published in France by Autorité des Marchés Financiers available from the ***http://www.michelin.com/eng/*** *website.*

This presentation may contain a number of forward-looking statements. Although the Company believes that these statements are based on reasonable assumptions at the time of the publication of this document, they are by nature subject to risks and contingencies liable to translate into a difference between actual data and the forecasts made or induced by these statements."

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3 2014 BUSINESS REVIEW

3.1 TIRE MARKETS

3.1.1 A GLOBAL MARKET WORTH SOME $190 BILLION (1)

The global tire market totalled $187 billion in 2013 (1), with light-vehicle tires accounting for around 60% and truck tires 30% (2). By volume, the market represents nearly 1.4 billion car and van tires and some 180 million truck and bus tires. Three out of four tires are sold in the replacement market.

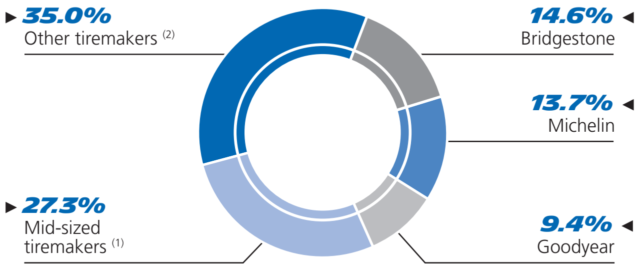
Over the long term, Michelin expects demand for tires to grow by 1-2% a year in mature markets and by 5-10% a year in the new markets.

New standards

Since November 2014, mandatory tire performance ratings, displayed on standardized labels, have been introduced across the European Union. Similar legislation came into effect in South Korea on December 1, 2012, while the standardized labelling introduced in Japan in 2010 is being extended to other parameters, such as rolling noise. Regulated tire labelling systems are also under consideration in the United States, China and Brazil.

These trends are favourable to low rolling resistance tires, where Michelin sets the market standard. Original equipment sales of these tires are expected to increase by 200 million units between 2010 and 2020 to a total of 500 million.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2013



Source: 2013 sales in US dollars, published in Tire Business, September 2014.
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with a less than 2% market share according to the Tire Business ranking.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2012

Source: 2012 sales in US dollars, published in Tire Business, August 2013.
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with a less than 2% market share according to the Tire Business ranking.

3.1.2 TIRE MARKETS IN 2014

After a strong first quarter, the global tire market lost momentum during the year, with North America providing the only exception. Demand slowed in Europe in the winter tire and Truck tire segments, OE sales in the Passenger car/Light truck and Truck segments contracted in the new markets except for China, and OE demand weakened in the Agricultural segment. Demand for Mining tires was also down, although the trend levelled off at the end of the year and the impact was partly offset by a recovery in OE and Infrastructure business in the Earthmover tire segment and further solid growth in North America fuelled in part by increased tire imports from Asia.

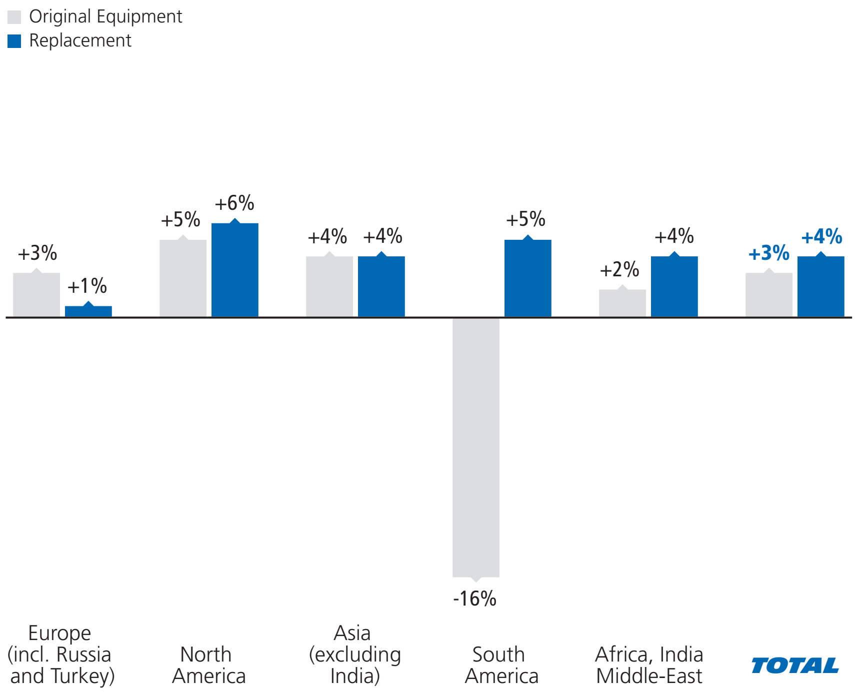
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number of tires sold.

(1) Source: Tire Business, September 2014.
(2) Michelin estimates.

3.1.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2014

The number of **Passenger car and Light truck** tires sold worldwide rose by 3% over the year, although the pace of growth slowed in the second half.

THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2014 VS. 2013



Michelin estimates.

3.1.3 a) Original equipment (OE)

The global OE market grew 3%, with buoyant conditions in Western Europe, North America, China and Japan contrasting with narrower demand in the other regions (South America, Eastern Europe and Asia/Pacific).

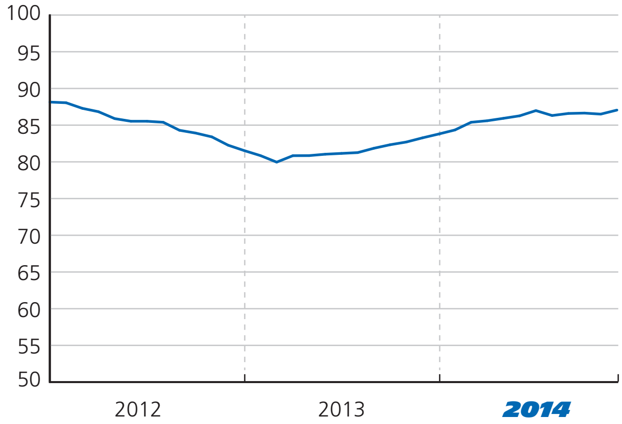
Passenger car and Light truck tire markets OE *(in millions of tires)*	**2014**	**2013**	**2014/2013**	**2nd-Half 2014/2013**	**4th-Quarter 2014/2013**	**3rd-Quarter 2014/2013**	**1st-Half 2014/2013**	**2nd-Quarter 2014/2013**	**1st-Quarter 2014/2013**
Europe [(1)]	94.5	91.7	+3%	-0%	-0%	+0%	+6%	+3%	+9%
North America [(2)]	83.2	79.4	+5%	+6%	+4%	+8%	+3%	+2%	+5%
Asia (excluding India)	195.1	188.2	+4%	+1%	-0%	+2%	+7%	+7%	+7%
South America	19.0	22.6	-16%	-14%	-9%	-18%	-18%	-24%	-11%
Africa/India/Middle East	26.7	26.3	+2%	+8%	+12%	+5%	-3%	+3%	-10%
TOTAL	**418.5**	**408.2**	**+3%**	**+1%**	**+1%**	**+2%**	**+4%**	**+3%**	**+5%**

(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Source: Michelin estimates.

In **Europe,** the 3% increase in demand reflected the combined effects of 5% growth in Western Europe on the back of a weak market in early 2013, and a 12% decline in Eastern Europe (including a 25% drop in the fourth quarter) in a difficult geopolitical and economic environment.

THE OE PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

(in millions of tires – moving 12 months – excluding Russia)

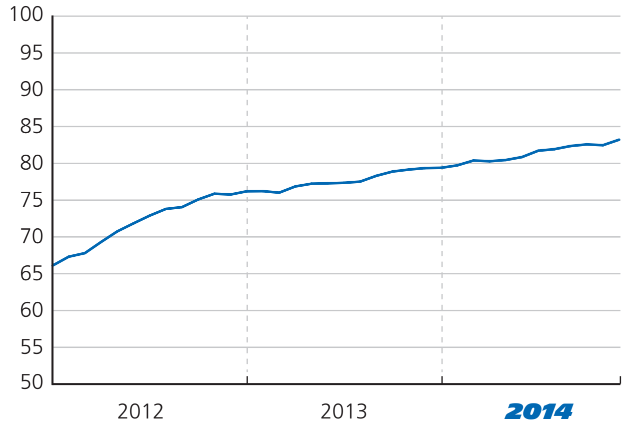


Michelin estimates.

In **North America,** the market remained buoyant, expanding by 5% over the year. Growth was led by robust demand in the vehicle market and by the favourable economic conditions.

THE OE PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of tires – moving 12 months)



Michelin estimates.

In **Asia (excluding India),** the market grew by 4% overall. In China, the market continued to grow rapidly, expanding by 9% over the year although the region's economic climate caused a loss of momentum in the second half. The Japanese market was up 1%, with the pace of growth slowing in the second half in line with the long-term trend, after being stimulated in the early part of the year by buying ahead of the April 1 increase in VAT. The Southeast Asian market continued to decline, contracting by 8% over the year due mainly to the political and economic environment in Thailand.

In **South America,** the 16% drop in demand compared with 2013 was due to the economic situation in Brazil and Argentina.

In the **Africa/India/Middle East** region, the market grew by 2%, led by a second-half recovery in India following on the new government's initial stimulus measures.

3.1.3 b) Replacement

The global replacement tire market advanced by 4% over the year, with the 7% growth observed in the first quarter giving way to a marked slowdown over the last nine months.

Passenger car and Light truck tire markets Replacement *(in millions of tires)*	**2014**	**2013**	**2014/2013**	**2nd-Half 2014/2013**	**4th-Quarter 2014/2013**	**3rd-Quarter 2014/2013**	**1st-Half 2014/2013**	**2nd-Quarter 2014/2013**	**1st-Quarter 2014/2013**
Europe (1)	324.9	322.7	+1%	-2%	-7%	+1%	+4%	+3%	+5%
North America (2)	281.1	265.6	+6%	+5%	+6%	+4%	+6%	+5%	+8%
Asia (excluding India)	248.9	238.4	+4%	+3%	+3%	+3%	+6%	-1%	+11%
South America	73.4	69.9	+5%	+5%	+5%	+5%	+4%	+3%	+7%
Africa/India/Middle East	94.8	91.1	+4%	+4%	+4%	+4%	+4%	+4%	+4%
TOTAL	**1,023.2**	**987.8**	**+4%**	**+2%**	**+1%**	**+3%**	**+5%**	**+3%**	**+7%**

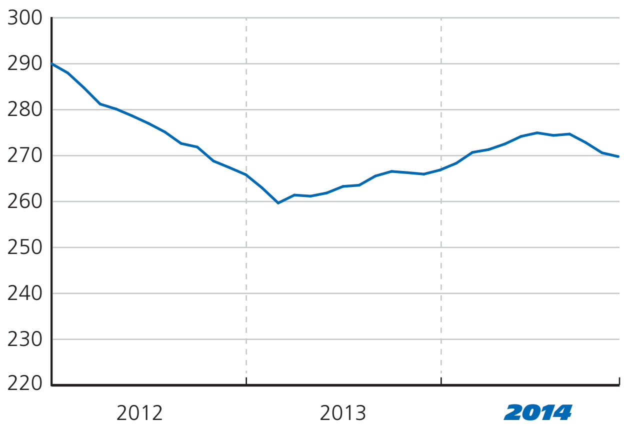
(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Source: Michelin estimates.

In **Europe,** the market expanded by a slight 1% over the year. Demand in Western Europe rose 2%, despite an 8% decline in the fourth quarter that was mainly due to weak demand for winter tires. The winter tire market was stable over the year, with some competitors starting to make deliveries to dealers in June, but with unseasonably warm weather during the fall causing a sharp drop in demand that left dealers with large inventories of certain brands. In Eastern Europe, the market was badly hit by the political and economic problems in Russia and ended the year down 3%.

Passenger car and Light truck tires Replacement	Year-on-year change
WESTERN EUROPE	**1%**
▶ of which France	3%
▶ of which Spain	1%
▶ of which Italy	+0%
▶ of which United Kingdom	-3%
▶ of which Germany	5%
▶ of which Poland	-1%
▶ of which Turkey	-4%
EASTERN EUROPE	**-3%**
▶ of which Russia	1%

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

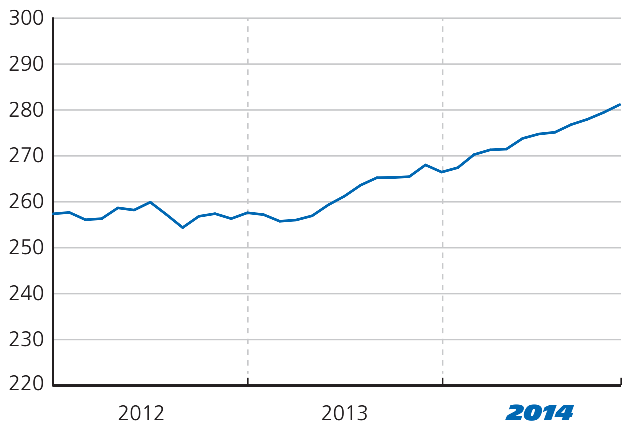
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of tires – moving 12 months)



Michelin estimates.

In **North America,** the market grew 6%, lifted by higher tire imports from China ahead of the introduction of customs duties, as well as by sustained demand for winter tires in Canada and by the vibrant Mexican market.

In **Asia (excluding India),** demand rose by 4% overall. A further improvement in mix shaped the markets in China, where demand rose by 8% over the year but slowed in the second half in the less buoyant economic environment. The Japanese market grew by 2%, led by demand for winter tires. The Southeast Asian market expanded by 4%, reflecting growth in Indonesia and Vietnam in particular.

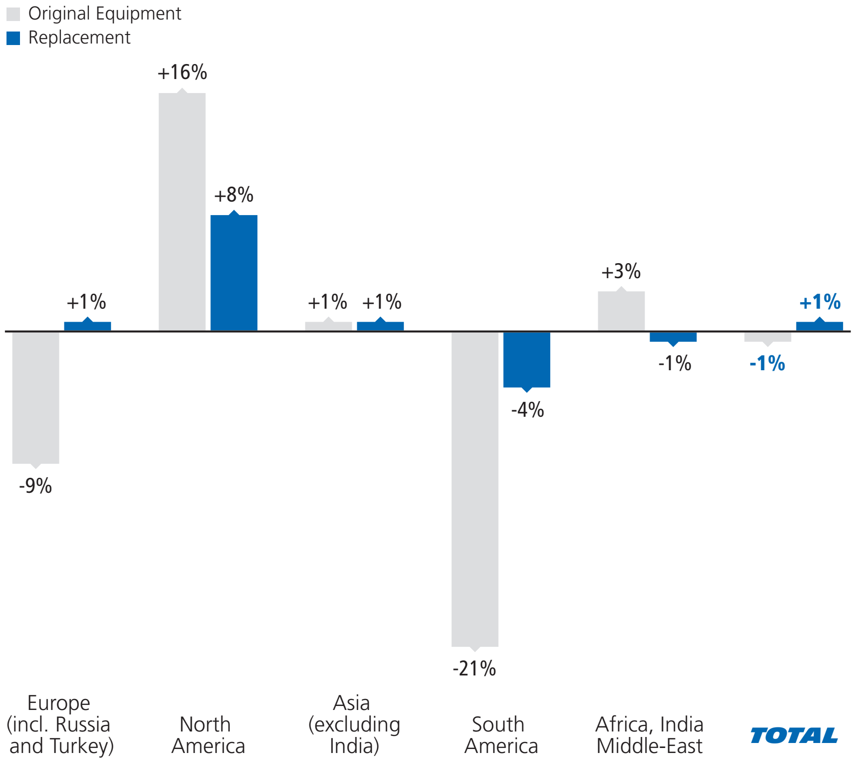
In **South America,** demand rose 5% led by Brazil and by the artificial stimulus provided by cut-price deals on unsold tires originally intended for the OE market.

In the **Africa/India/Middle East** region, the market expanded by 4% overall, led by the Indian market which enjoyed renewed momentum in the post-election period. In the Middle East and Africa, market growth was weaker due to the troubled economic situation in Saudi Arabia and currency devaluation in South Africa.

3.1.4 TRUCK TIRE MARKETS IN 2014

Demand for new radial and bias **Truck tires** was generally stable in 2014, based on unit sales, although the fourth quarter saw a certain loss of momentum.

THE GLOBAL TRUCK TIRE MARKET, 2014 VS. 2013



Source: Michelin estimates – new tire market only.

3.1.4 a) Original equipment

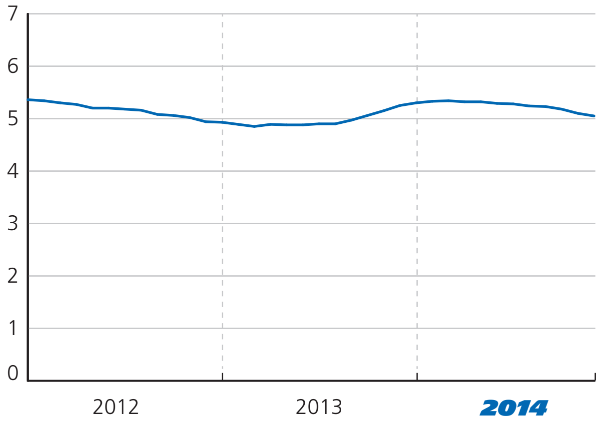
The **global OE Truck tire market** contracted by 1% over the year, with a fourth-quarter decline that was particularly steep in Europe and South America.

Truck tire markets* OE *(in millions of tires)*	2014	2013	2014/2013	2nd-Half 2014/2013	4th-Quarter 2014/2013	3rd-Quarter 2014/2013	1st-Half 2014/2013	2nd-Quarter 2014/2013	1st-Quarter 2014/2013
Europe (1)	5.8	6.4	-9%	-12%	-15%	-10%	-7%	-10%	-3%
North America (2)	5.9	5.1	+16%	+22%	+25%	+20%	+9%	+11%	+7%
Asia (excluding India)	15.5	15.4	+1%	-3%	-4%	-1%	+3%	-5%	+13%
South America	2.2	2.8	-21%	-30%	-34%	-25%	-11%	-25%	+4%
Africa/India/Middle East	4.1	4.0	+3%	+8%	-0%	+15%	-1%	-0%	-1%
TOTAL	**33.5**	**33.7**	**-1%**	**-2%**	**-4%**	**+1%**	**+1%**	**-5%**	**+7%**

* *Radial & bias, new.*
(1) *Including Russia and Turkey.*
(2) *United States, Canada and Mexico.*
Source: Michelin estimates.

In **Europe,** the market contracted by a significant 9%. This included a 4% decline in Western Europe, where sales were adversely affected by weaker export demand and the introduction of the new Euro VI standard, and a 35% drop in Eastern Europe, in an unfavourable geopolitical and economic environment.

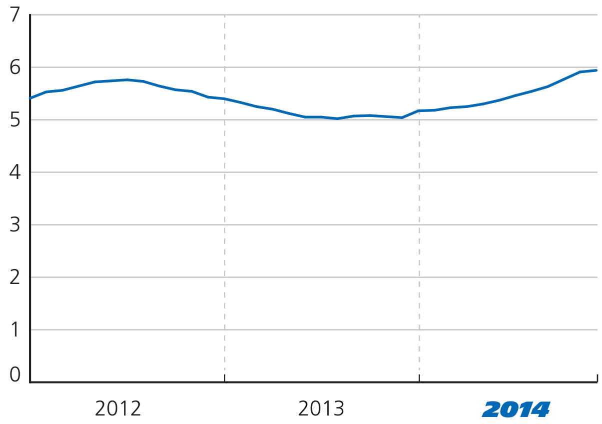
THE OE TRUCK TIRE MARKET IN EUROPE
(in millions of new tires – moving 12 months – excluding Russia)



Michelin estimates.

In **North America,** the market continued to expand rapidly (up 16%), led by demand from OEMs operating at full capacity and by an especially steep increase in the Class 8 segment.

THE OE TRUCK TIRE MARKET IN NORTH AMERICA
(in millions of new tires – moving 12 months)



Michelin estimates.

In **Asia (excluding India),** demand for radial and cross-ply tires was up 1%. In China, the 1% increase in the market reflected the net impact of the transport industry's efficiency improvement drive and softer demand in the Coach & Bus segment due to competition from train operators. In Southeast Asia, demand was down 16% due to the economic slowdown and unstable political situation in Thailand. In Japan, the OE tire market grew by a strong 19% over the year, led by vibrant demand in the Construction segment and by a recovery in export volumes.

In the less buoyant **South American** economy, demand fell sharply, by 21% over the year and 34% in the fourth quarter alone, after growing strongly in 2013 on brisk demand for heavy-duty trucks in the farming industry.

In the **Africa/India/Middle East** region, the radial and bias tire market returned to growth, expanding by 3%. This was entirely attributable to the Indian market which grew 15% over the year and 53% in the fourth quarter.

3.1.4 b) Replacement

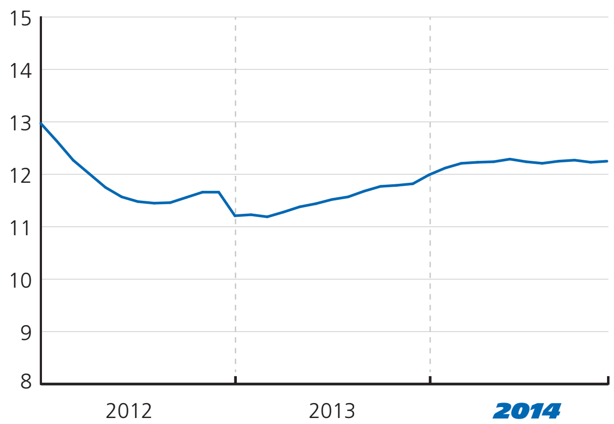
The **global replacement Truck tire market** rose by 1% over the year, despite losing momentum in the last nine months.

Truck tire markets* Replacement *(in millions of tires)*	2014	2013	2014/2013	2nd-Half 2014/2013	4th-Quarter 2014/2013	3rd-Quarter 2014/2013	1st-Half 2014/2013	2nd-Quarter 2014/2013	1st-Quarter 2014/2013
Europe (1)	20.2	20.0	+1%	-3%	-4%	-3%	+6%	+2%	+11%
North America (2)	22.8	21.1	+8%	+6%	+5%	+8%	+10%	+12%	+9%
Asia (excluding India)	64.0	63.2	+1%	+1%	-2%	+3%	+2%	+0%	+4%
South America	14.1	14.7	-4%	-6%	-10%	-2%	-2%	-5%	+2%
Africa/India/Middle East	27.3	27.5	-1%	-1%	-1%	-0%	-0%	-4%	+4%
TOTAL	**148.4**	**146.5**	**+1%**	**+0%**	**-2%**	**+2%**	**+3%**	**+1%**	**+5%**

* *Radial & bias, new.*
(1) *Including Russia and Turkey.*
(2) *United States, Canada and Mexico.*
Source: Michelin estimates.

In **Europe,** the replacement market edged up 1% over the year. In Western Europe, 4% market growth was led by the transport segment, inventory building among dealers and a shortage of casings for re-treads. In Eastern Europe, the replacement tire market contracted by 2% over the year, with demand falling more sharply in the fourth quarter. The year also saw a sharp rise in demand for entry-level tires.

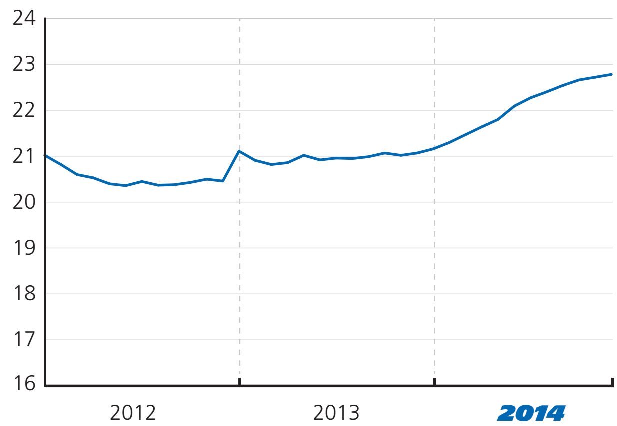
THE NEW REPLACEMENT TRUCK TIRE MARKET IN EUROPE
(in millions of new tires – moving 12 months – excluding Russia)



Michelin estimates.

The **North American** market continued to expand rapidly, growing 8% over the year, with the period-on-period decline in the fourth quarter being due to high prior period comparatives. Macro-economic factors and transport industry trends remained favourable, while the market share of imported tires increased, particularly in Mexico.

THE NEW REPLACEMENT TRUCK TIRE MARKET IN NORTH AMERICA
(in millions of new tires – moving 12 months)



Michelin estimates.

The **Asian markets (excluding India)** grew a slight 1%. In China, the market was up 1%, despite a slowdown in the freight segment and a stable passenger transport segment. The market gained 6% in Japan, where growth was led by demand for winter tires at the end of the year, after being stimulated in the early part of the year by buying ahead of the April 1 increase in VAT. In Southeast Asia, the market was stable overall despite a steep 18% drop in Thailand.

The **South American** market contracted by 4% in a more challenging socio-economic environment. In Brazil, the year-on-year decline was amplified by prior-year comparatives that were due to the flourishing farming sector in 2013.

In the **Africa/India/Middle East** region, the market for radial and bias tires was down 1%. Key features of the market included weak demand in Africa and the Middle East and a continuing shift to radials in India.

3.1.5 SPECIALTY TIRE MARKETS IN 2014

Earthmover tires: The market for mining tires contracted sharply compared with 2013, as mining companies reduced their tire inventories and operations at certain mines were scaled back in response to sharply lower commodity prices. OE demand rebounded in mature markets, following the previous year's inventory drawdowns by manufacturers. Demand for tires used in infrastructure and quarries rose in mature markets, thanks in particular to the year-on-year reduction in dealer inventories.

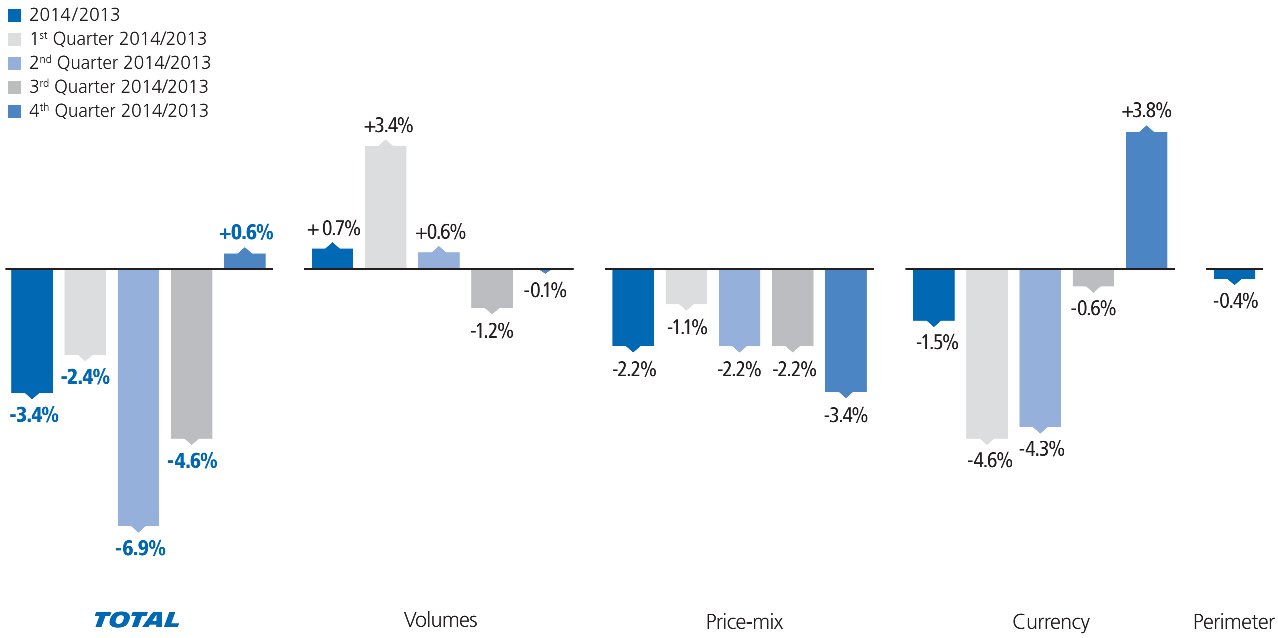
Agricultural tires: Global OE demand ended the year down sharply in mature markets, due to the extensive replacement sales of farm machinery in recent years, falling grain prices and the reduction in agricultural tax incentives in the United States. The replacement market in Europe was stable in 2014, although demand declined in the second half. The North American replacement market was significantly lower.

Two-wheel tires: The motorcycle tire market expanded in Europe, helped by last year's good weather, while in North America demand was down year-on-year.

Aircraft tires: Demand in the commercial aircraft segment rose compared with the previous year, led by the increase in passenger traffic.

3.2 NET SALES

3.2.1 ANALYSIS OF NET SALES



Net sales totalled €19,553 million for the year, versus €20,247 million in 2013.

The decrease reflected the net impact of the following positive and negative factors:

- the 0.7% increase in unit sales achieved in sluggish markets (€134 million favourable impact), attesting to a resilient performance by the MICHELIN brand;
- the 2.2% negative effect of changes in the price mix (€449 million unfavourable impact). Price adjustments trimmed €596 million from net sales, of which around 35% concerned the effect of applying indexation clauses based on raw materials prices. This was partly offset by the €147 million favourable impact of improvements in the product mix, linked notably to the MICHELIN brand's premium strategy in the Passenger car/Light truck segment;
- the 1.5% negative currency effect (€304 million unfavourable impact). The euro/dollar exchange rate was highly unfavourable in the first eight months, although it was positive during the rest of the year. Added to this, the euro's strength against the Brazilian real, the Russian rouble, the Argentine peso, the Canadian dollar and certain other currencies also had a negative impact;
- the deconsolidation of Snider, a Truck tire dealer in the United States and the August 29 acquisition of Sascar, Brazil's leading digital fleet management company (unfavourable impact of €75 million or 0.4%).

(in € millions and %)	2014	2nd-Half 2014	4th-Quarter 2014	3rd-Quarter 2014	1st-Half 2014	2nd-Quarter 2014	1st-Quarter 2014
NET SALES	**19,553**	**9,880**	**4,995**	**4,885**	**9,673**	**4,915**	**4,758**
Year-on-year change	**-694**	**-208**	**+30**	**-238**	**-486**	**-367**	**-119**
Volumes	+134	-66	-4	-62	+198	+32	+166
Price-mix	-449	-284	-168	-116	-169	-116	-53
Currency	-304	+158	+185	-27	-457	-225	-232
Scope	-75	NM	NM	NM	NM	NM	NM
Year-on-year change	**-3.4%**	**-2.1%**	**+0.6%**	**-4.6%**	**-4.8%**	**-6.9%**	**-2.4%**
Volumes	+0.7%	+1.5%	-0.1%	-1.2%	+1.9%	+0.6%	+3.4%
Price-mix	-2.2%	-2.5%	-3.4%	-2.2%	-1.6%	-2.2%	-1.1%
Currency	-1.5%	-5.4%	+3.8%	-0.6%	-4.5%	-4.3%	-4.6%
Scope	-0.4%	NM	NM	NM	NM	NM	NM

3.2.2 NET SALES BY REPORTING SEGMENT

(in € millions)	2014	2nd-Half 2014	4th-Quarter 2014	3rd-Quarter 2014	1st-Half 2014	2nd-Quarter 2014	1st-Quarter 2014
GROUP	**19,553**	**9,880**	**4,995**	**4,885**	**9,673**	**4,915**	**4,758**
Passenger car/Light truck tires and related distribution	10,498	5,331	2,739	2,592	5,167	2,647	2,520
Truck tires and related distribution	6,082	3,155	1,579	1,576	2,927	1,465	1,462
Specialty businesses (1)	2,973	1,394	677	717	1,579	804	775
Year-on-year change	**-3.4%**	**-2.1%**	**+0.6%**	**-4.6%**	**-4.8%**	**-6.9%**	**-2.4%**
Passenger car/Light truck tires and related distribution	-1.8%	-0.8%	+2.6%	-4.1%	-2.9%	-3.4%	-2.4%
Truck tires and related distribution	-5.3%	-4.5%	-4.0%	-5.1%	-6.2%	-10.9%	-1.0%
Specialty businesses (1)	-5.0%	-1.3%	+4.0%	-5.8%	-8.0%	-10.6%	-5.3%

(1) Specialty businesses: Earthmover, Agricultural, Two-wheel and Aircraft tires; Michelin Travel Partner and Michelin Lifestyle Ltd.

3.2.2 a) Passenger car and Light truck tires and related distribution – Analysis of net sales

In **Europe,** OE and replacement tire sales generally tracked the market in Western Europe, supported by the MICHELIN brand's solid performance, particularly in the 17-inches and larger segment, as well as by the success of the MICHELIN Alpin 5, MICHELIN Latitude Sport 3 and MICHELIN Pilot Sport Cup 2 ranges. Sales in Eastern Europe were hit by Russia's economic difficulties and the rouble's collapse.

In **North America,** markets were more buoyant and the Group also benefited from new product approvals as well as from favourable changes in the OE product mix. In the replacement segment, the increase in sales reflected on the one hand the success of the MICHELIN Premier A/S range, and on the other, the disappointing performance by mid-range brands and certain supply problems. The new BFGoodrich K02 tire launched in the autumn should help the brand recover market share.

In **South America,** the ramp-up of production at the Itatiaia plant in Brazil helped to strengthen Group's positions, supporting particularly vibrant sales performances in Argentina and Central America.

In **Asia (excluding India),** unit sales increased in China, in a market shaped by pricing pressures and dealer inventory drawdowns, while they declined in Thailand and tracked the market in Japan.

In the **Africa/India/Middle East** region, the Group's sales tracked the markets in a more difficult economic environment, particularly in South Africa and Saudi Arabia.

In all, net sales in the Passenger car/Light truck tires and related distribution segment stood at €10,498 million, including a negative currency effect of 1.3%, compared with €10,693 million in 2013. Unit sales were up 2%, reflecting growth in MICHELIN brand sales that were in line with the market, and a disappointing performance from the BFGoodrich and Kléber brands in a market shaped by stiff price competition, particularly in the entry-level and mid-range segments. Price variations reflected the application of raw materials indexation clauses in the OEM segment and selected repositionings in replacement markets. The product-mix was favourable, supported by the success of the strategy in the 17-inches and larger segment, in which the tonnage sold under the MICHELIN brand increased by 11% (vs. 10% for the 17-inches and larger market).

3.2.2 b) Truck Tires and Related Distribution – Analysis of net sales

In Western **Europe,** sales rose sharply in the first quarter before declining over the last nine months in tandem with the market. In Russia and the CIS, the Group focused on protecting its margins in a falling tire market shaped by aggressive competition, notably from Chinese tiremakers, and devalued currencies.

In **North America,** sales grew at a satisfactory rate in a buoyant market, led by the OE segment. Growth in the replacement segment was more limited, due to supply shortages and despite promising advances in fleet services.

In **South America,** the Group outperformed the soft market and also successfully launched a new mid-range brand.

In **Asia (excluding India),** sales were lifted by growing demand in Japan but dampened by the market slowdown in China and the collapse in Southeast Asian demand. In an extremely competitive environment, the launch of the popular mid-range brand, SIAM Tire, in Thailand at the end of the year provided a timely response to a shift in demand.

In the **Africa/India/Middle East** region, after a strong first quarter, sales declined over the last nine months due to the decision to put margins before volumes.

In all, net sales in the Truck tires and related distribution segment amounted to €6,082 million for the year, compared with €6,425 million in 2013. The decline was primarily due to unfavourable exchange rates (-2.2%) and to the application of indexation clauses that had the effect of passing on the benefit of lower raw materials prices to customers. Volumes slightly decreased by 1% for the year, reflecting the good resistance of the MICHELIN brand, and the successful launch of Tier 2 brands with competitive positioning in terms of price / performance and profitability (Uniroyal, BFGoodrich, Kormoran, SIAM Tire).

3.2.2 c) Specialty businesses – Analysis of net sales

Earthmover tires: Net sales declined, dragged down by the fall-off in mining tire volumes, the unfavourable impact of raw-materials indexation clauses and the negative currency effect. Sales volumes rose in the OE and Infrastructure segments.

Agricultural tires: Net sales contracted, reflecting a modest increase in volumes offset by the adverse currency effect and the negative impact of raw-materials indexation clauses.

Two-wheel tires: Net sales increased over the year, with higher volumes in both mature and new markets more than offsetting the unfavourable country mix.

Aircraft tires: Growth in volumes and the continued shift to radials drove a robust increase in net sales.

Michelin Travel Partner matched its 2013 audience record for digital travel-related services that are central to Michelin's presence in consumers' daily lives, thanks to its strong positions in maps and travel guides, as well as to the overhaul of the Michelin Restaurants site's digital offerings, with a focus on online booking services.

In all, net sales in the Specialty businesses amounted to €2,973 million versus €3,129 million in 2013. The decline takes into account the negative currency effect (-1.7%), the adverse effect of indexation clauses at a time of falling raw materials prices, and the decrease in unit sales, which was limited to 1% despite further tire inventory drawdowns by mining companies and lower demand in the Agricultural tire segment.

3.2.3 CHANGES IN EXCHANGE RATES FOR THE GROUP'S MAIN CURRENCIES

At current exchange rates, consolidated net sales declined by 3.4% in 2014.

The decline included a €304 million negative currency effect that was mainly due to (i) the euro/dollar exchange rate, which was highly unfavourable in the first eight months, although it was positive during the rest of the year and (ii) the euro's strength against the Brazilian real, the Russian rouble, the Argentine peso, the Canadian dollar and certain other currencies.

Average exchange rate	2014	2013	Change
Euro/USD	1.330	1.331	-0.1%
Euro/CAD	1.467	1.373	+6.9%
Euro/MXN	17.674	17.013	+3.9%
Euro/BRL	3.118	2.876	+8.4%
Euro/GBP	0.807	0.848	-4.9%
Euro/JPY	140.323	129.910	+8.0%
Euro/CNY	8.192	8.176	+0.2%
Euro/THB	43.194	40.994	+5.4%
Euro/AUD	1.473	1.381	+6.7%
Euro/ZAR	14.415	12.860	+12.1%
Euro/ARS	10.733	7.308	+46.9%
Euro/TRY	2.907	2.543	+14.3%
Euro/RUB	50.015	42.462	+17.8%

Net sales break down as follows by currency:

Currencies	%	Currencies	%
ARS	1%	MXN	2%
AUD	2%	PLN	1%
BRL	3%	RUB	2%
CAD	3%	THB	1%
CNY	5%	TRY	1%
EUR	34%	USD	36%
GBP	3%	ZAR	1%
INR	1%	Other	4%
JPY	1%		
TOTAL			**100%**

3.2.4 NET SALES BY REGION

(in € million)	2014	2014/2013	2nd-Half 2014	1st-Half 2014
GROUP	**19,553**	**-3.4%**	**9,880**	**9,673**
Europe	7,990	-2.5%	3,938	4,052
of which France	*1,924*	*-2.8%*	*946*	*978*
North America (including Mexico)	6,883	-2.1%	3,585	3,298
Other regions	4,680	-6.8%	2,357	2,323

(in € million)	2014	% of total	2013	% of total
GROUP	**19,553**		**20,247**	
Europe	7,990	40.9%	8,193	40.5%
of which France	*1,924*	*9.8%*	*1,979*	*9.8%*
North America (including Mexico)	6,883	35.2%	7,032	34.7%
Other regions	4,680	23.9%	5,022	24.8%

In an environment shaped by targeted price adjustments, net sales were down slightly in Europe and North America and to a greater extent in the other regions.

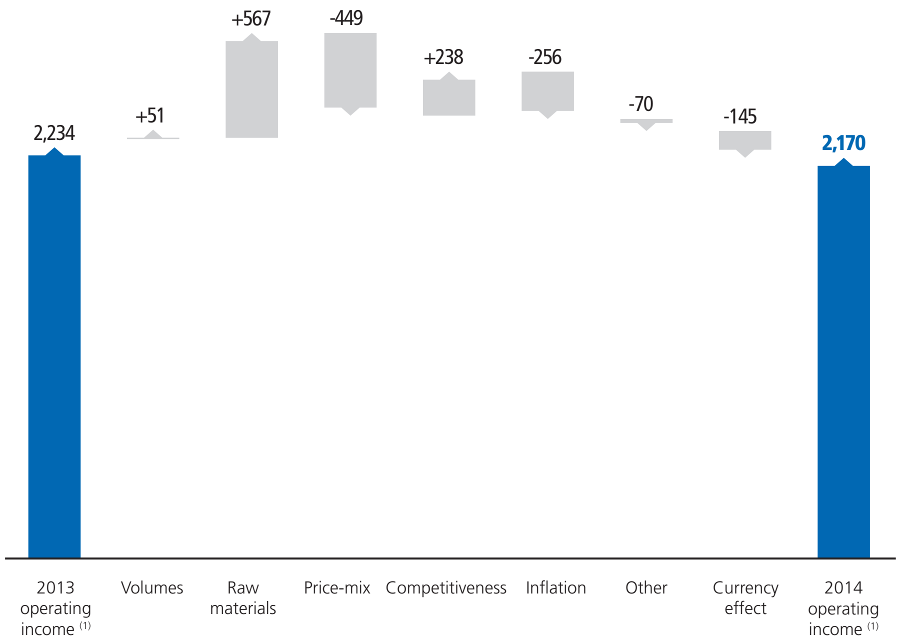
Nearly 60% of consolidated net sales were generated outside Europe and more than 90% outside France.

3.3 CONSOLIDATED INCOME STATEMENT REVIEW

(in € million, except per share data)	2014	2013	2014/2013	2014 *(as a % of net sales)*	2013 *(as a % of net sales)*
Net sales	**19,553**	**20,247**	**-3.4%**		
Cost of sales	(13,299)	(13,841)	-3.9%	68.0%	68.4%
Gross income	**6,254**	**6,406**	**-2.4%**	**32.0%**	**31.6%**
Sales and marketing expenses	(1,842)	(1,968)	-6.4%	9.4%	9.7%
Research and development expenses	(656)	(643)	+2.0%	3.4%	3.2%
General and administrative expenses	(1,596)	(1,517)	+5.2%	8.2%	7.5%
Other operating income and expenses	10	(44)	NM	0.1%	0.2%
Operating income before non-recurring income and expenses	**2,170**	**2,234**	**-2,9%**	**11.1%**	**11.0%**
Non-recurring income and expenses	(179)	(260)	-31.3%	0.9%	1.3%
Operating income	**1,991**	**1,974**	**+0.9%**	**10.2%**	**9.7%**
Cost of net debt	(130)	(94)	+38.3%	0.7%	0.5%
Other financial income and expenses	(43)	(15)	NM	0.2%	0.1%
Net interest on employee benefit obligations	(154)	(162)	-4.9%	0.8%	0.8%
Share of profits and losses from associates	(13)	(1)	NM	0.1%	0.0%
Income before taxes	**1,651**	**1,702**	**-3.0%**	**8.4%**	**8.4%**
Income tax	(620)	(575)	+7.8%	3.2%	2.8%
Net income	**1,031**	**1,127**	**-8.5%**	**5.3%**	**5.6%**
▶ Attributable to shareholders of the Company	1,031	1,127	-8.5%	5.3%	5.6%
▶ Attributable to non-controlling interests	0	0			
Earnings per share *(in €)*					
▶ Basic	5.52	6.08	-9.2%		
▶ Diluted	5.45	5.98	-8.9%		

3.3.1 OPERATING INCOME BEFORE NON-RECURRING ITEMS

(in € million)



(1) Before non-recurring items.

Operating income before non-recurring items amounted to €2,170 million compared with €2,234 million in 2013. Non-recurring items, in the amount of €179 million, consisted mainly of restructuring costs related to the Group's manufacturing competitiveness improvement projects and to the provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions.

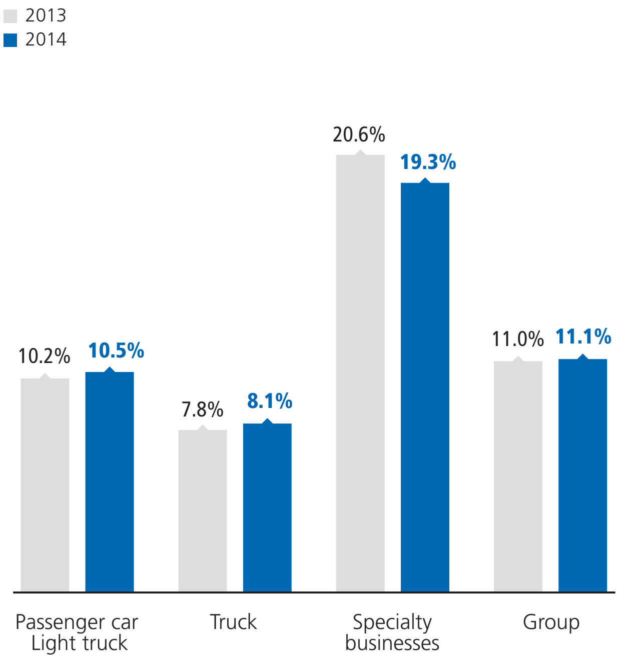
After taking into account the €145 million negative currency effect, adjusted operating income before non-recurring items rose by €81 million in 2014, at constant scope of consolidation and exchange rates. The increase breaks down as follows:

- a €51 million increase from the 0.7% growth in sales volumes;
- a €118 million net increase corresponding to the €449 million unfavourable effect of changes in the price mix (of which €596 million due to price reductions), offset by the €567 million favourable impact of lower raw materials costs;
- a modest €18 million net decrease corresponding to €238 million in benefits from the competitiveness improvement plan, in line with forecasts (of which €66 million in general cost savings, €30 million in materials cost savings and €142 million in productivity gains), offset by the €256 million negative impact of inflation (including a €166 million increase in production costs and a €90 million rise in other costs);
- no impact from start-up costs, which were stable year-on-year;
- a €13 million decrease corresponding to the cost of deploying the new OPE business process management system;
- a €1 million decrease arising from changes in the scope of consolidation;
- a €56 million decrease from other unfavourable factors.

3.3.2 OPERATING INCOME BEFORE NON-RECURRING ITEMS BY OPERATING SEGMENT

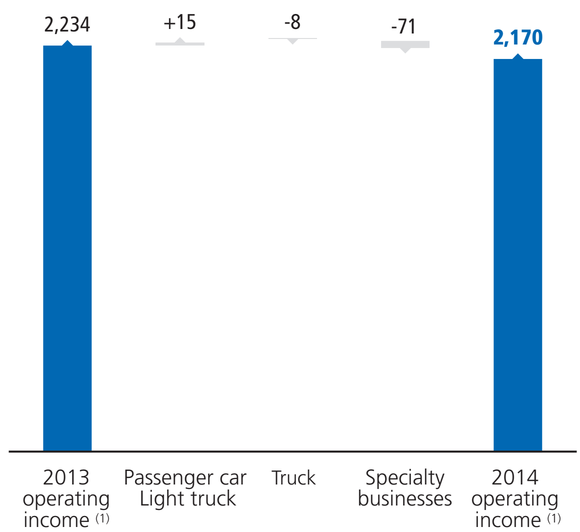
(in € million)	2014	2013	2nd-Half 2014	1st-Half 2014
Passenger car/Light truck tires and related distribution				
Net sales	10,498	10,693	5,331	5,167
Operating income before non-recurring items	1,101	1,086	513	588
Operating margin before non-recurring items	**10.5%**	**10.2%**	**9.6%**	**11.4%**
Truck tires and related distribution				
Net sales	6,082	6,425	3,155	2,927
Operating income before non-recurring items	495	503	269	226
Operating margin before non-recurring items	**8.1%**	**7.8%**	**8.5%**	**7.7%**
Specialty businesses				
Net sales	2,973	3,129	1,394	1,579
Operating income before non-recurring items	574	645	229	345
Operating margin before non-recurring items	**19.3%**	**20.6%**	**16.4%**	**21.8%**
Group				
Net sales	19,553	20,247	9,880	9,673
Operating income before non-recurring items	2,170	2,234	1,011	1,159
Operating margin before non-recurring items	**11.1%**	**11.0%**	**10.2%**	**12.0%**

3.3.2 a) Operating margin before non-recurring items by operating segment



- Passenger car/Light truck tires and related distribution.
- Truck tires and related distribution.
- Specialty businesses: Earthmover, Agricultural, Two-wheel and Aircraft tires; Michelin Travel Partner and Michelin Lifestyle Ltd.

(in € million)



(1) Before non-recurring items.

3.3.2 b) Passenger car/Light truck tires and related distribution – Analysis of operating income before non-recurring items

Passenger car/Light truck tires and related distribution *(in € million)*	2014	2013	2014/2013	2014 *(% of Group total)*	2013 *(% of Group total)*
Net sales	10,498	10,693	-1.8%	54%	53%
Change in volume	*2.0%*				
Operating income before non-recurring items	1,101	1,086	+1.4%	51%	49%
Operating margin before non-recurring items	10.5%	10.2%	+0.3pts		

In 2014, **operating income before non-recurring items** amounted to €1,101 million or 10.5% of net sales, compared with €1,086 million and 10.2% in 2013. Excluding 0.4 pts negative currency effect, operating margin represents 10.9% of net sales.

Excluding the negative currency effect, the year-on-year increase primarily reflects the 2% growth in unit sales, despite the disappointing performance of mid-range brands, and a positive change in the price mix that was achieved on the back of lower raw materials prices, thanks to the Group's price management strategy. The steady improvement in the mix was supported by the successful strategy in the 17-inches and larger segment, and by well-received new products such as the MICHELIN Premier A/S, MICHELIN Alpin 5, MICHELIN Pilot Sport Cup 2, MICHELIN Latitude Sport 3, MICHELIN Agilis R and, at the end of the year, the BFGoodrich KO2.

3.3.2 c) Truck tires and related distribution – Analysis of operating income before non-recurring items

Truck tires and related distribution *(in € million)*	2014	2013	2014/2013	2014 *(% of Group total)*	2013 *(% of Group total)*
Net sales	6,082	6,425	-5.3%	31%	32%
Change in volume	*-1.0%*				
Operating income before non-recurring items	495	503	-1.6%	23%	23%
Operating margin before non-recurring items	8.1%	7.8%	+0.3pts		

Operating income before non-recurring items came in at €495 million, representing 8.1% of net sales, compared with €503 million and 7.8% the previous year. Excluding the negative 1 pt currency effect, operating income before non-recurring items represented 9.1% of net sales.

This performance, which was in line with profitability improvement targets, reflected effective price management in a highly competitive environment linked to the decline in raw materials prices and the slight 1% decrease in unit sales. It also reflected the tight management of production costs and overheads, and the currency effect.

3.3.2 d) Specialty businesses – Analysis of operating income before non-recurring items

Specialty businesses *(in € million)*	2014	2013	2014/2013	2014 *(% of Group total)*	2013 *(% of Group total)*
Net sales	2,973	3,129	-5.0%	15%	15%
Change in volume	*-1.0%*				
Operating income before non-recurring items	574	645	-11.0%	26%	29%
Operating margin before non-recurring items	19.3%	20.6%	-1.3 pts		

Operating income before non-recurring items amounted to €574 million or 19.3% of net sales compared with €645 million or 20.6% in 2013. Excluding the negative 0.6 pts currency effect operating income before non-recurring items represented 19.9% of net sales.

The decline was due in part to negative volume and currency effects, and it also reflected price adjustments designed to pass on to customers the benefits of lower raw materials prices through the application of indexation clauses.

3.3.3 OTHER INCOME STATEMENT ITEMS

3.3.3 a) Raw materials

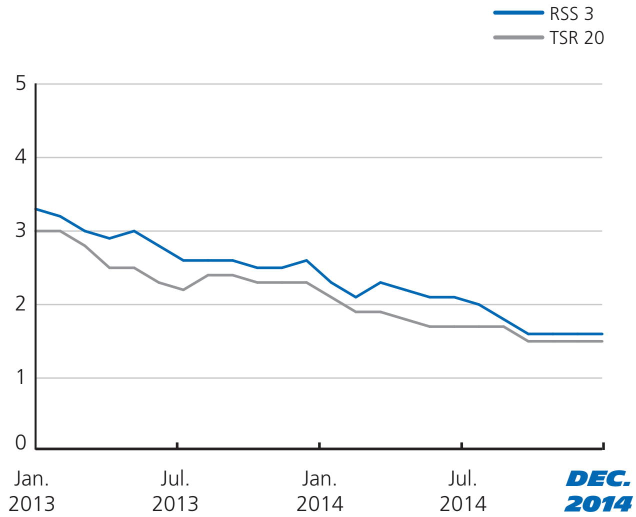
The **cost of raw materials** used in production reported in the income statement under "Cost of sales" (€4,958 million in 2014 and €5,668 million in 2013) is determined by valuing raw materials, semi-finished and finished product inventories using a standard cost method that yields similar results to those that would be obtained using the weighted average cost method. This method tends to spread fluctuations in purchase costs over time and delay their recognition in cost of sales, due to timing differences between the purchase of the raw materials and the sale of the finished product.

In 2014, raw materials costs recognized in cost of sales included the €567 million impact of lower prices, as well as the volume and currency effects.

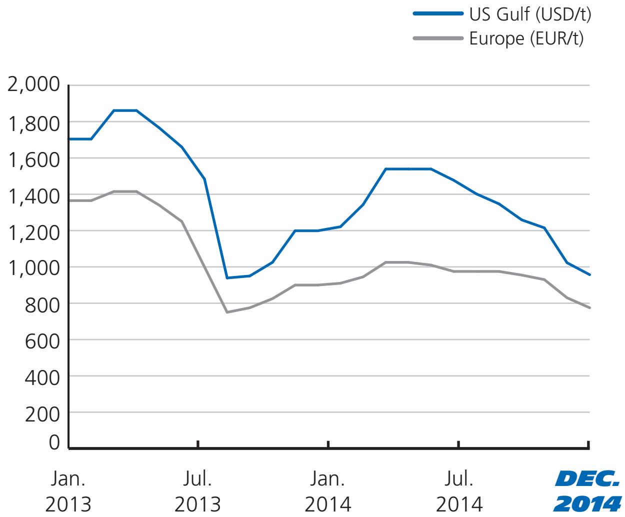
Changes in spot prices for natural rubber and butadiene feed through to the income statement five to six months later.

RAW MATERIALS RECOGNIZED IN 2014 COST OF SALES (€4,958 MILLION)

NATURAL RUBBER PRICES (SICOM)
(USD/kg)



BUTADIENE PRICES

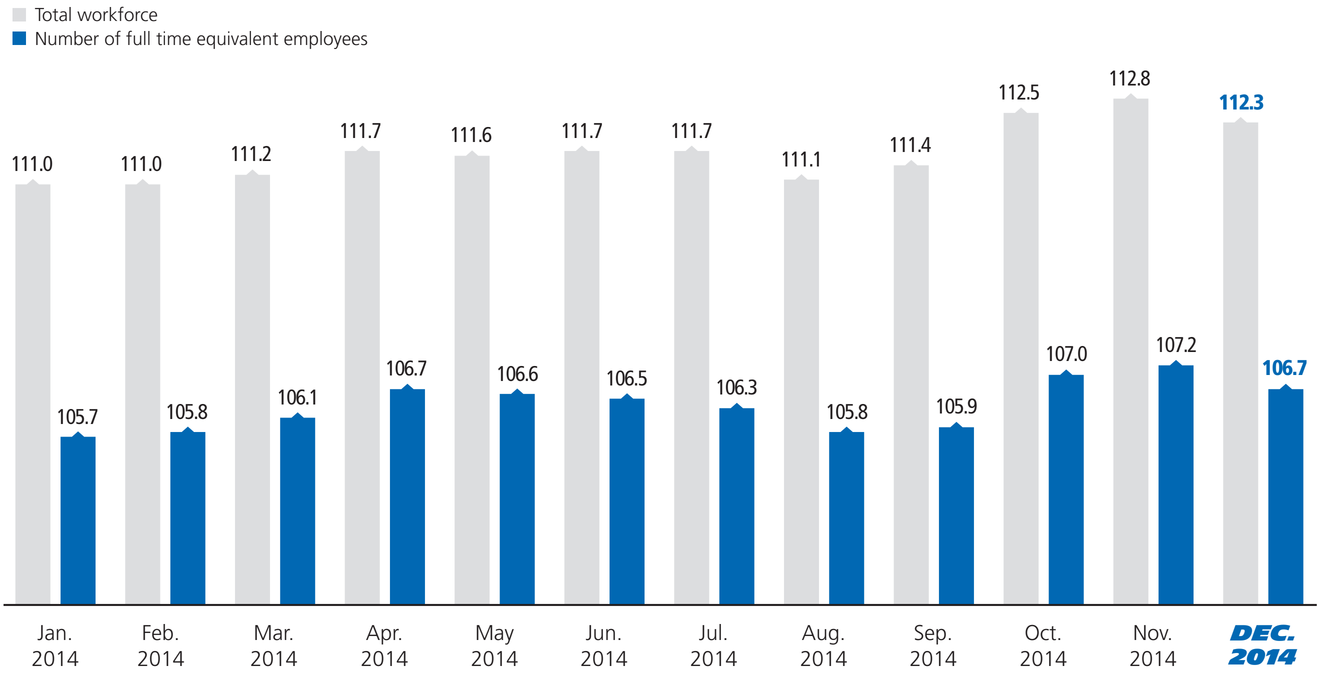


3.3.3 b) Employee benefit costs and number of employees

At €5,292 million, **employee benefit costs** represented 27.1% of net sales in 2014, *versus* 26.1% the year before. The relative increase mainly reflected 2014 slight reduction in net sales. Employee benefit costs were stable in absolute terms compared with 2013, with the 1.1% wage inflation offset by the benefits of the competitiveness improvement plan and a favourable currency effect.

(in € million and number of people)	2014	2013	Change
Total employee benefit costs	5,292	5,292	+0.0%
As a % of net sales	*27.1%*	*26.1%*	*+1.0 pt*
Employees on payroll at December 31	112,300	111,200	+1.0%
Number of full time equivalent employees at December 31	106,700	105,700	+0.9%
Average number of full time equivalent employees	106,400	106,900	-0.5%

NUMBER OF EMPLOYEES
(in thousands)

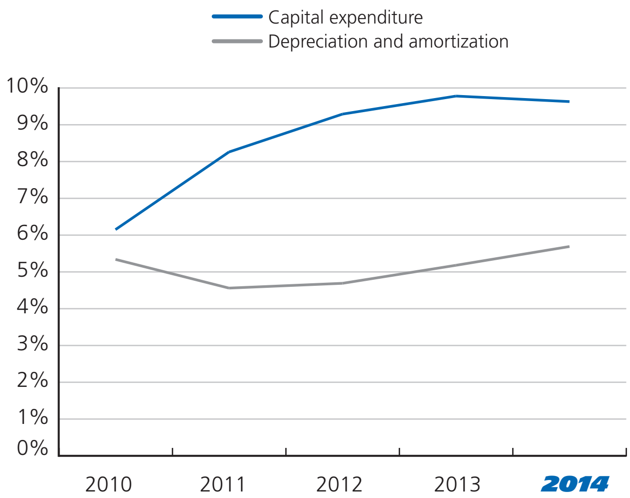


3.3.3 c) Depreciation and amortization

(in € million)	2014	2013	Change
Depreciation and amortization	1,112	1,049	+6.0%
As a % of capital expenditure	*59%*	*53%*	

Depreciation and amortization charges rose by €63 million or 6.0% to €1,112 million, reflecting the Group's sustained capital spending program. Given the projects currently underway, depreciation and amortization charges are expected to continue to increase in the coming years.

(as a % of net sales)



3.3.3 d) Transportation costs

(in € million)	2014	2013	Change
Transportation costs	1,020	1,030	-1.0%
As a % of net sales	*5.2%*	*5.1%*	

Transportation costs stood at €1,020 million or 5.2% of net sales, down 1.0% from the prior year as exchange rate movements offset inflation and the impact of the slight growth in volumes. These costs are expected to decline as a percentage of net sales in coming years, with the ramp-up of production at new plants in emerging markets.

3.3.3 e) Sales and marketing expenses

Sales and marketing expenses represented 9.4% of net sales in 2014, down slightly from 9.7% in 2013. In value, they declined by €126 million to €1,842 million, led by the more efficient commitment of these expenditures, combined with the favourable currency effect, which cancelled out the impact of inflation and the outlays committed to drive growth in new markets.

3.3.3 f) Research and development expenses

Research and development expenses stood at €656 million, a 2% year-on-year increase that reflected the Group's strategy of increasing the pace of new product launches, aligning innovation with real market needs and extending its technological leadership.

As a percentage of net sales, R&D expenses rose to 3.4% from 3.2% in 2013.

3.3.3 g) General and administrative expenses

At €1,596 million, **general and administrative expenses** represented 8.2% of net sales, *versus* €1,517 million and 7.5% in 2013. The €79 million growth in value corresponds to the increase in costs related to the new OPE business process management system and wage inflation, which had a greater impact in the new markets despite the favourable currency effect.

3.3.3 h) Other operating income and expenses

Other operating income and expenses represented a net income of €10 million in 2014, *versus* a net expense of €44 million reported the previous year.

3.3.3 i) Non-recurring income and expenses

Non-recurring income and expenses represented a net expense of €179 million in 2014, relating mainly to the competitiveness improvement projects launched in Europe and North America and to the provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions.

3.3.3 j) Cost of net debt

(in € million)	2014	2013	Change
Cost of net debt	130	94	+36

At €130 million, the **cost of net debt** was up €36 million compared with 2013, primarily as a result of the following factors:

- a €6 million reduction in net interest expense, reflecting the net impact of:
  - a €5 million increase due to the rise in average net debt to €992 million in 2014 from €912 million the year before,
  - a €3 million unfavourable interest rate effect,
  - a €14 million net decrease from a variety of factors, including the negative carry, corresponding to the effect of investing cash and cash equivalents at a rate below the Group's average borrowing cost;
- a €16 million increase due to lower interest capitalization;
- a €26 million increase from other unfavourable factors.

3.3.3 k) Other financial income and expenses

(in € million)	2014	2013	Change
Other financial income and expenses	(43)	(15)	-28

Other financial income and expenses include exchange gains and losses, dividends, interest income and proceeds from the sale of financial assets, and the cost of retiring 2014 bond and part of 2017 bond. In 2014, they represented a net expense of €43 million.

3.3.3 l) Income tax

(in € million)	2014	2013	Change
Income before taxes	1,651	1,702	-51
Income tax	**(620)**	**(575)**	**+45**
Current tax	(511)	(480)	+31
Withholding tax	(52)	(35)	+17
Deferred tax	(57)	(60)	-3

Income tax amounted to €620 million in 2014, an increase of €45 million compared with €575 million in 2013. The effective tax rate was 37.5%, *versus* 33.8% the year before. The higher effective rate was mainly due to an unfavourable change in the country mix, increased withholding tax payments and higher taxes in some of the Group's host countries. These increases were partly offset by adjustments to deferred taxes.

3.3.3 m) Consolidated net income and earnings per share

(in € million)	2014	2013	Change
Net income	1,031	1,127	-96
As a % of net sales	*5.3%*	*5.6%*	*-0.3 pt*
▶ Attributable to shareholders of the Company	1,031	1,127	-96
▶ Attributable to non-controlling interests	0	0	
Earnings per share *(in €)*			
▶ Basic	5.52	6.08	-0.56
▶ Diluted	5.45	5.98	-0.53

Net income came to €1,031 million, or 5.3% of net sales, compared with €1,127 in 2013. The €96 million decline reflected the following factors:

- Favourable factors:
  - the €81 million favourable impact of the shift to €179 million in net non-recurring expense in 2014 from net non-recurring expense of €260 million in 2013,
  - the €8 million decrease in net interest on net defined benefit obligations in 2014;
- Unfavourable factors:
  - the €64 million decline in operating income before non-recurring items,
  - the €36 million increase in cost of net debt,
  - the €28 million decline in other financial income and expense,
  - the €12 million decrease in the Group's share of profit from associates,
  - the €45 million increase in income tax.

3.4 CONSOLIDATED BALANCE SHEET REVIEW

The following comments refer to the 2014 consolidated financial statements as reported.

ASSETS

(in € million)	December 31, 2014	December 31, 2013	Total change	Currency effect	Movement
Goodwill	835	388	+447	-15	+462
Intangible assets	602	451	+151	+3	+148
Property, plant and equipment	10,081	8,955	+1,126	+397	+729
Non-current financial assets and other assets	283	309	-26	+8	-34
Investments in associates and joint ventures	189	195	-6	+9	-15
Deferred tax assets	1,149	1,054	+95	+64	+31
Non-current assets	**13,139**	**11,352**	**+1,787**	**+466**	**+1,321**
Inventories	4,203	3,979	+224	+175	+49
Trade receivables	2,569	2,517	+52	+82	-30
Current financial assets	462	564	-102	+1	-103
Other current assets	883	707	+176	+10	+166
Cash and cash equivalents	1,167	1,563	-396	-6	-390
Current assets	**9,284**	**9,330**	**-46**	**+263**	**-308**
TOTAL ASSETS	**22,423**	**20,682**	**+1,741**	**+729**	**+1,012**

LIABILITIES AND EQUITY

(in € million)	December 31, 2014	December 31, 2013	Total change	Currency effect	Movement
Share capital	371	372	-1	+0	-1
Share premiums	3,601	3,641	-40	+0	-40
Reserves	5,539	5,237	+302	+168	+134
Non-controlling interests	12	6	+6	+1	+5
Equity	**9,523**	**9,256**	**+267**	**+169**	**+98**
Non-current financial liabilities	1,621	1,447	+174	+203	-29
Employee benefit obligations	4,612	3,895	+717	+184	+533
Provisions and other non-current liabilities	1,476	1,184	+292	+50	+242
Deferred tax liabilities	95	43	+52	-6	+58
Non-current liabilities	**7,804**	**6,569**	**+1,235**	**+432**	**+803**
Current financial liabilities	726	856	-130	-44	-86
Trade payables	2,162	1,970	+192	+84	+108
Other current liabilities	2,208	2,031	+177	+90	+87
Current liabilities	**5,096**	**4,857**	**+239**	**+131**	**+108**
TOTAL LIABILITIES AND EQUITY	**22,423**	**20,682**	**+1,741**	**+731**	**+1,010**

3.4.1 GOODWILL

Goodwill at December 31, 2014 reflects a €15 million negative currency effect, and a €462 million increase corresponding mainly to goodwill recognized on the acquisition of Sascar, Brazil's leading digital fleet management company, and an online tire services company.

3.4.2 INTANGIBLE ASSETS

Intangible assets at December 31, 2014 amounted to €602 million, an increase of €148 million (excluding the €3 million positive currency effect) from the previous year-end that corresponds to the acquisition of software and Sascar brand.

3.4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stood at €10,081 million at December 31, 2014, a €729 million increase from December 31, 2013 before taking into account the €397 million positive currency effect. The increase was primarily led by the on-going deployment of investments in the new markets and product investments for the premium and intermediate segments and Specialty businesses. The amount committed to investments in property, plant and equipment in 2014 was greater than depreciation expense for the year.

3.4.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

Non-current financial assets and other non-current assets stood at €283 million, a decline of €34 million excluding the €8 million positive currency effect that was mainly due to:

- a €26 million decrease from fair value adjustments to available-for-sale financial assets;
- a €13 million increase corresponding to purchases of available-for-sale financial assets;
- a €3 million decrease from fair value adjustments to derivative instruments;
- an €18 million net decrease from other movements.

3.4.5 DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2014, the Group held a **net deferred tax asset** of €1,054 million, representing a decrease of €27 million compared with the amount reported in 2013 (before taking into account the €70 million positive currency effect). The decline mainly concerned deferred taxes on temporary differences related notably to the Sascar acquisition, which offset the deferred tax effect of actuarial gains and losses recorded during the year on employee benefit obligations, mainly in Europe.

3.4.6 WORKING CAPITAL REQUIREMENT

(in € million)	December 31, 2014	December 31, 2013	Change	2014 *(as a % of net sales)*	2013 *(as a % of net sales)*
Inventories	4,203	3,979	+224	21.5%	19.7%
Trade receivables	2,569	2,517	+52	13.1%	12.4%
Trade payables	(2,162)	(1,970)	-192	11.1%	9.7%
WORKING CAPITAL REQUIREMENT	**4,610**	**4,526**	**+84**	**23.6%**	**22.4%**

Working capital requirement increased by €84 million compared with December 31, 2013, chiefly due to the impact on the carrying amount of inventory of €175 million in positive translation adjustments. Excluding this currency effect, working capital requirement improved by €89 million. It represented 23.6% of net sales for the year.

Inventories amounted to €4,203 million, representing 21.5% of net sales for 2014. Excluding the currency effect, the year-on-year change was an increase of €49 million, primarily reflecting the 8% increase in volume of finished goods (in tons), partly offset by the favourable impact of raw materials prices.

Trade receivables contracted by €30 million excluding the currency effect, to €2,569 million at December 31, 2014. This was mainly the result of price reductions introduced during the year.

Trade payables ended the year up €108 million excluding the currency effect, at €2,162 million, with no significant increase in payables due to suppliers of fixed assets in 2014.

3.4.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents declined by €390 million year-on-year, excluding the currency effect, to €1,167 million. The decrease was primarily due to the following factors:

- Increases:
  - free cash flow generation of €322 million, after deducting the €400 million outlay for the acquisition of Sascar,
  - proceeds from sales of cash management instruments for €172 million,
  - proceeds from the exercise of stock options and the delivery of performance shares for €46 million;
- Decreases:
  - payment of €486 million in cash dividends,
  - outlays of €87 million for share buybacks,
  - debt repayments net of the proceeds from new borrowings for €280 million, including the partial retirement of 2014 (due date) and 2017 (early payment) bonds for €461 million,
  - increase in borrowing collaterals for €60 million,
  - other outlays for €17 million.

3.4.8 EQUITY

Consolidated equity increased by €267 million to represent €9,523 million at December 31, 2014 compared with €9,256 million at December 31, 2013, primarily as a result of the following factors:

- Increases:
  - recognition of the €779 million in comprehensive income for the year, including:
    - net income of €1,031 million,
    - actuarial gains and losses of €399 million after deferred taxes, reflecting the combined impact of higher interest rates and better-than-expected actual returns on plan assets,
    - €22 million in unrealized losses on available-for-sale financial assets, net of deferred tax,
    - the €169 million positive difference from translating foreign operations,
  - €46 million from the issuance of 946,891 new shares upon exercise of stock options and for delivery under performance share plans,
  - €7 million corresponding to the service cost linked to share-based payment plans (performance share plans);
- Decreases:
  - dividend payments and other distributions for €486 million,
  - buyback and cancellation of 1,010,336 Michelin shares under the shareholder approved plan, for €87 million.

At December 31, 2014, the **share capital** of Compagnie Générale des Établissements Michelin stood at €371,452,400, comprising 185,726,200 shares corresponding to 244,308,764 voting rights.

3.4.9 NET DEBT

Net debt stood at €707 million at December 31, 2014, up €565 million from December 31, 2013, as a result of the following factors:

- €223 million in net uses of cash, including:
  - €322 million in free cash flow generated during the year, less
  - dividends, net share buybacks and other items, for a total outlay of €545 million;
- €342 million in other factors increasing net debt, of which:
  - the €33 million interest expense on the zero-coupon convertible bonds,
  - €164 million in negative translation adjustments,
  - the €135 million impact of changes in the scope of consolidation,
  - €10 million in other unfavourable factors.

CHANGES IN NET DEBT

(in € million)	2014	2013
At January 1	**142**	**1,053**
Free cash flow [(1)]	(322)	(1,154)
Distributions and other	+545	+340
Interest expense on the zero-coupon convertible bonds	+33	+33
Translation adjustment	+164	(121)
Other	+145	(9)
AT DECEMBER 31	**707**	**142**
CHANGE	**+565**	**(911)**

(1) Free cash flow corresponds to cash flows from operating activities less cash flows used in investing activities (adjusted for net cash flows used in cash management instruments and loan guarantees).

3.4.9 a) Gearing

Gearing stood at 7% at December 31, 2014, *versus* 2% at year-end 2013, with the increase corresponding notably to the €400 million acquisition of Sascar.

3.4.9 b) Credit ratings

The solicited corporate credit ratings of Compagnie Générale des Établissements Michelin (CGEM) and Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) are as follows:

		CGEM	CFM
Short term	Standard & Poor's	A-2	A-2
	Moody's	P-2	P-2
Long term	Standard & Poor's	BBB+	BBB+
	Moody's	Baa1	Baa1
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Stable	Stable

- On March 23, 2012 Standard & Poor's upgraded Michelin's long-term credit rating to BBB+ from BBB, while affirming its A-2 short-term rating and stable outlook.
- On April 24, 2012 Moody's upgraded Michelin's long-term credit rating to Baa1 from Baa2, with a stable outlook, while affirming its P-2 short-term rating.

3.4.10 PROVISIONS

Provisions and other non-current liabilities amounted to €1,476 million, *versus* €1,184 million at December 31, 2013. The increase was primarily due to the projects to improve the competitiveness of the Group's manufacturing operations and to the provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions.

3.4.11 EMPLOYEE BENEFITS

CHANGE IN THE FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in € million)	Pension plans	Other defined benefit plans	2014	2013
At January 1	**1,902**	**1,993**	**3,895**	**4,679**
Effect of applying IAS 19R (June 2011)	**-**	**-**	**-**	**(56)**
Translation adjustments	78	106	184	(97)
Contributions paid to the funds	(70)	-	(70)	(185)
Benefits paid directly to the beneficiaries	(28)	(124)	(152)	(146)
Net cost recognized in operating expense				
Current service cost	64	57	121	133
Actuarial (gains) or losses recognized on other long-term benefit obligations	-	20	20	(2)
Past service cost arising from plan amendments	(1)	(6)	(7)	-
Past service cost arising from plan curtailments and settlements	(17)	(10)	(27)	(6)
Employee benefit costs included in non-recurring restructuring provisions	12	(1)	11	(14)
Costs recognized below the line				
Net interest on net defined benefit obligation (asset)	74	79	153	162
Costs recognized in other comprehensive income				
Actuarial (gains) or losses	289	172	461	(574)
Portion of unrecognized asset due to the application of the asset ceiling	23	-	23	1
NET OBLIGATION AT DECEMBER 31	**2,326**	**2,286**	**4,612**	**3,895**

The net obligation recognized in the consolidated balance sheet at December 31, 2014 stood at €4,612 million, an increase of €717 million compared with December 31, 2013.

The main factors underlying this increase are as follows:

- plan amendments and curtailments, which had a €23 million positive impact, mainly at the level of the US pension plan (€16 million) and the plan for the payment of long-service awards in Italy (€8 million);
- actuarial losses of €504 million, primarily due to a reduction in discount rates;
- translation adjustments of €184 million arising from changes in the exchange rates for the USD, GBP and CAD against the Euro.

Expenses reported below the line in 2014 in respect of defined benefit plans amounted to €153 million. This amount was roughly equivalent to the €162 million recorded in 2013 and was also in line with Group forecasts.

Total payments under defined benefit plans amounted to €222 million in 2014 *versus* €331 million the year before, including:

- contributions paid to fund management institutions for €70 million in 2014 *versus* €185 million the year before, with the decline mainly due to the decision to stop front-loading the pension funds in the United States and the United Kingdom;
- benefits paid directly to employees for €152 million in 2014 *versus* €146 million in 2013.

Total payments under defined contribution plans amounted to €139 million in 2014 compared with €129 million the previous year.

Actuarial losses recorded in 2014 in the amount of €504 million corresponded to:

- actuarial losses on defined benefit obligations in the amount of €1,015 million, resulting mainly from reductions in discount rates;
- actuarial gains of €534 million on plan assets, attributable to higher-than-expected actual returns on plan assets;
- actuarial losses of €23 million arising from the application of the asset ceiling, mainly for Canadian pension plans.

3.5 CONSOLIDATED CASH FLOW STATEMENT REVIEW

3.5.1 CASH FLOWS FROM OPERATING ACTIVITIES

(in € million)	2014	2013	Change
EBITDA before non-recurring income and expenses	**3,286**	**3,285**	**+1**
Change in inventory	-71	269	-340
Change in trade receivables and prepayments	234	536	-302
Change in trade payables and prepayments	87	13	+74
Restructuring cash costs	-76	-119	+43
Other changes in provisions	-110	-217	+107
Tax and interest paid	-760	-586	-174
Other operating working capital	-68	-92	+24
CASH FLOW FROM OPERATING ACTIVITIES	**2,522**	**3,089**	**-567**

EBITDA before non-recurring income and expenses amounted to €3,286 million in 2014, unchanged compared with 2013. Cash flow from operating activities fell sharply, to €2,522 million from €3,089 million, primarily as a result of:

- positive change in working capital requirement, which decreased by €249 million in 2014 compared with an €818 million decrease in 2013, under the impact of:
  - the €71 million increase in inventories, *versus* a €269 million decrease in 2013, primarily due to the higher volumes held,
  - the €234 million decrease in trade receivables, *versus* a €536 million decrease in 2013, mainly reflecting the price adjustments applied during the year,
  - the €87 million increase in trade payables, *versus* a €13 million increase in 2013;
- the decrease in restructuring cash costs, which declined to €76 million from €119 million in 2013;
- the increase in tax and interest paid during the year, to €760 million from €586 million in 2013.

3.5.2 CAPITAL EXPENDITURE

(in € million)	2014	2013	2014/2013	2014 *(as a % of net sales)*	2013 *(as a % of net sales)*
Gross purchases of intangible assets and PP&E	**1,883**	**1,980**	**(97)**	**9.6%**	**9.8%**
Investment grants received and change in capital expenditure payables	(44)	(14)	(30)	(0.2%)	(0.1%)
Proceeds from sales of intangible assets and PP&E	(46)	(53)	+7	(0.2%)	(0.3%)
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**1,793**	**1,913**	**(120)**	**9.2%**	**9.4%**

Additions to intangible assets and property, plant and equipment amounted to €1,883 million in 2014 compared with €1,980 million in 2013. They concerned on-going implementation of the Group's new phase of dynamic growth. Total capital expenditure represented 9.6% of net sales *versus* 9.8% in 2013.

Growth investments amounted to €1,043 million.

The main capital projects by Product Line were as follows:

Passenger car and Light truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - Itatiaia, Brazil,
  - Columbia, SC in the United States,
  - Shenyang, China,
  - Olsztyn, Poland,
  - Cuneo, Italy,
  - Pirot, Serbia,
  - in Thailand;

Truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - Shenyang, China,
  - Chennai, India,
  - Campo Grande, Brazil;

Specialty products:

- Mining tires: construction of a new plant in Anderson, SC in the United States;
- Projects to increase Agricultural equipment tire capacity at the Olsztyn plant in Poland.

Note that the Group's financing depends on its ability to generate cash flow as well as on financial market opportunities. As a result, there is generally no direct link between financing sources and investment projects.

3.5.3 AVAILABLE CASH FLOW AND FREE CASH FLOW

Available cash flow corresponds to cash flow from recurring operations, i.e. after routine capital expenditure but before growth investments.

Free cash flow, which is stated before dividend payments and financing transactions, corresponds to cash flows from operating activities less cash flows used in investing activities (adjusted for net cash flows used in cash management instruments and loan guarantees).

(in € million)	2014	2013
Cash flows from operating activities	**2,522**	**3,089**
Routine capital expenditure (maintenance, IT, dealerships, etc.)	(840)	(772)
AVAILABLE CASH FLOW	**1,682**	**2,317**
Growth investments	(1,043)	(1,208)
Sascar acquisition	(400)	-
Other	83	45
FREE CASH FLOW	**322**	**1,154**

After deducting €840 million in routine capital expenditure, available cash flow was strongly positive in 2014, at €1,682 million.

Free cash flow ended the year at €322 million, after the €1,043 million in growth investments and the €400 million in Sascar acquisition were amply covered by available cash flow.

3.6 RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving an annual return on capital employed (ROCE) of at least 15% by 2020 is one of Michelin's strategic objectives.

ROCE is measured as:

- net operating profit after tax (NOPAT), calculated at a standard tax rate of 31%, corresponding to the Group's average effective tax rate;
- divided by the average economic assets employed during the year, i.e. all of the Group's intangible assets, property, plant and equipment, loans and deposits, and net working capital requirement.

Non-Euro currencies are translated at year-end rates for balance sheet items and average rates for income statement items.

If ROCE is greater than weighted average cost of capital (WACC) for the year, then the Group has created value during the period.

The Group's weighted average cost of capital (WACC) is based on a theoretical balance between equity and debt. The rates used are determined (i) for equity capital, based on the yield on Michelin shares expected by the stock markets, and (ii) for debt capital, on the market risk-free rate plus the risk premium applied to Michelin by the markets, as adjusted for the tax effect. Based on this calculation method, 2014 WACC remained below the 9% target the Group uses to assess its value creation.

(in € million)	2014	2013
Operating income before non-recurring income and expenses	2,170	2,234
Average standard income tax rate used for ROCE calculation	31%	31%
Net operating profit before non-recurring items after tax (NOPAT)	**1,497**	**1,541**
Intangible assets and property, plant and equipment	11,518	9,794
Loans and deposits	70	71
Investments in associates and joint ventures	189	195
Total non-current assets	11,777	10,060
Working capital requirement	2,533	2,613
Economic assets at December 31	14,310	12,673
Average economic assets	**13,492**	**12,919**
ROCE	**11.1%**	**11.9%**
Passenger car and Light truck tires and related distribution ROCE	11.1%	11.6%
Truck tires and related distribution ROCE	7.4%	8.0%
Specialty businesses ROCE	19.5%	23.2%

3.7 OUTLOOK

In 2015, demand in the Passenger car/Light truck and Truck segments should continue to grow in North America and China, and also in Europe albeit at a modest rate, while holding firm to last year's trend in the new markets and rebounding in Southeast Asia.

Mining tire customers are likely to make further inventory drawdowns and OE sales in the Agricultural tire segment are expected to be lower, while in the Earthmover segment, OE and Infrastructure business should continue to grow at a modest rate.

In this environment, Michelin is aiming to grow unit sales in line with global trends in the markets in which it operates. In addition, the Group has set a 2015 target of delivering an increase in operating income before non-recurring income, beyond exchange rate effect, a return on capital employed in excess of 11%, and structural free cash flow of approximately €700 million, with €1.7-1.8 billion in capital expenditure.

3.8 SHARE INFORMATION

3.8.1 THE MICHELIN SHARE

Traded on the NYSE Euronext Paris stock exchange

- Compartment A;
- NYSE Euronext symbol;
- Eligible for the SRD deferred settlement system;
- ISIN: FR 0000121261;
- Par value: €2.00;
- Traded in units of: 1.

Market capitalization

- €13.980 billion at December 31, 2014

Average daily trading volume

- 662,063 shares since January 1, 2014.

Indices

The Michelin share is included in two leading stock market indices. As of December 31, 2014, it represented:

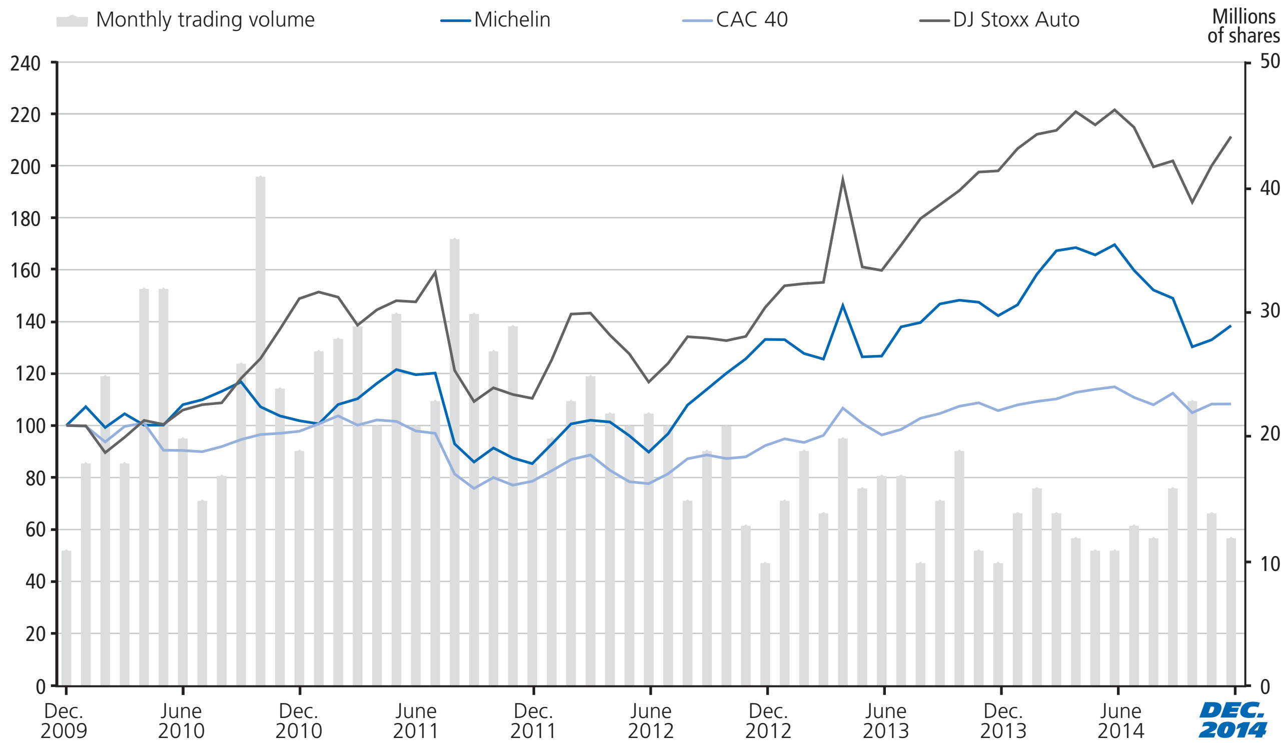
- 1.63% of the CAC 40 index;
- 0.69% of the Euronext 100 index.

Michelin is also included in the main Socially Responsible Investing (SRI) Indices:

- Dow Jones Sustainability Index (DJSI) Stoxx for European sustainability leaders and DJSI World for global sustainability leaders;
- Ethibel Sustainability Index (ESI) Europe.

SHARE PERFORMANCE

(Closing price at December 31, 2014)



3.8.2 SHARE DATA

Share price *(in €)*	**2014**	**2013**	**2012**	**2011**	**2010**
High	94.33	84.71	72.58	68.54	64.51
Low	65.10	57.23	45.32	40.20	48.13
High/low ratio	1.45	1.48	1.60	1.70	1.34
Closing price, end of period	75.27	77.25	71.59	45.68	53.70
Change over the period	-2.6%	+7.9%	+56.7%	-14.9%	+0.2%
Change in the CAC 40 index over the period	*-0.5%*	*+18.0%*	*+15.2%*	*-20.5%*	*-3.3%*
Market value at end of period *(in € billions)*	**13.98**	**14.35**	**13.07**	**8.22**	**9.48**
Average daily trading volume over the period	662,063	719,464	913,167	1,246,389	1,116,722
Average shares outstanding	166,756,045	184,901,269	181,099,501	178,446,812	153,672,558
Volume of shares traded over the year	168,826,055	183,463,371	233,770,814	320,321,901	288,114,287
Share turnover ratio	**101%**	**99%**	**129%**	**180%**	**187%**

Sources: NYSE Euronext Paris, Michelin

3.8.3 PER-SHARE DATA

(In € per share, except ratios)	**2014**	**2013**	**2012**	**2011**	**2010**
Net assets per share	51.3	49.8	46.6	45.9	46.0
Basic earnings per share	5.52	6.08	8.62	8.14	6.78
Diluted earnings per share (1)	5.45	5.98	8.41	7.97	6.64
Price-earnings ratio	**13.6**	**12.7**	**8.3**	**5.6**	**7.9**
Dividend for the year	2.50*	2.50	2.40	2.10	1.78
Pay-out ratio	42.0%	35.0%	28.7%	30.0%	30.0%
Yield (2)	3.3%	3.2%	3.4%	4.6%	3.3%

(1) Earnings per share adjusted for the impact on net income and on average shares outstanding of the exercise of outstanding dilutive instruments.
(2) Dividend/share price at December 31.
** To be recommended to shareholders at the May 22, 2015 Annual General Meeting.*

3.8.4 CAPITAL AND OWNERSHIP STRUCTURE

At December 31, 2014, Michelin's share capital amounted to €371,452,400.

	At December 31, 2014			**At December 31, 2013**		
	Number of shareholders	**Shares outstanding**	**Voting rights outstanding**	**Number of shareholders**	**Shares outstanding**	**Voting rights outstanding**
French institutional investors	3,176	25.2%	26.8%	3,523	26.0%	25.9%
Non-resident institutional investors		57.9%	58.2%		61.5%	58.2%
Individual shareholders	155,319	15.1%	13.6%	133,078	10.7%	13.4%
Employee Shareholder Plan	73,467	1.8%	2.4%	77,840	1.8%	2.5%
TOTAL	**231,962**	**185,726,200 SHARES***	**244,308,764 VOTING RIGHTS**	**214,441**	**185,789,643 SHARES***	**240,454,826 VOTING RIGHTS**

** All fully paid up.*

Shares held in the same name for at least four years carry double voting rights.

3.9 OPERATING HIGHLIGHTS

A full description of 2014 highlights may be found on the Michelin website: www.michelin.com.

3.9.1 STRATEGY – PARTNERSHIPS – INVESTMENTS

Michelin Challenge Bibendum

(November 11-14) – Created in 1998 for the 100th anniversary of the Michelin Man (Bibendum), the Michelin Challenge Bibendum now acts as the **global summit** for sustainable mobility. The event combines trials and demonstrations with forums and conferences to assess the progress made since the last Challenge.

A Laboratory Dedicated to Tomorrow's Mobility

In 2014, the Michelin Challenge Bibendum continued to move forward, becoming a future-facing Think and Action Tank, in which international experts put forth, debated and shared their ideas for achieving sustainable mobility. These discussions, conducted throughout the year, led to the publication of a Green Paper. The event also included a variety of forums and roundtables, as well as exhibitions and vehicle test-runs. The Michelin Challenge Bibendum is now an on-going platform dedicated to the mobility of the future, with the goal of becoming the global benchmark in this field.

Renewal of the term of office of Jean-Dominique Senard, the Managing General Partner

(November 3, 2014) – The Board of Directors of Société Auxiliaire de Gestion (SAGES), in its capacity as Non-Managing General Partner of Compagnie Générale des Établissements Michelin (CGEM), decided on October 6, 2014 to submit a proposal for approval to the Supervisory Board to renew Managing General Partner Jean-Dominique Senard's term for another four years from the date of its expiry, *i.e.* May 22, 2015, at the close of the Annual Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2014.

At its meeting on October 31, 2014, the Supervisory Board unanimously approved the proposed renewal, after the Compensation and Appointments Committee expressed a favorable opinion.

Consequently, the term of office of Managing General Partner Jean-Dominique Senard has been renewed for four years, and will expire at the close of the Annual Shareholders' Meeting to be called in the first half of 2019 to approve the financial statements for the year ending December 31, 2018.

Michelin completes Sascar acquisition

(September 1, 2014) – Sascar is Brazil's leading fleet management and freight security company, with 870 employees and revenue of BRL280 million (around €91 million) in 2013. The acquisition of this company, whose business model has proven its worth in Brazil (33,000 fleets managed, 190,000 trucks), will enable Michelin to expand its offering in the fleet management business and to speed the growth of its truck tire business in Brazil, while providing Sascar access to major customers in South America through Michelin's distribution network.

The transaction was closed on August 29, 2014 for BRL1,600 million (around €520 million), as an all-cash offer to acquire all of the outstanding common shares of Sascar Participações S.A. and its affiliated companies.

Michelin holds an Investors Day at its plant in Shenyang (China)

(November 10, 2014) – Attended by Jean-Dominique Senard, Chief Executive Officer, and Marc Henry, Chief Financial Officer, the event included a variety of presentations that illustrated Michelin's strategy and, more particularly, its deployment in China.

Philippe Verneuil, President of Michelin China, reviewed Michelin's history in the country as well as the key features of the Chinese tire market and its competitive environment. By leveraging its advantages, the Group aims to more than double its business in China within the next ten years.

Serge Lafon, President of the Truck Tire Product Line and member of the Group Executive Committee, presented the segmentation of Michelin's offering in response to increased concern among trucking companies about costs and prices and to sustained competition, especially from Chinese tire makers. In a global market that is expected to grow, especially in emerging markets, the Group will benefit – for the MICHELIN brand – from its capacity for customer-focused innovation, its ability to deliver best total cost of ownership, its use of advanced technologies and its portfolio of solutions and services. The Intermediate brands will remain focused on reliability and cost per kilometer. The Group's objective for the Truck segment over the coming years is to increase the MICHELIN brand's market share in the premium segment, develop business in the Intermediate segment and consolidate the improvements already made in terms of its financial performance. To help it achieve this objective, the Truck Tire Product Line will be supported by the MICHELIN brand, further reductions in production costs and the ongoing competitiveness plan, which is expected to contribute €400 million to the Group's target gain of €1 billion between 2012 and 2016.

Huifeng Lu, Managing Director of Michelin China, Truck, stated that in a Chinese tire market shaped by slower future growth and by the modernization of the transportation industry, Michelin is in particular targeting high value-added segments. Its understanding of end-user expectations, its product portfolio, its market access and its brand are all assets that will serve its ambition of more fully penetrating target market segments.

After reviewing the main features of the Chinese market, Bruno de Feraudy, Managing Director of Michelin China, Passenger Car & Light Truck, discussed Michelin's strengths, which are the performance of its tires, the power of its brand, its distribution network and the effectiveness of its strategy. Over the next ten years, the Group aims to grow faster than the market as a whole. The objective is to consolidate its manufacturing approach, improve its presence in the original equipment segment, expand its product portfolio and develop its activities in China's emerging markets.

Roc Liu, Manager of the TYREPLUS worldwide franchise, showed that franchising is a win-win-win situation for customers, long-term dealers and the Group. Michelin aims to capitalize on this business model, which strengthens its market share and fosters loyalty to the Group's brands.

Benoit Heubert, Manager of the Shenyang 2 plant, presented the major manufacturing projects currently underway within the Michelin Group and confirmed the objective of achieving annual production capacity of 220,000 tonnes by 2019.

In his closing address, Jean-Dominique Senard reiterated the key role played by the emerging markets – and China in particular – in achieving Michelin's strategic objectives in a highly competitive environment.

All Analyst and Investor Day presentations are available on the Michelin website (http://www.michelin.com/eng).

Michelin scores Industry Best in Innovation Management and five other sustainable development categories

(October 23, 2014) – In the 2014 Dow Jones Sustainability Indices (DJSI) rankings, Michelin has scored Industry Best in six categories including Innovation Management, Product Stewardship (1), Climate Strategy and Environmental Management (2). Michelin is one of two tire manufacturers in the DJSI World Index, attesting to its global performance in the area of sustainable development.

The DJSI ranking recognizes Michelin for its efforts to include sustainable development in all of its processes – from R&D and production to distribution – as well as its commitment to the circular economy, as reflected in the reduced use of raw materials, tire retreading, tire recycling around the world, innovative projects such as TREC to find new uses for end-of-life tires and the development of partnerships to set up a channel for bio-sourced rubber. The highly structured environmental management policy at Michelin's manufacturing sites, with monitoring of five key indicators at each site, also guarantees a gradual reduction in the Group's environmental footprint, which shrank by 33% between 2005 and 2013. An objective of a further 40% reduction has been set for 2020.

Michelin opens world's first manufacturing plant to build revolutionary Airless Radial Tire

Piedmont, S.C. is the site of new state-of-the-art facility making the MICHELIN® TWEEL® – a tire that never goes flat

(November 20, 2014) – Michelin has opened its newest plant in North America, which will produce the innovative MICHELIN® X® TWEEL® Airless Radial Tire™ for commercial applications.

An idea first conceived by Michelin research engineers in the United States, the TWEEL is a revolutionary non-pneumatic tire that changed the configuration of a conventional tire, bringing together the tire and the wheel assembly into one solid unit. Unlike conventional tires, the TWEEL has no air, thereby solving what had seemed to be the unavoidable challenge of chronic flat tires that plagues the landscape, construction, contracting, refuse/recycling and agricultural industries.

"The TWEEL being built here in South Carolina is yet another dramatic example of Michelin's long-standing commitment to breakthrough innovation," said Pete Selleck, Michelin North America chairman and president.

The new 135,000 square-foot facility in Piedmont, S.C. represents Michelin's 10th manufacturing facility in South Carolina and the 16th in the U.S. The Company will invest about $50 million in the new plant.

To learn more about the MICHELIN TWEEL, visit www.michelintweel.com.

Michelin Canada announces it will reduce the production of small-size tires at its Pictou County plant in Nova Scotia between now and July 2015

Michelin also announces that it will invest C$66.5 million to strengthen manufacturing resources in its three Canadian plants

(March 3, 2014) – Michelin is pursuing its operations at the Pictou County site and continuing to invest in Nova Scotia. Given declining demand for small-size car tires in North America, Michelin today announced its plans to reduce production at its Pictou County Nova Scotia car and light truck tire plant over the next 18 months, between now and June 30, 2015.

Production to continue at Pictou County site

Michelin has a long history of production at Pictou Country and will continue to be a significant manufacturing employer. Approximately 500 employees will continue to work at the Pictou County plant after July 1, 2015.

The reduction of tire manufacturing at Michelin Pictou County will not affect Michelin's other two Canadian tire plants in Bridgewater and Waterville, Nova Scotia.

All impacted employees will have the opportunity to continue working for Michelin. All impacted employees will have the possibility of:

- transferring to another position at the Pictou County site or to another Michelin plant in Nova Scotia;
- working in the Group's other two Canadian plants, both of which are located in the same province;
- taking early retirement.

Continued investment in Canada

Michelin remains the largest private manufacturer in Nova Scotia and has invested almost C$2 billion in its operations since its arrival in 1969. In the last eight years, from 2005 to 2013, Michelin invested C$587 million in its Nova Scotian manufacturing operations. In 2014, Michelin is investing C$66.5 million in its three Canadian plants. Michelin thus remains solidly anchored in Canada.

Accounting impact: to finance the project, the Michelin Group will book a provision of C$87 million in non-recurring expenses in its first-half 2014 accounts.

Michelin plans to reconfigure production base in Hungary

Michelin announced today a project to close its truck tire plant in Budapest

(May 6, 2014) – In response to the adverse trends and aggressive competition in the European truck tire market, which remains volatile and 23% down on its historic peak in 2007, Michelin has announced its intention to close its truck tire production plant in Budapest. The decision reflects the fact that extending the facility is no longer possible, due to its location in an urban setting, and that improving its competitiveness would require excessive upgrading with new equipment.

(1) Product stewardship involves addressing sustainable development challenges throughout a tire's life cycle.
(2) The two other categories are Health and Safety and Risk Management.

The plant's production of tires sold under the Taurus, Riken and Kormoran brands would be terminated in mid-2015. As part of the information and consultation process, Michelin's priority will be to offer individual support measures to each of the 512 concerned employees.

Michelin will also meet with local authorities to discuss possibilities of reconverting the site in accordance with their urban development projects and intends to help develop business activities likely to create jobs in the region.

The Budapest plant's production will be mainly reallocated to the Michelin facilities in Olsztyn, Poland; Zalau, Romania; and Karlsruhe and Homburg, Germany.

Michelin will retain a presence in Hungary with its facilities in Nyíregyháza, Vác and Tuzsér

Michelin maintains a strong presence in Hungary and will continue to produce very high performance car tires at its Nyíregyháza plant, which is playing a major role in Europe in this segment. Michelin is also maintaining the operations of its logistics center in Vác, which serves countries in Central and Southern Europe, and its strategic raw materials marketing unit in Tuzsér.

In addition, Michelin will continue to manage its entry-level car tire operations from Budapest, while maintaining all of its Hungarian sales operations.

Accounting impact: to finance the project, Michelin will book a €39 million provision for non-recurring expenses in its first-half 2014 accounts.

CEA, Michelin, Protéus (PCAS Group) and SDTech join forces to develop two innovative uses for scrap tires

(January 28, 2014) – The Tire Recycling or TREC project, driven by Michelin, is designed to develop two uses for scrap tires. The first, TREC Regeneration, involves regenerating rubber compounds to make new tires, while the second, TREC Alcohol, will enable the production of a chemical intermediate needed to synthesize raw materials used in tire manufacturing. The alcohol derived from used tires will be included in the BioButterfly butadiene production project alongside biomass alcohol from such sources as sugar, wood and agricultural waste.

TREC Regeneration

SDTech and Protéus are sharing their respective know-how with Michelin in micronization and selective devulcanization using biotechnologies to create a micropowder that can be used as a raw material in the production of new high-performance tires.

TREC Alcohol

Michelin, CEA and Protéus will develop a chain of technologies ranging from used tire gasification to syngas fermentation to produce alcohol. Leveraging the strategically related skills and expertise of the projects' partners, TREC covers all stages of research and development processes, from the definition of scientific concepts to pilot testing and validation on an industrial demonstrator.

Engaging with stakeholders in mobility and sustainable development issues

(May 13-14, 2014) – As part of the Michelin Performance and Responsibility approach, the Group began to engage with stakeholders in 2014, in a commitment to listening to its host communities so that its decisions can sustainably and responsibly address economic, social and environmental concerns.

Held in May in Clermont-Ferrand, the first stakeholder hearing was a one-day event dedicated to discussing Michelin's role and responsibilities in the area of sustainable development. It brought together 21 people from seven countries, representing organizations that influence or are influenced by the Group's activities, including investors, suppliers, customers, representatives of the French government and international organizations, NGOs, trade unions and academic institutions.

Dealerships: 1,000th TYREPLUS Unit Opens in China

The expansion reflects Michelin's ambitions in this particularly buoyant market

(September 8, 2014) – With only five years' presence in China, TYREPLUS has opened franchised dealerships in 230 towns and cities in 31 provinces.

Every day, more than ten thousand vehicles are serviced by TYREPLUS dealers nationwide.

The franchised network is also expanding in Africa, Eastern Europe, India, Middle East, Taiwan and South America.

3.9.2 PRODUCTS – INNOVATIONS – SERVICES

3.9.2 a) Passenger car and Light truck tires and related distribution

MICHELIN® Premier® A/S, a self-regenerating tire – A significant technological advance – MICHELIN® PREMIER® A/S: always safe, even when worn

(January 15, 2014) – At the North American International Auto Show in Detroit, the Group debuted the MICHELIN® Premier® A/S tire, which features unique EverGrip™ technology.

Even when worn, the tire has a shorter braking distance on wet roads than new tires from most competing brands, thanks to hidden grooves that appear as the tire wears, expanding rain grooves that get wider over time, and a unique high-traction rubber compound that improves grip on wet surfaces. As a result, the tire provides motorists with a real improvement in safety performance. This new product is fully in line with the MICHELIN Total Performance strategy.

The MICHELIN® Premier® A/S is produced and sold in North America, a market with its own unique driving and weather conditions. Given the strong potential of EverGrip™, Michelin may well use this technology to enhance the performance of products sold in other markets.

3.9.2 b) Truck tires and Related Distribution

The new lineup of MICHELIN X® LINE™ Energy™ 80 and 65 series tires: more performance in the same tire

(March 21, 2014) – This new lineup provides performance by integrating the full range of Michelin's technology:

- **Enhancing safety and mobility:** three Peak Snow Flake Mountain (3PMSF) certification.
- **Greater savings:** a B ranking (in the European tire labeling system) in rolling resistance for the 315/80 R 22.5 tire and an A ranking for the 385/65 R 22.5 tire.
- **Superior environmental performance:** the quietest tire in its segment and rated a single wave according to the European tire labeling criteria. The new MICHELIN X® LINE™ ENERGY™ tire is manufactured in Michelin plants in Europe, all of which have been certified ISO 14001, and in full compliance with the strictest environmental standards.
- **More profitable:** in line with its "multi-life" strategy the MICHELIN X® LINE™ Energy™ can be retreaded and regrooved. Available with MICHELIN Remix technology in 2015, the range will deliver the performance of a new tire without requiring a new casing and will enable further fuel-savings once it is regrooved.

The new MICHELIN X® LINE™ Energy™ 80 and 65 series integrate the full array of innovative MICHELIN Durable Technologies featured in the initial 70 and 55 series tires in the tractor-trailer rig offering.

This new tire range owes its efficiency to the full range of the Michelin Group's expertise and to an in-depth study of the road conditions faced by long-haul truckers. The lineup delivers its full potential when used intensively (more than 110,000 km a year) on trucks that make few stops (fewer than three a day) and are driven at high speeds (over 70 km/h).

Michelin encourages truckers to use telematics systems get the most out of their tires and may suggest solutions as part of a mobility-assistance services package.

With 69 decibels for the 315/80 R 22.5 tire and 70 decibels for the 385/65 R 22.5 tire, the MICHELIN X® LINE™ Energy™ is the quietest tire on the market.

MICHELIN X® MULTI™ Line Launched in Asia – Several sizes [(1)] and positions to meet the different needs of every customer

(October 7, 2014) – Michelin has refreshed its regional product line-up with the introduction of the MICHELIN X® MULTI™ Z in sizes that are popular in the Asian and Australian markets. The new range improves retreadability and increases mileage by nearly 25% compared with the preceding MICHELIN XZE2+ model, while continuing to deliver superior safety performance.

Note as well that in the ASEAN countries (Thailand, Malaysia, Indonesia, etc.), the MICHELIN X® MULTI™ 275/70R22.5 family has been completely renewed on every axle (front, drive, trailer). This size meets the highway performance needs of certain specialty businesses, which use such vehicles as small trucks, car carriers and fuel trucks. By lowering the truck's center of gravity, it guarantees a safe ride while maintaining the tire's superior mileage and fuel economy benefits.

3.9.2 c) Specialty businesses

▸ Earthmover tires

The MICHELIN X-STRADDLE 2 tire: enhanced safety and productivity [(2)] for port equipment operators

(May 14, 2014) – 60% of world trade transits through ports and the total value of goods shipped in the world's 17 million containers exceeds $4.1 trillion a year. Independently of the economic environment, business in ports is constantly growing. The new MICHELIN X-STRADDLE 2 tire increases the productivity of port operations machinery by more than 30% without sacrificing Michelin's values of enhanced safety, longevity, comfort and environmental protection.

▸ Agricultural tires

How can we best feed the planet when the population is rising and arable land is becoming scarce?

MICHELIN Ultraflex Technologies – Improving Crop Yields by Up to 4%

2004-2014: a decade of low-pressure tires improving crop yields, productivity and soil protection

(September 30, 2014) – At a time when university researchers are busy evaluating the yield and productivity gains achieved with farming practices that are gentle on the soil, Michelin is celebrating the 10th anniversary of MICHELIN Ultraflex Technology, a breakthrough innovation allowing agricultural tires to work at low pressure to improve soil protection and thereby boost crop yields.

MICHELIN Ultraflex Technology provides a response to the dual challenge of supporting developments in farm machinery to enhance productivity while also preserving the soil. Michelin provides a range of IF, VF and now standard class MICHELIN Ultraflex Technology tires covering every stage of the crop cycle.

The return on investment with MICHELIN Ultraflex Technology tires can exceed 24% because crop yields improve when soil is less compacted. Capable of operating at low pressure while supporting greater loads and higher speeds, they also offer better traction, which in turn improves productivity in the field.

MICHELIN Ultraflex tires are the key variable in the following equation: Lower pressure = reduced compaction = enhanced soil protection = higher yields = improved productivity.

▸ Aircraft tires

Michelin awarded Boeing 737 MAX 7 and 8 Original Equipment tire supply contract

(March 10, 2014) – Michelin has been selected as an original equipment tire supplier for the Boeing 737 MAX, the new version of the world's top selling commercial airplane. Michelin will equip the 737 MAX 7 and 737 MAX 8 with its industry leading radial aircraft tires with NZG (Near Zero Growth) technology.

(1) For the sizes: 11R22.5, 12R22.5 and 295/80R22.5, and specifically 305/70R22.5 for Australia.
(2) Compared with the prior-generation MICHELIN X-STRADDLE.

The 737 MAX 8 is scheduled to enter service in 2017 and the 737 MAX 7 will follow in 2019.

Under this contract, Michelin will develop and certify its latest generation radial tires with NZG technology for exclusive supply to 737 MAX final assembly lines. The tires will also be certified for sale to airline operators in the aftermarket. Current combined orders for the 737 MAX 7 and 8 stand at more than 1,300 airplanes.

Proven in service, the NZG radial technology promises the following competitive advantages to operators of the Boeing 737 MAX 7 and 8:

- up to 50% more foreign object damage (FOD) resistance through NZG patented technology;
- more than 20% reduction in weight compared with a Bias cross-ply tire, which translates into significant fuel savings for airlines;
- up to a 100% increase in the number of landings compared with a Bias cross-ply tire, which means less maintenance downtime for aircraft operators.

3.9.3 RACING

Formula E: Debuts Round 1 / The first race in the FIA Formula E Championship was run on the grounds of the Beijing Olympic Stadium

(September 13, 2014) – Audi Sport Abt's Lucas Di Grassi made motorsports history by claiming the inaugural Formula E ePrix in Beijing. Michelin is an official partner of the Championship, whose races will run through next June.

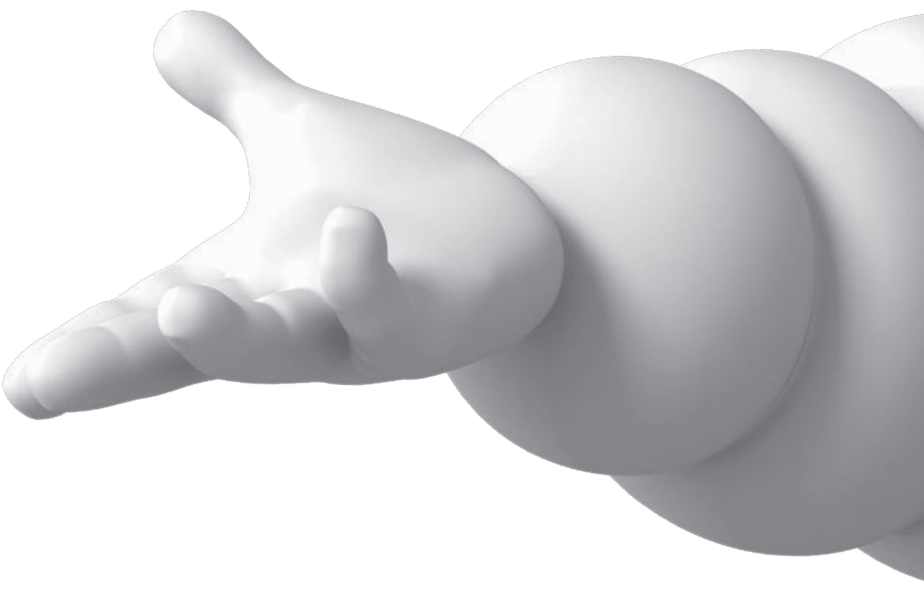
The MICHELIN Pilot Sport EV, which equips all of the ten teams' all-electric single-seaters, is revolutionary in more ways than one. Michelin Motorsport engineers came up with a tire whose performance is so versatile that, as required by the technical rules, it can cover a complete day's racing, including free practice, qualifying runs and the race itself, in all types of weather conditions.

The MICHELIN Pilot Sport EV tires, available in 245/40 R 18 (front) and 305/40 R 18 (rear), are both taller and narrower, so that they reduce energy loss and increase vehicle range. A low-profile tire is subject to less deformation, which reduces the heat generated and its effect on energy consumption.

Some 40 million people are believed to have watched the race worldwide on television with 75,000 attending on site and one billion social interactions recorded around the race, "the biggest digital race in the world with real racing."

4

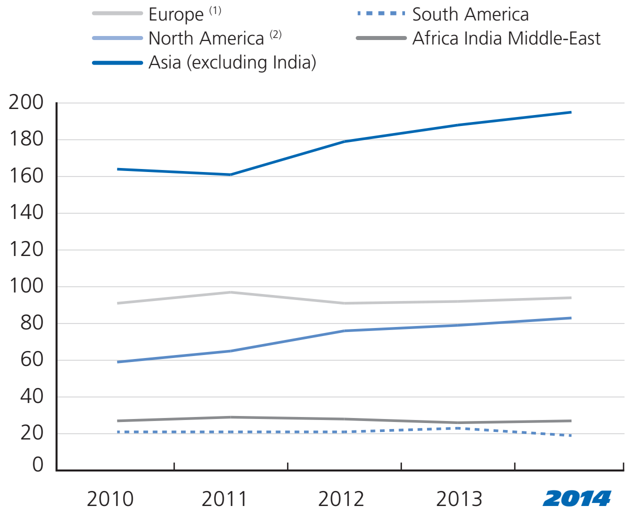
FINANCIAL HIGHLIGHTS



4.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

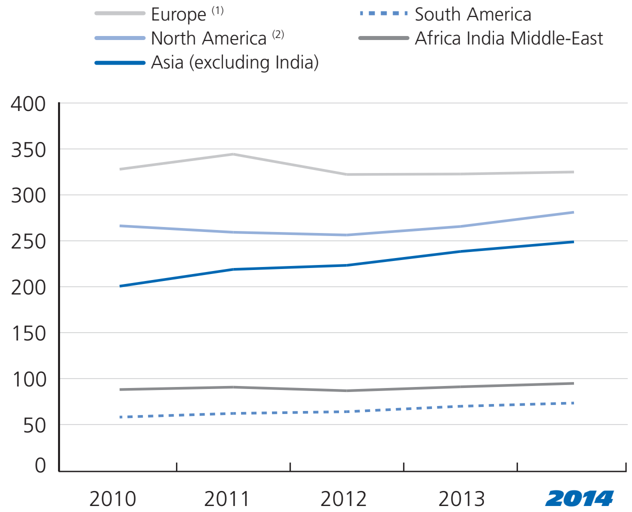
(in millions of tires)



(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

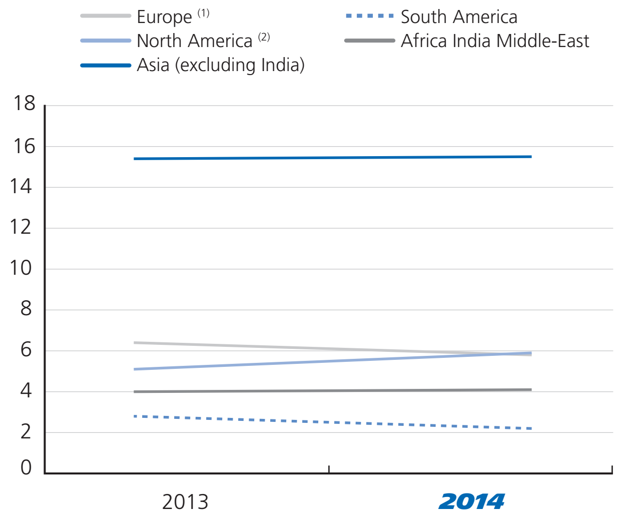
(in millions of tires)



(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

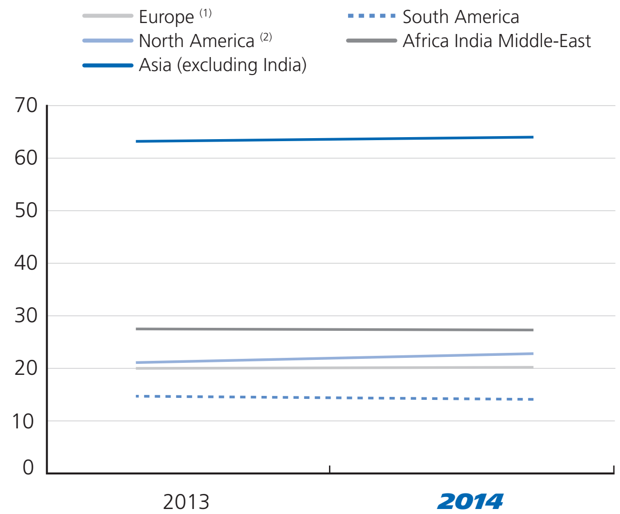
(in millions of new tires)



(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

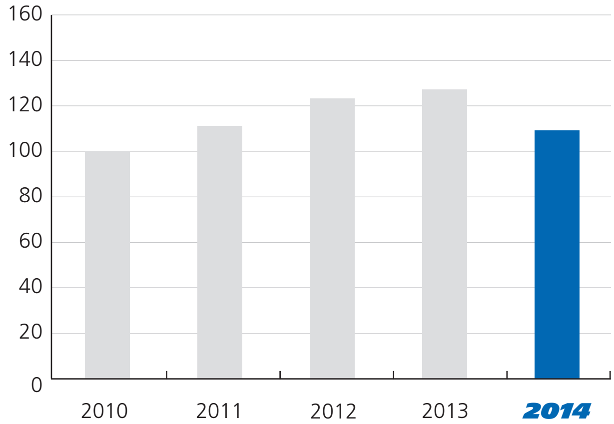
(in millions of new tires)



(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE EARTHMOVER MINING TIRE MARKET

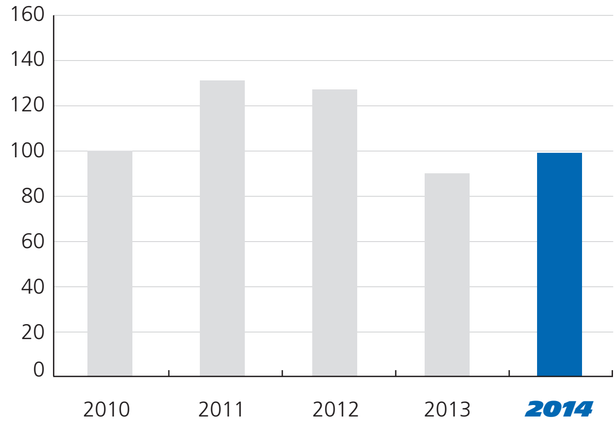
(base 100 in 2010 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

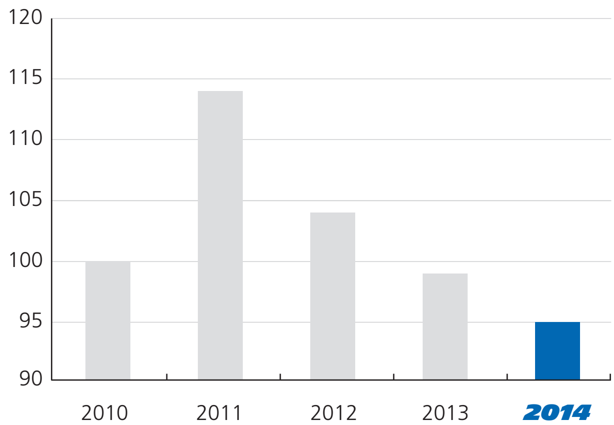
(base 100 in 2010 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

(base 100 in 2010 in number of tires Europe and North America)

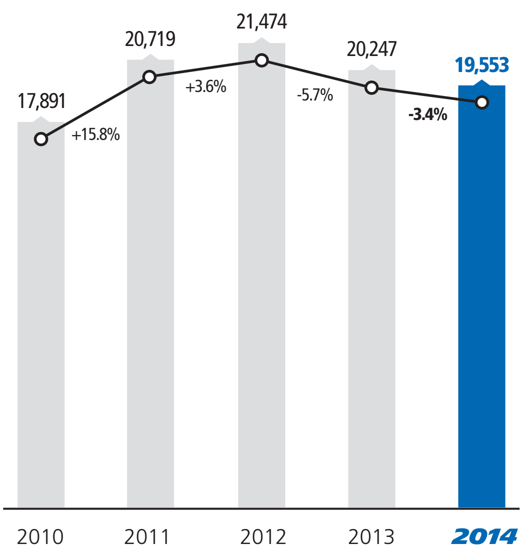


Michelin estimates.

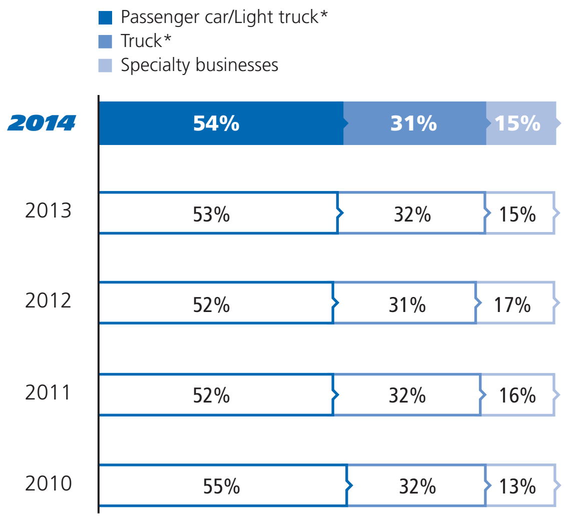
4.2 SALES

UNIT SALES
(in tons)

NET SALES
(in € million)

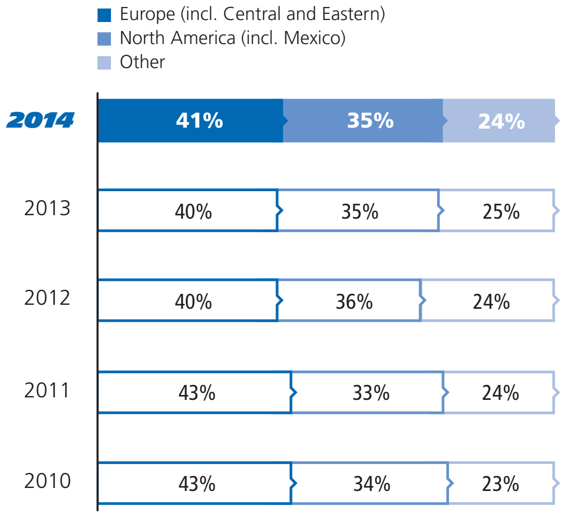


NET SALES BY REPORTING SEGMENT – BREAKDOWN
(in value)

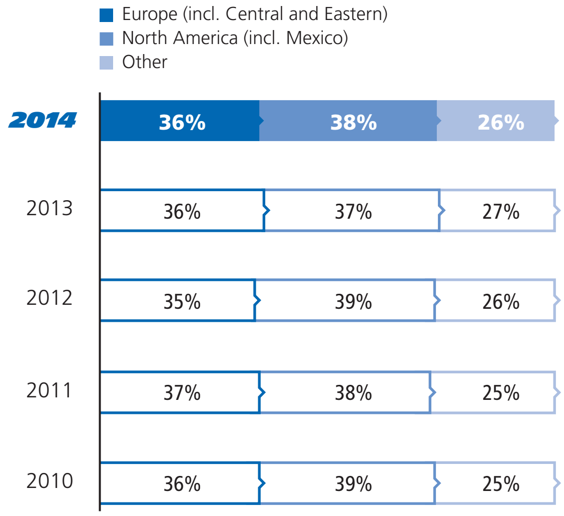


* *And related distribution.*

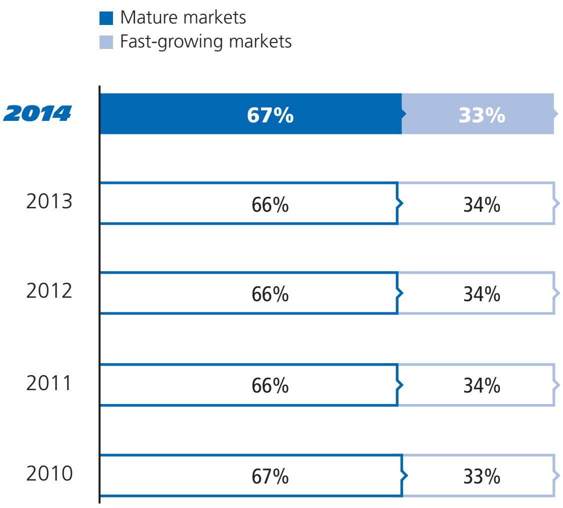
NET SALES BY REGION – BREAKDOWN
(in value)



SALES BY REGION – BREAKDOWN
(in tons)



BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

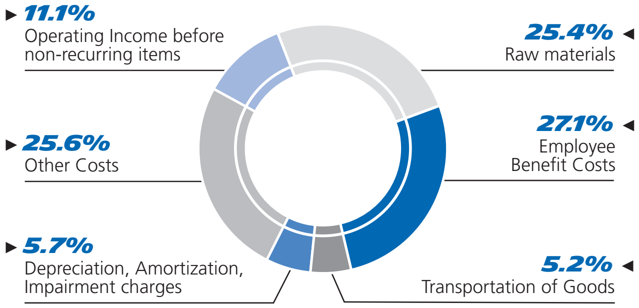


* *Mature markets: United States, Canada, Western Europe and Japan.*

4.3 EARNINGS

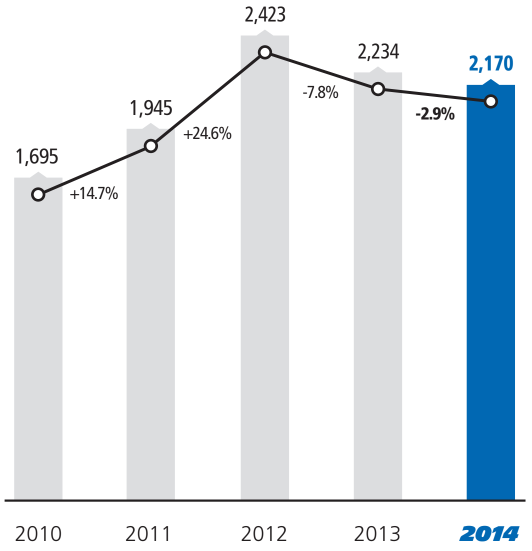
ANALYSIS OF OPERATING EXPENSES

(as a % of 2014 net sales)



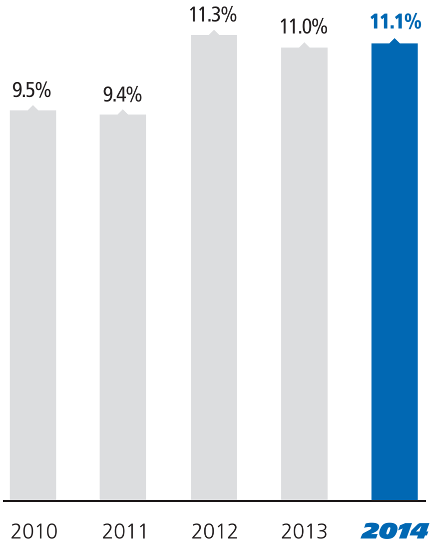
OPERATING INCOME BEFORE NON-RECURRING ITEMS

(in € million)



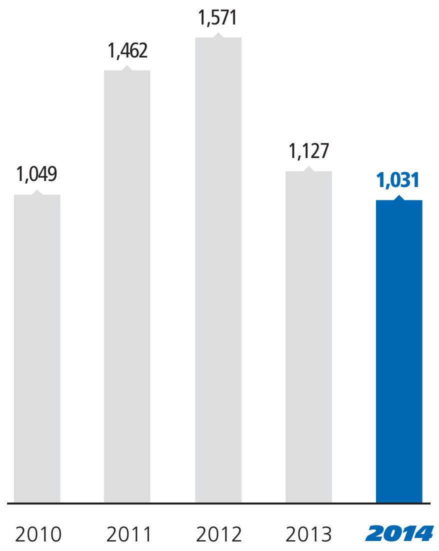
OPERATING MARGIN BEFORE NON-RECURRING ITEMS

(as a % of net sales)



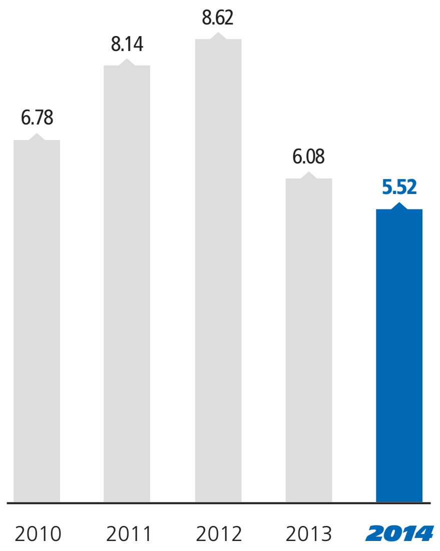
NET INCOME

(in € million)



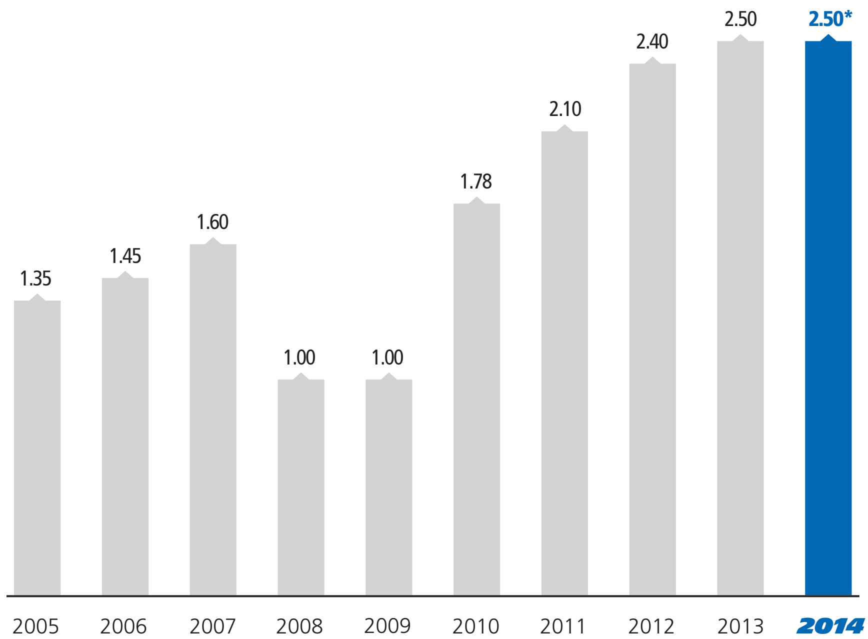
BASIC EARNINGS PER SHARE

(in €)



DIVIDEND PER SHARE

(in €)

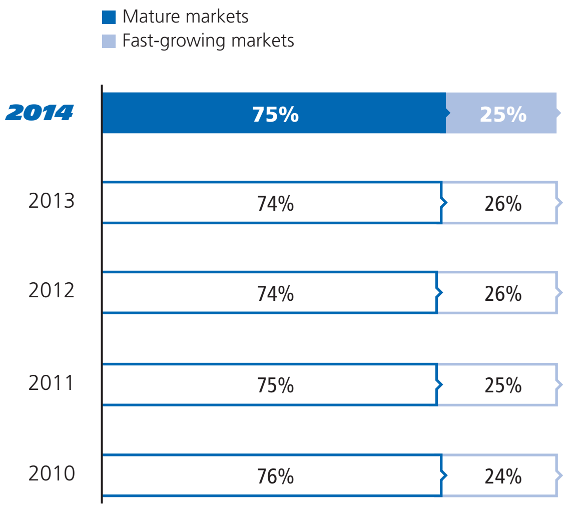


* *Subject to approval at the Annual Shareholders Meeting on May 22, 2015.*

4.4 REPORTING SEGMENTS

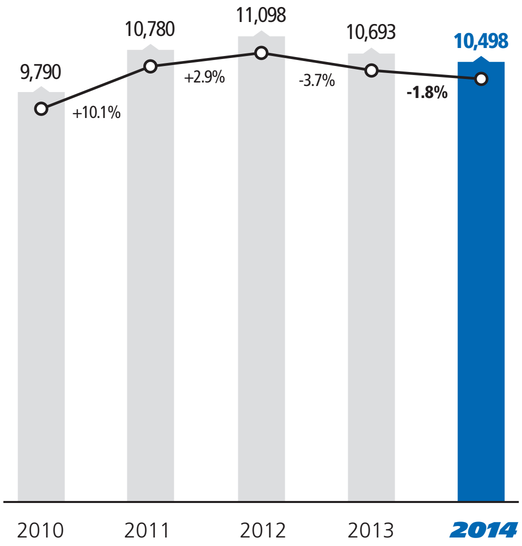
4.4.1 PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

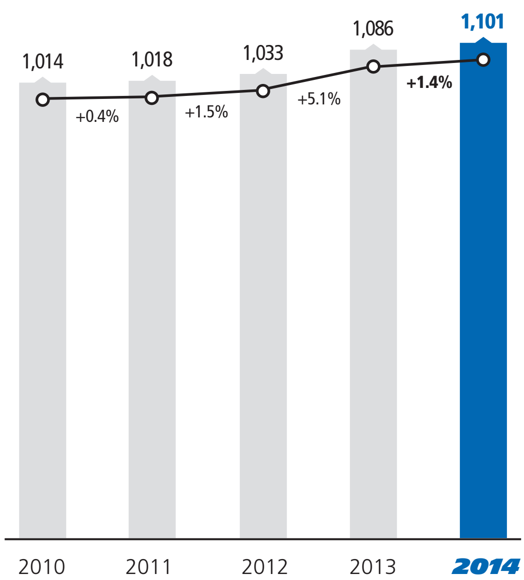


* Mature markets: United States, Canada, Western Europe and Japan.

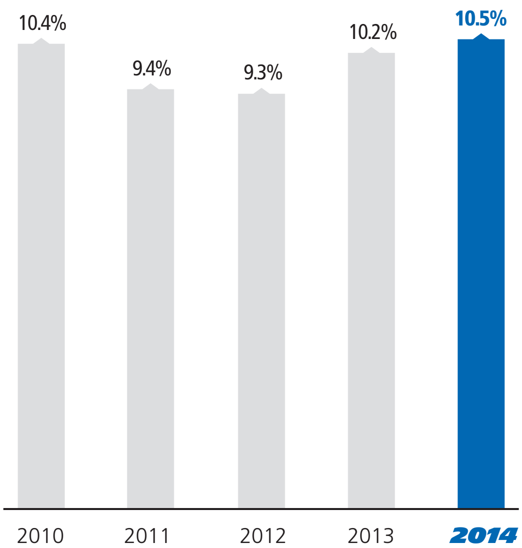
NET SALES
(in € million)



OPERATING INCOME BEFORE NON-RECURRING ITEMS
(in € million)

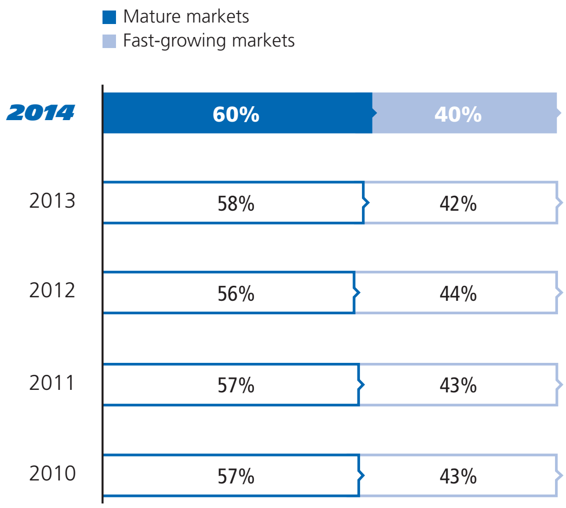


OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)



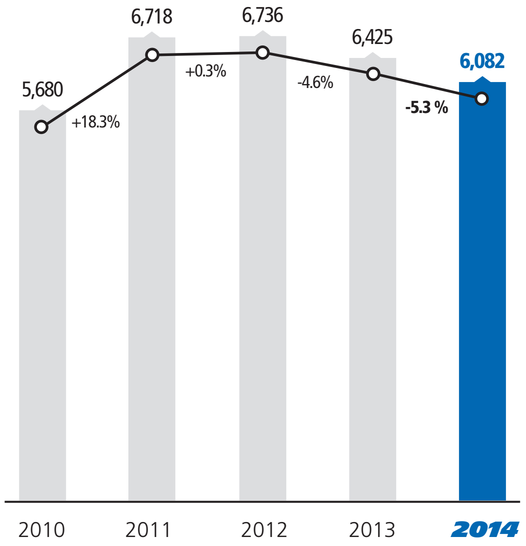
4.4.2 TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

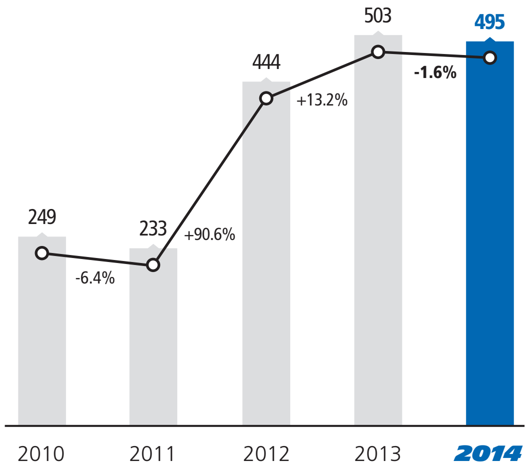


* *Mature markets: United States, Canada, Western Europe and Japan.*

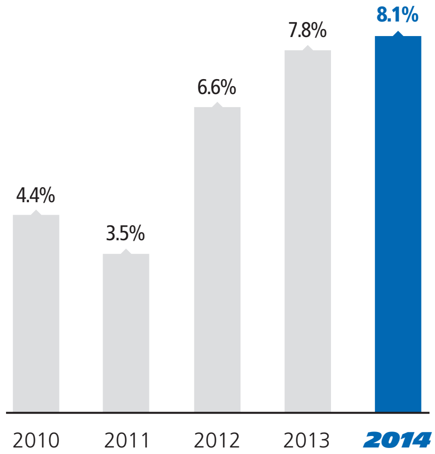
NET SALES
(in € million)



OPERATING INCOME BEFORE NON-RECURRING ITEMS
(in € million)

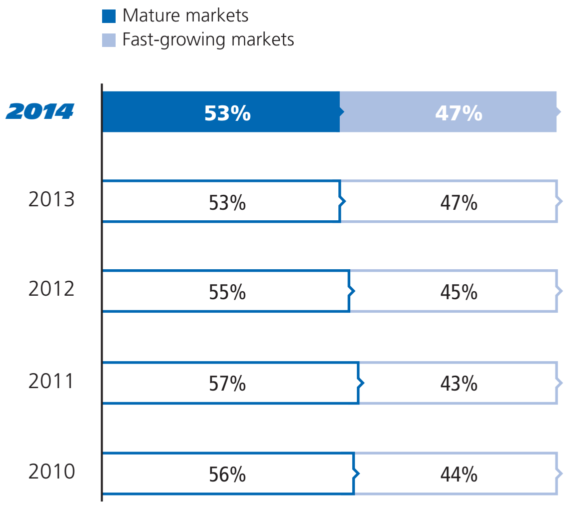


OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)



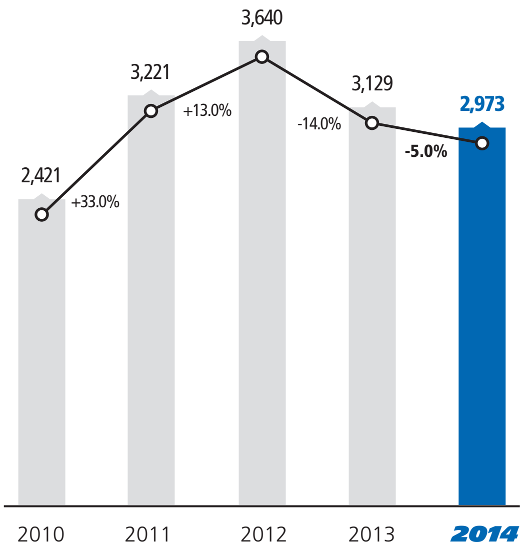
4.4.3 SPECIALTY BUSINESSES

BREAKDOWN OF SPECIALTY TIRE SALES BETWEEN MATURE* AND FAST-GROWING MARKETS
(in tons)

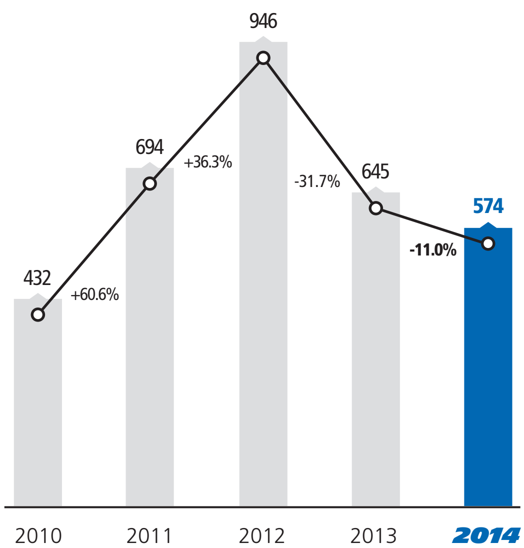


* *Mature markets: United States, Canada, Western Europe and Japan.*

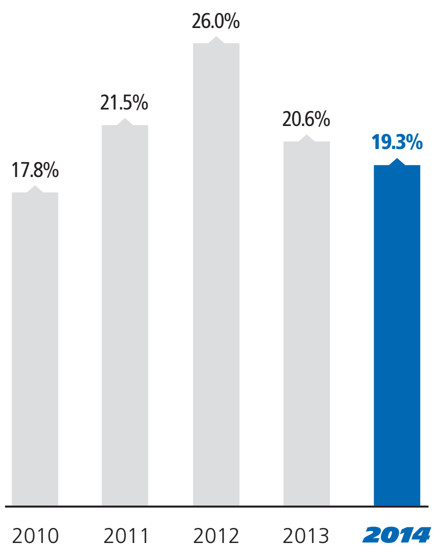
NET SALES
(in € million)



OPERATING INCOME BEFORE NON-RECURRING ITEMS
(in € million)

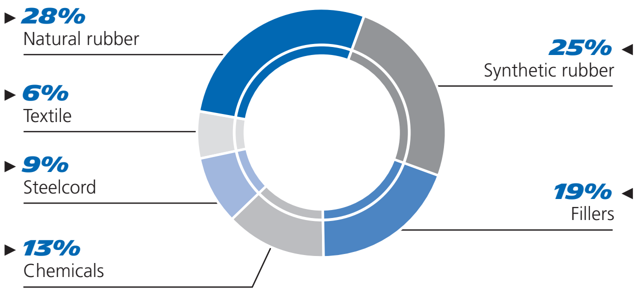


OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)

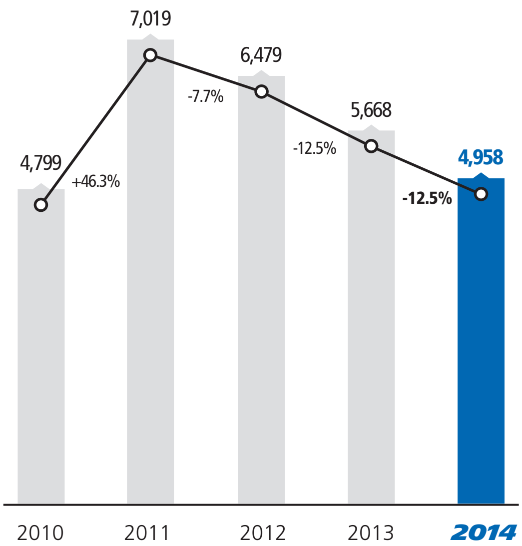


4.5 COST STRUCTURE

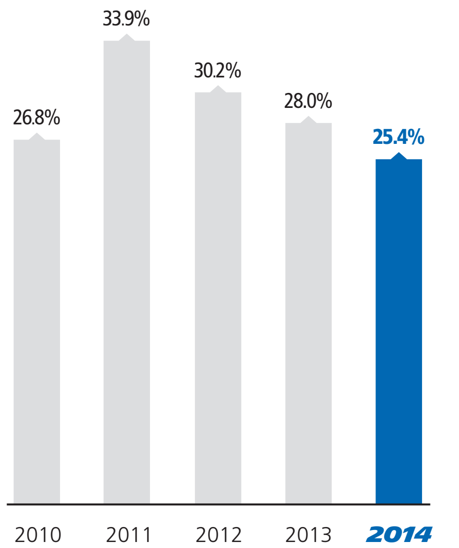
2014 RAW MATERIAL COSTS
(in €)



RAW MATERIAL COSTS
(in € million)



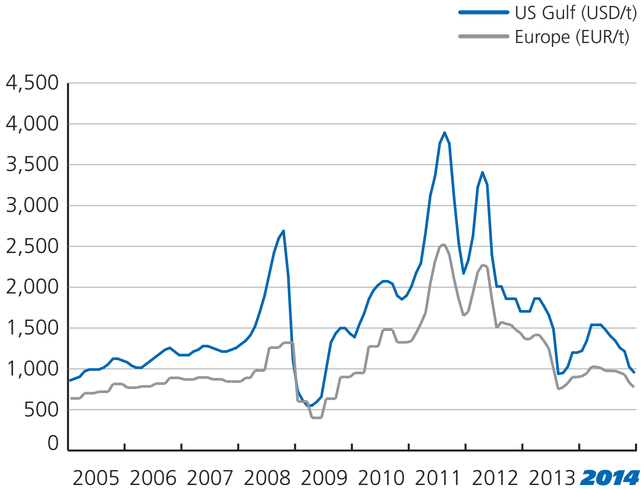
RAW MATERIAL COSTS
(as a % of net sales)



NATURAL RUBBER PRICES*
(in USD/kg)

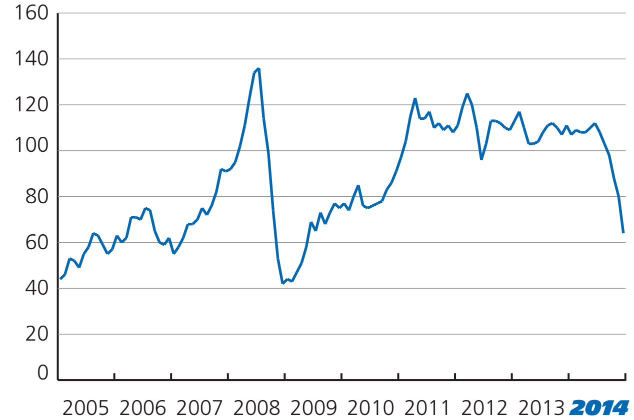
* *Monthly average.*

BUTADIENE PRICES*



* *Monthly average.*

BRENT OIL PRICES*
(in $/bbl)

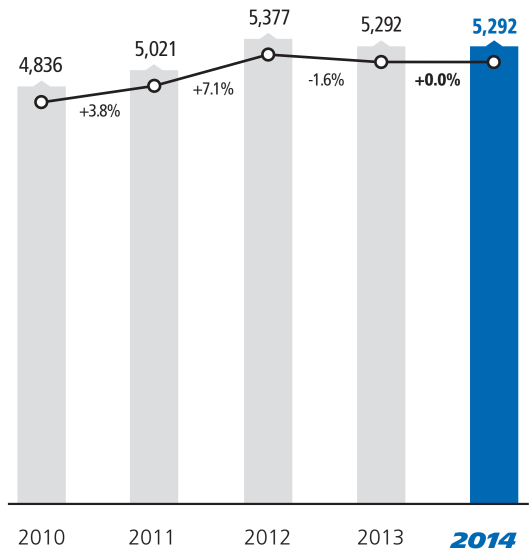


* *Monthly average.*

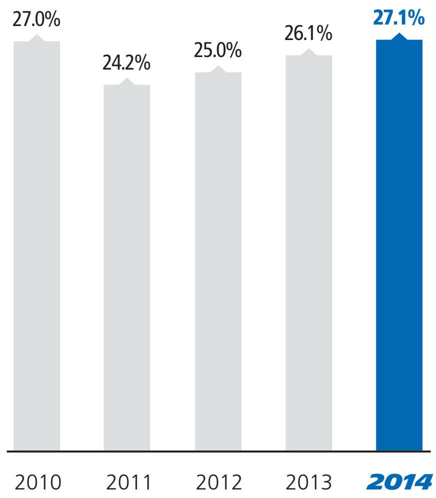
STYRENE PRICES*
(in €/ton)

* *Monthly average.*

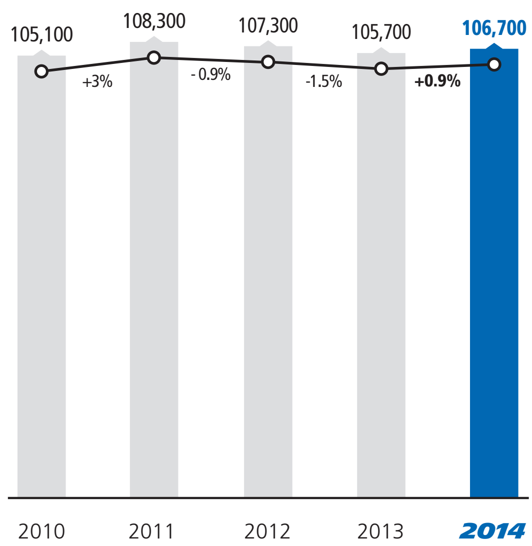
EMPLOYEE BENEFIT COSTS
(in € million)



EMPLOYEE BENEFIT COSTS
(as a % of net sales)



NUMBER OF EMPLOYEES
(full-time equivalent employees at December 31)



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

	2014	2013	2012	2011	2010
Europe	61,300	62,100	63,100	64,500	63,400
North America	21,900	21,300	21,400	21,700	21,000
Asia (excluding India)	15,400	15,400	15,300	15,000	14,500
South America	6,300	5,100	5,500	5,300	5,100
Africa India Middle-East	1,800	1,800	2,000	1,800	1,100
TOTAL	**106,700**	**105,700**	**107,300**	**108,300**	**105,100**
including mature countries (1)	*66%*	*68%*	*68%*	*68%*	*65%* (2)
including fast-growing countries (1)	*34%*	*32%*	*32%*	*32%*	*35%* (2)

(1) Mature countries: United States, Canada, Western Europe, Japan.
(2) Excluding distribution.

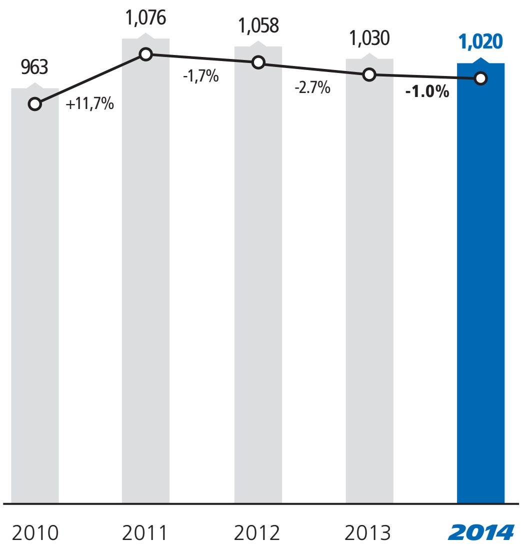
EMPLOYEES BY JOB CATEGORY

(full-time equivalent employees at December 31)

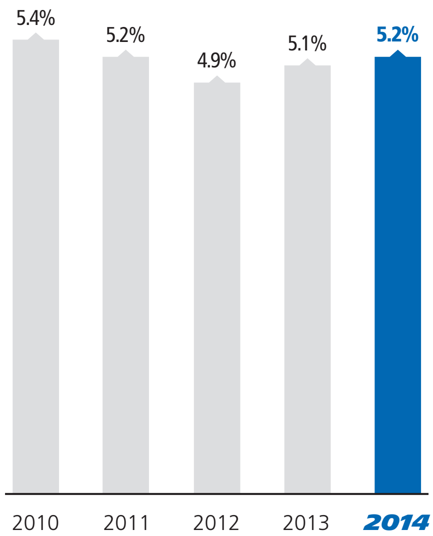
	2014	2013	2012	2011 (1)	2010 (1)
Production workers	61.8%	61.4%	63.1%	63.6%	64.5%
Administrative and technical staff	30.3%	31.0%	30.1%	30.0%	29.2%
Managers	7.8%	7.6%	6.8%	6.4%	6.3%

(1) Excluding distribution.

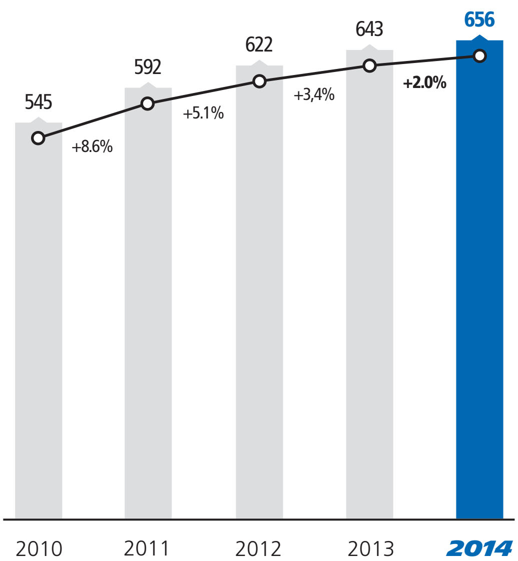
TRANSPORTATION COSTS
(in € million)



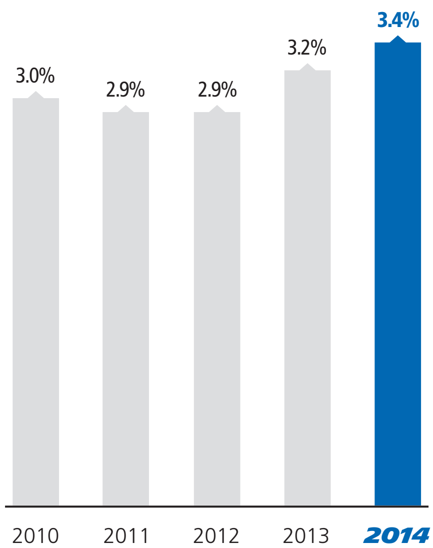
TRANSPORTATION COSTS
(as a % of sales)



RESEARCH AND DEVELOPMENT COSTS
(in € million)

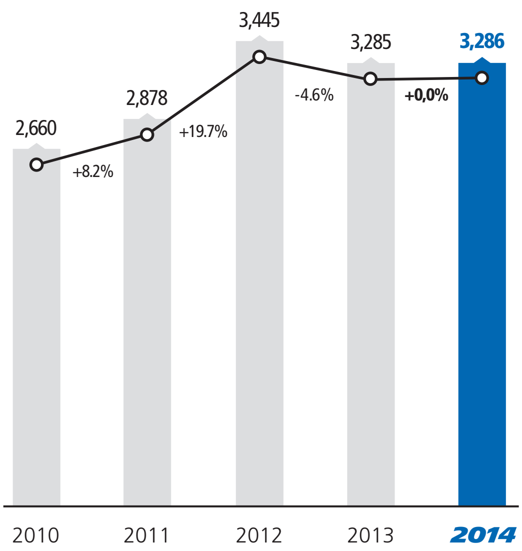


RESEARCH AND DEVELOPMENT COSTS
(as a % of sales)

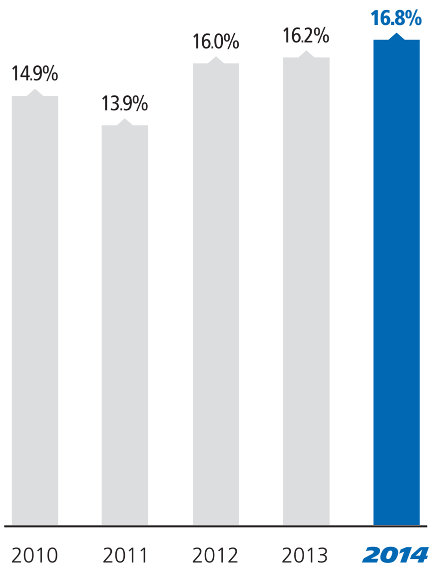


4.6 CASH FLOW AND BALANCE SHEET

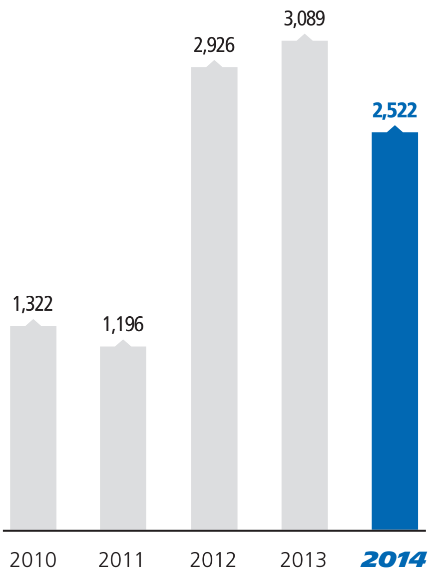
EBITDA BEFORE NON-RECURRING INCOME AND EXPENSES (1)
(in € million)



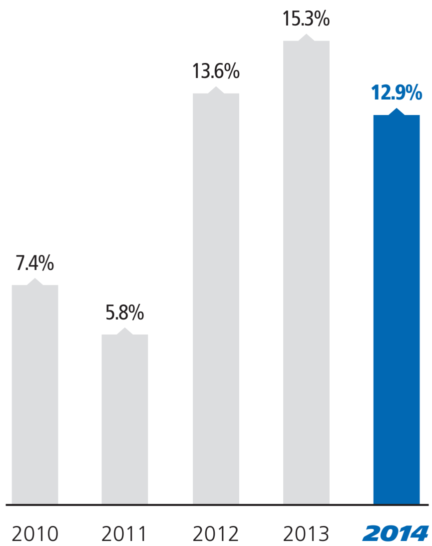
EBITDA BEFORE NON-RECURRING INCOME AND EXPENSES (1)
(as a % of net sales)



CASH FLOWS FROM OPERATING ACTIVITIES
(in € million)

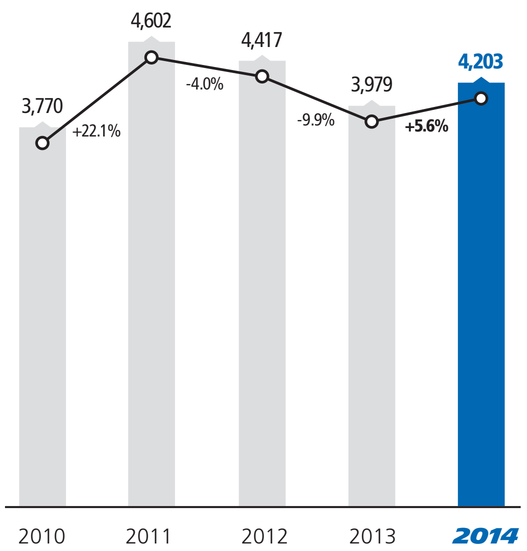


CASH FLOWS FROM OPERATING ACTIVITIES
(as a % of net sales)

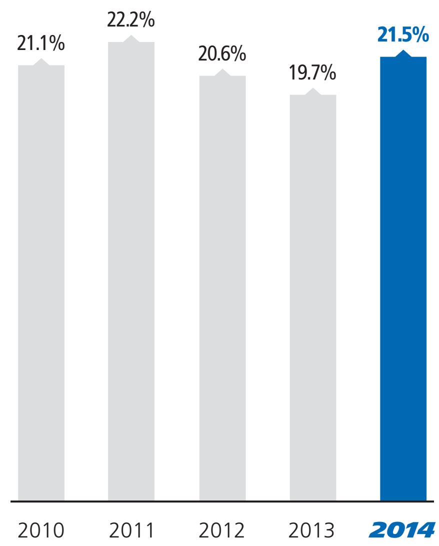


(1) This indicator is defined in note 3.7.2 to the consolidated financial statements.

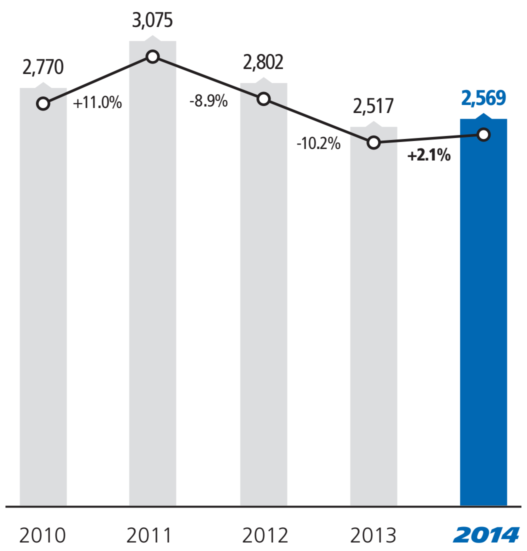
INVENTORIES
(in € million)



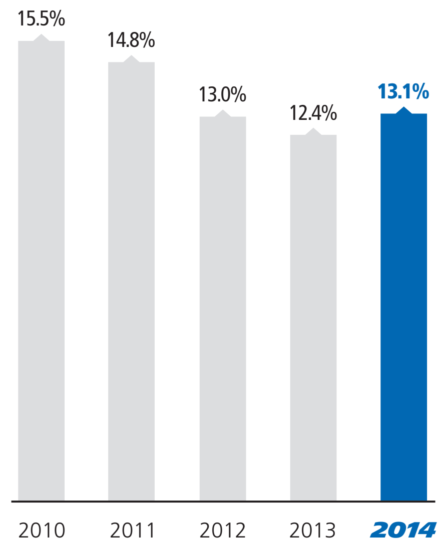
INVENTORIES
(as a % of net sales)



TRADE RECEIVABLES
(in € million)

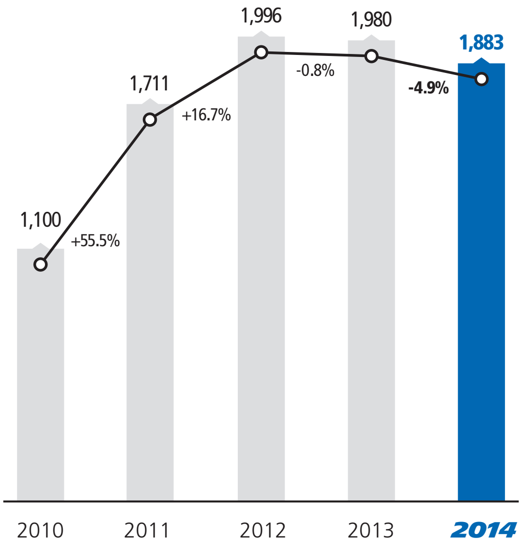


TRADE RECEIVABLES
(as a % of net sales)



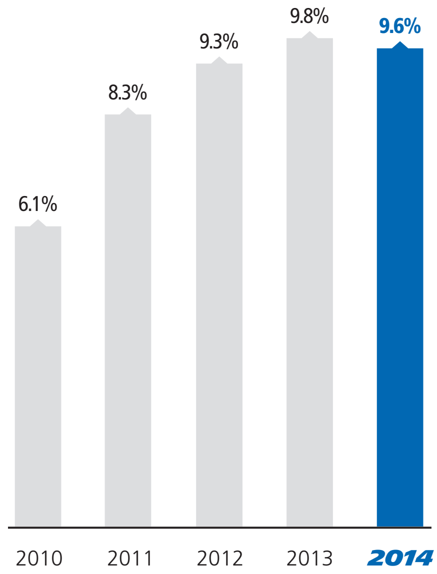
CAPITAL EXPENDITURE

(in € million)



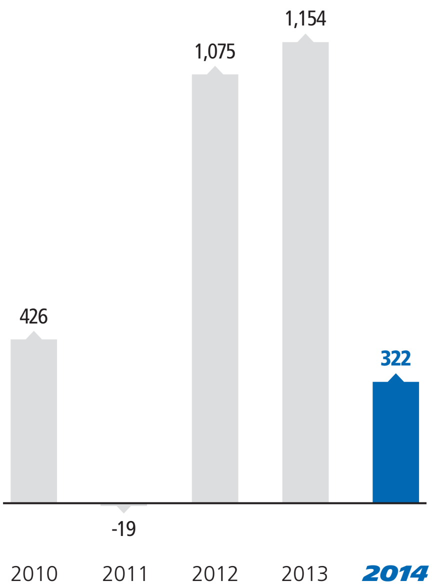
CAPITAL EXPENDITURE

(as a % of net sales)



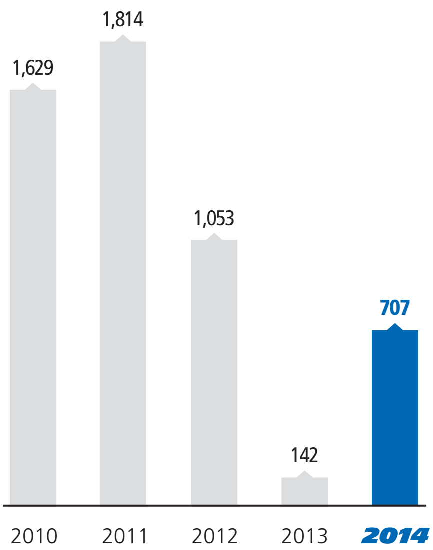
FREE CASH FLOW [(1)] (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)

(in € million)

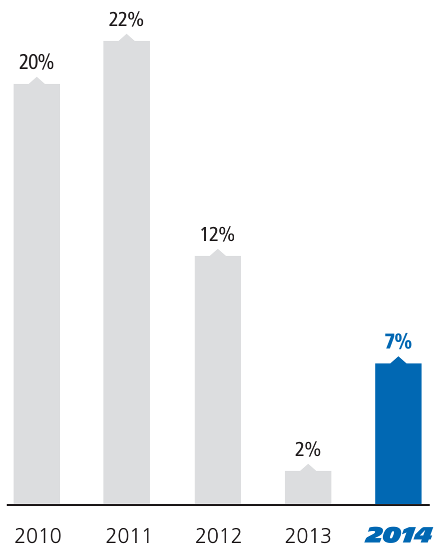


(1) This indicator is defined in section 3.5.3 of the present document.

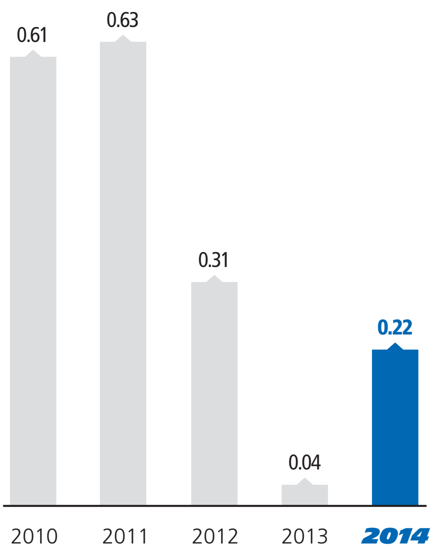
NET DEBT [1]
(in € million)



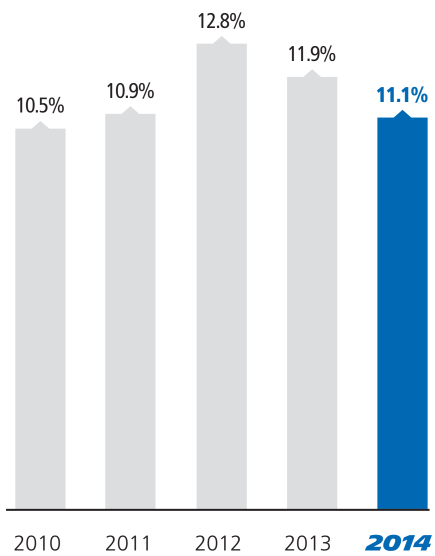
NET DEBT [1]-TO-EQUITY RATIO



NET DEBT [1]-TO-EBITDA [2] RATIO



RETURN ON CAPITAL EMPLOYED [3]
(after tax)



(1) This indicator is defined in note 26 to the consolidated financial statements.
(2) This indicator is defined in note 3.7.2 to the consolidated financial statements.
(3) This indicator is defined in section 3.6 of the present document.

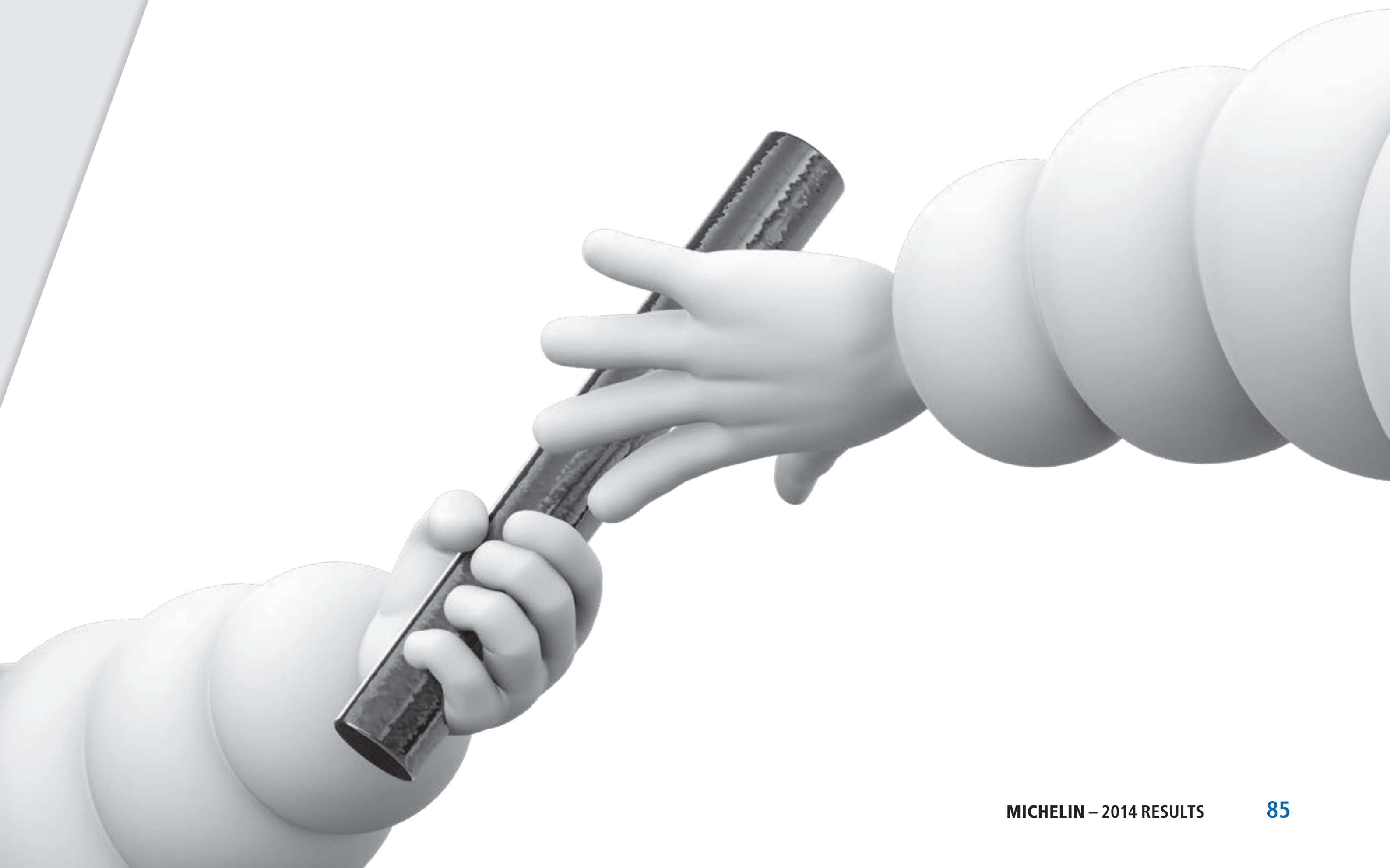
4.7 CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2014	2013	2012	2011	2010
Net sales	19,553	20,247	21,474	20,719	17,891
% change	-3.4%	-5.7%	+3.6%	+15.8%	+20.8%
Total employee benefit costs	5,292	5,292	5,377	5,021	4,836
as a % of sales	27.1%	26.1%	25.0%	24.2%	27.0%
Number of employees *(full time equivalent)*	106,700	105,700	107,300	108,300	105,100
Research and development expenses	656	643	622	592	545
as a % of sales	3.4%	3.2%	2.9%	2.9%	3.0%
EBITDA before non-recurring income and expenses (1)	3,286	3,285	3,445	2,878	2,660
Operating income before non-recurring income and expenses	2,170	2,234	2,423	1,945	1,695
Operating margin before non-recurring income and expenses	11.1%	11.0%	11.3%	9.4%	9.5%
Operating income	1,991	1,974	2,469	1,945	1,695
Operating margin	10.2%	9.7%	11.5%	9.4%	9.5%
Cost of net debt	130	94	155	206	236
Other financial income and expenses	(43)	(15)	(22)	236	10
Income before taxes	1,651	1,702	2,307	1,996	1,498
Income tax	620	575	736	534	449
Effective tax rate	37.5%	33.8%	31.9%	26.8%	30.0%
Net income	1,031	1,127	1,571	1,462	1,049
as a % of sales	5.3%	5.6%	7.3%	7.1%	5.9%
Dividends (2)	464	438	378	314	147
Cash flows from operating activities	2,522	3,089	2,926	1,196	1,322
as a % of sales	12.9%	15.3%	13.6%	5.8%	7.4%
Gross purchases of intangible assets and PP&E	1,883	1,980	1,996	1,711	1,100
as a % of sales	9.6%	9.8%	9.3%	8.3%	6.1%
Net debt (3)	707	142	1,053	1,814	1,629
Equity	9,523	9,256	8,501	8,101	8,127
Gearing	7%	2%	12%	22%	20%
Net debt (3)/EBITDA (1)	0.22	0.04	0.31	0.63	0.61
Cash flows from operating activities/Net debt (3)	NM	NM	NM	65.9%	81.2%
Operating income before non-recurring items/Net interest charge (4)	16.0	15.7	14.2	9.2	9.1
Free cash flow (5)	322	1,154	1,075	(19)	426
ROE (6)	10.8%	12.2%	18.5%	18.1%	12.9%
ROCE (7)	11.1%	11.9%	12.8%	10.9%	10.5%
Per share data *(in €)*					
Net assets per share (8)	51.3	49.8	46.6	45.9	46.0
Basic earnings per share	5.52	6.08	8.62	8.14	6.78
Diluted earnings per share	5.45	5.98	8.41	7.97	6.64
Price-earnings ratio (9)	13.6	12.7	8.3	5.6	7.9
Dividend for the year	2.50	2.50	2.40	2.10	1.78
Pay-out ratio (10)	42.0%	35.0%	28.7%	30.0%	30.0%
Yield (11)	3.3%	3.2%	3.4%	4.6%	3.3%
Share turnover rate (12)	101%	99%	129%	180%	188%

(1) As defined in note 3.7.2 to the 2014 consolidated financial statements.
(2) Including the dividends paid in shares.
(3) Net debt: financial liabilities - cash and cash equivalents (excluding cash flows from cash management financial assets and borrowing collaterals) +/- derivative assets, as defined in note 26 to the 2014 consolidated financial statements.
(4) Net interest charge: interest financing expenses - interest income from cash and equivalents.
(5) Free cash flow: cash flows from operating activities - cash flows from investing activities (excluding cash flows from cash management financial assets and borrowing collaterals), as defined in section 3.5.3.
(6) ROE: net income attributable to shareholders/shareholders' equity excluding non-controlling interests.
(7) ROCE: Net Operating Profit After Tax (NOPAT)/capital employed (intangible assets and PP&E + long-term financial assets + working capital requirement), as defined in section 3.6.
(8) Net assets per share: net assets/number of shares outstanding at the end of the period.
(9) P/E: Share price at the end of the period/basic earnings per share.
(10) Distribution rate: Dividend/Net income.
(11) Dividend yield: dividend per share/share price at December 31.
(12) Share turnover rate: number of shares traded during the year/average number of shares outstanding during the year.

5

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2014



CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2014

DETAILED SUMMARY OF THE NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2014	Year ended December 31, 2013
Net sales	5	19,553	20,247
Cost of sales		(13,299)	(13,841)
Gross income		**6,254**	**6,406**
Sales and marketing expenses		(1,842)	(1,968)
Research and development expenses		(656)	(643)
General and administrative expenses		(1,596)	(1,517)
Other operating income and expenses	8	10	(44)
Operating income before non-recurring income and expenses	**5**	**2,170**	**2,234**
Non-recurring income and expenses	9	(179)	(260)
Operating income/(loss)		**1,991**	**1,974**
Cost of net debt	10	(130)	(94)
Other financial income and expenses	10	(43)	(15)
Net interest on employee benefit obligations	27.1	(154)	(162)
Share of profit/(loss) from associates		(13)	(1)
Income/(loss) before taxes		**1,651**	**1,702**
Income tax	11	(620)	(575)
NET INCOME/(LOSS)		**1,031**	**1,127**
▶ Attributable to the shareholders of the Company		1,031	1,127
▶ Attributable to the non-controlling interests		-	-
Earnings per share *(in €)*			
▶ Basic	12	5.52	6.08
▶ Diluted		5.45	5.98

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Note	Year ended December 31, 2014	Year ended December 31, 2013
Net income/(loss)		**1,031**	**1,127**
Post-employment benefits	27.1	(484)	573
Tax effect – Post-employment benefits	18	85	(294)
Other items of comprehensive income that will not be reclassified to income statement		**(399)**	**279**
Available-for-sale financial assets – change in fair values	15.1	(26)	(21)
Tax effect – available-for-sale financial assets – change in fair values	18	4	(4)
Available-for-sale financial assets – (gain)/loss recognized in income statement		-	-
Currency translation differences		169	(341)
Other		-	2
Other items of comprehensive income that may be reclassified to income statement		**147**	**(364)**
Other comprehensive income		**(252)**	**(85)**
COMPREHENSIVE INCOME		**779**	**1,042**
▶ Attributable to the shareholders of the Company		779	1,042
▶ Attributable to the non-controlling interests		-	-

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(in € million)	Note	December 31, 2014	December 31, 2013
Goodwill	13	835	388
Intangible assets	13	602	451
Property, plant and equipment (PP&E)	14	10,081	8,955
Non-current financial assets and other assets	15	283	309
Investments in associates	17	189	195
Deferred tax assets	18	1,149	1,054
Non-current assets		**13,139**	**11,352**
Inventories	19	4,203	3,979
Trade receivables	20	2,569	2,517
Current financial assets	21	462	564
Other current assets	22	883	707
Cash and cash equivalents	23	1,167	1,563
Current assets		**9,284**	**9,330**
TOTAL ASSETS		**22,423**	**20,682**
Share capital	24	371	372
Share premiums	24	3,601	3,641
Reserves	25	5,539	5,237
Non-controlling interests		12	6
Equity		**9,523**	**9,256**
Non-current financial liabilities	26	1,621	1,447
Employee benefit obligations	27.1	4,612	3,895
Provisions and other non-current liabilities	29	1,476	1,184
Deferred tax liabilities	18	95	43
Non-current liabilities		**7,804**	**6,569**
Current financial liabilities	26	726	856
Trade payables		2,162	1,970
Other current liabilities	30	2,208	2,031
Current liabilities		**5,096**	**4,857**
TOTAL EQUITY AND LIABILITIES		**22,423**	**20,682**

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € million)	**Share capital** (note 24)	**Share premiums** (note 24)	**Reserves** (note 25)	**Non-controlling interests**	**Total**
At January 1, 2013	**365**	**3,508**	**4,660**	**2**	**8,535**
Net income/(loss)	-	-	1,127	-	1,127
Other comprehensive income	-	-	(85)	-	(85)
Comprehensive income	**-**	**-**	**1,042**	**-**	**1,042**
Issuance of shares	10	266	-	-	276
Reduction in capital	(3)	(133)	-	-	(136)
Dividends and other allocations	-	-	(455)	-	(455)
Share-based payments – cost of services rendered	-	-	11	-	11
Transactions on treasury shares	-	-	(21)	-	(21)
Other	-	-	-	4	4
At December 31, 2013	**372**	**3,641**	**5,237**	**6**	**9,256**
Net income/(loss)	-	-	1,031	-	1,031
Other comprehensive income	-	-	(252)	-	(252)
Comprehensive income	**-**	**-**	**779**	**-**	**779**
Issuance of shares	2	44	-	-	46
Reduction in capital	(2)	(85)	-	-	(87)
Dividends and other allocations	-	-	(486)	-	(486)
Share-based payments – cost of services rendered	-	-	7	-	7
Transactions on treasury shares	-	-	2	-	2
Other	(1)	1	-	6	6
AT DECEMBER 31, 2014	**371**	**3,601**	**5,539**	**12**	**9,523**

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in € million)	Note	Year ended December 31, 2014	Year ended December 31, 2013
Net income		1,031	1,127
Adjustments			
▶ Cost of net debt	10	130	94
▶ Other financial income and expenses	10	43	15
▶ Net interest on benefits	27.1	154	162
▶ Income tax	11	620	575
▶ Amortization, depreciation and impairment of intangible assets and PP&E	6	1,116	1,051
▶ Non-recurring income and expenses	9	179	260
▶ Share of loss/(profit) from associates		13	1
EBITDA before non-recurring income and expenses	**3.7.2**	**3,286**	**3,285**
Other non-cash income and expenses	31	5	(14)
Change in provisions, including employee benefit obligations	31	(191)	(322)
Cost of net debt and other financial income and expenses paid	31	(144)	(70)
Income tax paid	18.2	(616)	(516)
Change in working capital, net of impairments	31	182	726
Cash flows from operating activities		**2,522**	**3,089**
Purchases of intangible assets and PP&E	31	(1,839)	(1,966)
Proceeds from sale of intangible assets and PP&E		46	53
Equity investments in consolidated companies, net of cash acquired		(404)	1
Disposals of equity investments in consolidated companies, net of cash sold		-	-
Purchases of available-for-sale financial assets		(13)	(20)
Proceeds from sale of available-for-sale financial assets		2	1
Cash flows from other financial assets	31	121	(176)
Cash flows from investing activities		**(2,087)**	**(2,107)**
Proceeds from issuances of shares	24	46	27
Reduction in capital	24	(87)	(136)
Dividends paid to the shareholders of the Company	24	(464)	(189)
Cash flows from financial liabilities	31	(280)	(921)
Other cash flows from financing activities		(40)	(43)
Cash flows from financing activities		**(825)**	**(1,262)**
Effect of changes in exchange rates		**(6)**	**(15)**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**(396)**	**(295)**
Cash and cash equivalents at January 1		**1,563**	**1,858**
Cash and cash equivalents at December 31	**23**	**1,167**	**1,563**

The notes 1 to 36 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Compagnie Générale des Établissements Michelin (CGEM or the "Company") and its subsidiaries (together "the Group") manufacture, distribute and sell tires throughout the world.

The Company is a *société en commandite par actions* (Partnership Limited by Shares) incorporated in Clermont-Ferrand (France).

The Company is listed on Euronext Paris (Eurolist Compartment A).

After a review by the Supervisory Board, these consolidated financial statements were authorized for issue by the Managing Chairman on February 5, 2015.

Except as otherwise stated, all amounts are presented in € million.

NOTE 2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements:

- are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union at closing date with a mandatory application (available on the Internet website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm);
- are also in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), with the exception of IFRS 9 which was not yet enforced within the European Union; and
- have been prepared under the historical cost convention, as modified by the measurement of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit and loss or other items of comprehensive income.

2.2 Accounting policies

The accounting policies applied in the preparation of the Group consolidated financial statements are set out in note 3 "Summary of significant accounting policies". These policies have been consistently applied to all the years presented.

2.3 New standards, amendments and interpretations to existing standards effective from January 1, 2014

The new standards, major amendments and interpretations to existing standards, which are applicable for the accounting periods beginning on or after January 1, 2014 and which could have an impact for the Group, are described below.

IFRS 10, "Consolidated Financial Statements", redefines the principle of control by determining that an investor controls an investee if and only if the investor has all the following: a) power over the investee, b) exposure, or rights, to variable returns from its involvement with the investee and c) the ability to use its power over the investee to affect the amount of the investor's return.

IFRS 11, "Joint Arrangements", establishes principles for financial reporting by entities that have interest in arrangements that are controlled jointly (*i.e.* joint arrangements). An entity that is party to an arrangement shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Interests in joint ventures shall be accounted for using the equity method, in accordance with amended IAS 28 (proportional consolidation is no longer permitted).

IFRS 12 "Disclosure of Interests in Other Entities" reinforces the disclosure requirements for every form of interests in other entities, whether they are subsidiaries, joint arrangements, associates or unconsolidated structured vehicles. The disclosure requirements of interests in other entities are function of the relative significance of each entity compared to the Group.

The adoption of these three standards did not have any impact on the Group consolidated financial statement.

2.4 Newly published standards, amendments and interpretations to existing standards that are not yet effective

IFRS 9, "Financial instruments", published in July 2014, replaces IAS 39. The standard contains requirements for the classification and measurement of financial assets, including the introduction of a new expected loss impairment model for financial assets. For financial liabilities, the standard retains most of the requirements of IAS 39. IFRS 9 also sets new principles for the use of hedge accounting. The impact of this standard is currently in progress with the intent of adopting it no later than the accounting period beginning on January 1, 2018, providing its adoption by the European Union.

IFRIC 21, "Levies", sets out the accounting for an obligation to pay a levy that is not Income tax clarifying that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. The Interpretation was adopted by the European Union on June 14, 2014 and shall be applied no later than the accounting period beginning on or after June 17, 2014. The Group decided to apply this Interpretation from the accounting period beginning on January 1, 2015. Changes in accounting method resulting from the first application of this Interpretation shall be accounted for retrospectively. Therefore, the adoption in 2015 of this Interpretation could result in changes to the 2014 Group consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers", published in May 2014, establishes the fundamental principle that the recognition of revenue arising from contracts with customers must reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group will assess IFRS 15's full impact and intends to adopt it no later than the accounting period beginning on January 1, 2017, providing its adoption by the European Union.

There are no other new standards, amendments and interpretations to existing standards, which have been published and which are applicable for the accounting periods beginning on or after January 1, 2015, that are expected to have a material impact on the Group.

2.5 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires that management use assumptions and estimates reflected in the value of assets and liabilities at the balance sheet date and in the amount of income and expenses for the reporting period. The actual results could differ from those estimates.

The main critical accounting estimates requiring key assumptions and judgments are the impairment of non-financial assets, the employee benefit obligations and the income taxes.

▶ 2.5.1 Impairment of non-financial assets

The cash generating units' (CGU) future cash flows used in the calculation of value in use (note 3.16 "Impairment of non-financial assets") are derived from the Group rolling ten-year business plan. The construction of the business plan is an exercise involving the various actors within the CGUs and the projections are validated by the Managing Chairman. It requires critical estimates and judgments, especially in the determination of market trends, raw material costs and pricing policies. Therefore, the actual cash flows may differ from the estimates used in the calculation of value in use.

Quantitative information is provided in note 13.1 "Goodwill".

▶ 2.5.2 Employee benefit obligations

The Group plans are defined contribution plans which generally require, on top of the part financed by the Group, a contribution from each salaried employee defined in percentage of the compensation.

Some subsidiaries also book in their accounts liabilities for various pension plans, jubilees and other post-employment benefits linked to rights acquired by the employees in these plans reflecting their history or some legal obligations.

The valuation of these benefits is carried out annually by independent actuaries. The actuarial method used is the Projected Unit Credit Method.

According to this method, statistical information and various assumptions are used in calculating the expense, the liability and the asset related to the benefit plans. Assumptions include mainly the discount rate, the long term salary increase rate and the expected rate of growth in future medical costs. Statistical information is mainly related to demographic assumptions such as mortality, employee turnover, disability and retirement age.

Assumptions and statistical information are determined by Group management in charge of employee benefits according to internal guidelines in consultation with the actuaries.

The discount rates are determined using tools from the actuaries having the same maturity as the liabilities. These rates are compared with other sources of information such as IBoxx, Reuters or Bloomberg and from the Group's actuaries own benchmarks. When unexplained large spreads exist between these sources, the rates indicated by the actuaries can be adjusted.

The rate of salary increases is determined by each country based on a long term salary policy and includes all elements related to market practices as well as career development, promotion and seniority.

The inflation rates are determined using several sources of information to cross check data such as information from Central banks which publish their inflation target. They can also be determined by taking the spread between inflation-linked bonds and conventional securities. The rates are then adjusted with a spread which represents the liquidity and risk premium embedded in the inflation-linked bonds.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, invalidity) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The actual data (such as inflation, mortality and real return on assets) may differ from the long term actuarial assumptions used. The resulting difference is recognized as a gain or loss in other comprehensive income.

Quantitative information is provided in note 27 "Employee benefit obligations".

▶ 2.5.3 Income taxes

Significant judgment and estimates are required in determining the income tax expense.

There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for tax positions which could be challenged during audits by the local authorities.

The expected reversal of tax losses is based on the forecast of future results validated by the local management and reviewed by the Group Tax and Accounting Departments. The analyses are also performed in order to ensure the coherence of these forecasted future results with the strategic plans of the Group, validated by the Managing Chairman. Analyses to support the deferred tax positions are performed periodically, at a date as close as possible to closing.

The period of reversal of tax losses carried forward is based on a reasonable horizon taking into account the specific circumstances of each Group company, such as:

- the origin of the historical tax losses (generally exceptional and non-recurrent: restructuration, significant increases in production capacity...);
- the forecasted future results;
- the tax planning opportunities;
- the possibility of internal reorganizations; and
- the time limit for the recovery of historical losses.

Quantitative information is provided in note 18 "Taxes".

NOTE 3 ACCOUNTING POLICIES

3.1 Consolidation

The Group consolidated financial statements include all subsidiaries, joint arrangements and associates of Compagnie Générale des Établissements Michelin.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Shareholdings in companies which are not subsidiaries, joint arrangements or associates are not consolidated. They are accounted for as non-derivative financial assets (note 3.17 "Non derivative financial assets").

3.1.1 Subsidiaries

Subsidiaries are all entities (including structured entities) that the Group controls. The Group controls an entity when it has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany transactions and balances as well as unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.1.2 Joint ventures and associates

Joint ventures are joint arrangements (arrangements of which the Group has control jointly with one or more other parties) in which the Group has rights to the net assets. Joint control is defined as the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Generally, associates are entities in which the Group has a shareholding between 20% and 50% of the voting rights.

Investments in joint ventures and associates are accounted for using the equity method and are initially recognized at cost. The Group investment in joint ventures and associates includes goodwill identified at acquisition date and are presented net of any accumulated impairment losses.

The Group share of its joint ventures' or associates' post-acquisition profits and losses is recognized in the income statement and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income until the date that significant influence ceases. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group share of losses in an associate or a joint venture equals or exceeds its interest in the investee, the Group does not recognize future losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group interest in the investee. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Management.

The Managing Chairman regularly examines segment operating income to assess their performance. He has therefore been identified as the chief operating decision maker of the Group.

3.3 Foreign currency

3.3.1 Presentation and functional currency

The financial statements of the Group entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate and corresponds for most of them to their local currency.

The consolidated financial statements are presented in €, which is the Company's functional currency.

3.3.2 Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange differences on equity investments classified as available-for-sale financial assets are included in other items of comprehensive income until the investment is sold.

3.3.3 Translation

The financial statements of Group entities whose functional currency is different from the Group's presentation currency are translated into Euros as follows: assets and liabilities are translated at the closing rate at the balance sheet date, income and expenses are translated at the average rate of the period (as it is considered a reasonable approximation to actual rates at transaction date), and all resulting exchange differences are recognized in other items of comprehensive income.

Cash flows are also translated at the average rate of the period. When an entity is disposed of, the translation differences accumulated in other items of comprehensive income are recycled in the income statement as part of the gain or loss on disposal.

On the acquisition of an entity, goodwill and fair value adjustments recognized are treated as assets and liabilities of the acquired entity and translated at the spot rate on the transaction date.

3.3.4 Exchange rates of major currencies

	Closing rates		Average rates	
Against €:	2014	2013	2014	2013
US dollar (USD)	1.213	1.374	1.330	1.331
Canadian dollar (CAD)	1.413	1.473	1.467	1.373
Mexican peso (MXN)	17.942	17.958	17.674	17.013
Brazilian real (BRL)	3.279	3.213	3.118	2.876
British pound (GBP)	0.782	0.834	0.807	0.848
Chinese yuan (CNY)	7.544	8.329	8.192	8.176
Indian rupee (INR)	77.327	85.181	81.113	78.178
Thai baht (THB)	39.995	45.248	43.194	40.994

3.4 Derivative financial instruments

Derivative financial instruments are used to manage financial exposures.

All derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see hedging policy below).

All changes in fair value of derivatives not designated as hedging instruments are recorded as financial income or expense in the period in which they arise.

Fair values are based on market values for listed instruments or on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into account market data.

Embedded derivatives are recognized separately if not closely related to the host contract.

3.5 Hedging

Some derivative financial instruments are eligible for hedge accounting and are therefore designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or
- hedges of highly probable forecast transactions (cash flow hedges).

Some other derivatives, while providing effective economic hedges under the Group financial policies, cannot qualify or have not been designated for hedge accounting (see derivatives policy above). Fluctuations of these derivatives' fair values are therefore accounted for in the income statement. For example, foreign currency derivatives that are used to hedge the currency exposure of financial assets and liabilities are not designated as hedging instruments.

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategies. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives are accounted for differently depending on the type of hedge:

3.5.1 Fair value hedges

Changes in fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

3.5.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognized in other items of comprehensive income. The ineffective portion of the gain or loss is recognized immediately in the income statement. Amounts accumulated in other items of comprehensive income are recycled in the income statement in the period when the hedged item affects the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other items of comprehensive income at the time remains in other items of comprehensive income and is recognized in the income statement when the forecasted transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other items of comprehensive income is immediately transferred to the income statement.

3.6 Fair value of financial instruments

The fair value measurements are disclosed by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices in active markets. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments (essentially cash and cash equivalents as well as quoted available-for-sale financial assets) are included in level 1.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value these instruments are observable, these instruments (essentially cash management financial assets and derivative instruments) are included in level 2.

- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument (essentially non-quoted available-for-sale financial assets) is included in level 3.

Specific valuation techniques used to value, generally internally, financial instruments include:

- Quoted market prices or dealer quotes for similar instruments (level 1).
- The fair value of interest rate swaps calculated internally as the present value of the estimated future cash flows based on observable yield curves (level 2).
- The fair value of forward foreign exchange contracts determined internally using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value (level 2).

Other techniques, such as discounted cash flow analysis, are used internally to determine fair value for the remaining financial instruments (level 3).

The Group assesses the counterparty risk included in the fair value of its OTC (over-the-counter) derivatives. The Group includes the effect of its exposure to the credit risk of the counterparty or the counterparty's exposure to the credit risk of the Group. The valuation is based on discounted cash flows using a rate including the counterparty credit risk.

3.7 Definition of certain indicators presented in the consolidated financial statements

3.7.1 Net debt

Net debt is made up of current and non-current financial liabilities as they appear on the balance sheet less:

- cash and cash equivalents as they appear on the balance sheet;
- derivative instruments included in "Current financial assets and Non-current financial assets" on the balance sheet;
- cash management financial assets included in "Current financial assets" on the balance sheet (these assets are highly liquid, little affected by the interest rate risk and by the foreign currency risk); and
- borrowing collaterals included in "Current financial assets and Non-current financial assets" on the balance sheet.

3.7.2 EBITDA before non-recurring income and expenses

The Group defines EBITDA before non-recurring income and expenses as operating income before (i) nonrecurring income and expenses and (ii) depreciation of property, plant and equipment and amortization of intangible assets, and any related impairment charge.

3.8 Revenue recognition

Revenue is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts allowed by the Group entities or any commercial incentives linked to sales. Deferred rebates are accrued based on past experience and expected payments.

Sales are recognized as follows:

- Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and will receive the economic benefits associated with the transaction. Due to the nature of the products, the general sales conditions, the logistics incoterms and the insurance contracts, revenue is usually recognized when the goods leave the Group premises.
- Revenue from sales of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, to the extent that this stage can be measured reliably and the economic benefits associated with the transaction will flow to the Group.

Financial income is recognized as follows:

- Interest income is recognized on an accrual basis using the effective interest method.
- Dividend income is recognized when the right to receive payment is established.

3.9 Cost of sales

Cost of sales comprises the costs of manufacturing products and the cost of goods purchased for resale.

It includes the purchase cost of raw materials, production costs directly related to the manufactured products and all production overheads, based on the normal capacity of production facilities.

Production overheads include depreciation of property, plant and equipment, amortization of intangible assets relating to production and write-downs of inventories.

Cost of sales also includes a relevant portion of general overheads to the extent that they are directly attributable to bringing the manufactured products to their present location and condition.

3.10 Research and development

Research costs cannot be capitalized. Development cost are capitalized as intangible assets when the conditions relating to the commercial and technical feasibility of the project, the ability to allocate the costs reliably and the probability of generating future economic benefits are fulfilled.

Development costs are reviewed annually in order to determine whether the criteria for recognition as intangible assets are met.

3.11 Non-recurring income and expenses

Unusual, abnormal or non-frequent significant items of income and expenses are separately disclosed in the income statement. They are described in the note 9 "Non-recurring income and expenses".

3.12 Income tax

Current and deferred taxes, plus any withholding tax on royalties and on distributions of retained earnings within the Group, are included in the income statement except if they relate to items recognized either in other comprehensive income or directly in equity, in which case they are also recognized, respectively, in other comprehensive income or directly in equity.

Current tax is based on the results of Group companies and is calculated according to local rules, including any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements, using enacted or substantially enacted tax rates that are expected to prevail when the temporary differences reverse.

A deferred tax asset or liability is recognized on initial recognition of transactions arising from business combinations and impacting the accounting or taxable result.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax losses carried forward and the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures, and associates, except where the timing of reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.13 Goodwill

Goodwill is computed at acquisition date as the difference between:

- the sum of the consideration transferred (if need be, the previously held interests in the acquired entity); and
- the fair value of the identifiable acquired assets and liabilities.

Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the acquisition in which the goodwill arose.

3.14 Intangible assets

Intangible assets are recognized at cost. The cost of an intangible asset acquired as part of a business combination is its fair value at the acquisition date.

Intangible assets with indefinite useful lives are not amortized, whereas those with finite useful lives are amortized on a straight-line basis over their estimated useful life which generally does not exceed seven years, with the exception of land-use rights which are amortized over the period for the right.

3.15 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and, when necessary, impairment.

The gross carrying amount includes the cost of acquisition or production cost and other costs directly attributable to the acquisition or the construction of the asset (including borrowing costs). Investment grants are initially accounted for as deferred income and are subsequently recognized as income over the useful life of the related asset.

Repair and maintenance costs are expensed as incurred. Other subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset if the recognition criteria are met.

Property, plant and equipment are depreciated on a straight-line basis, except land which is not depreciated. Depreciation on property, plant and equipment reflects the pattern in which the asset's future economic benefits are expected to be consumed. Depreciation is allocated to cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

The following depreciation periods, based on the expected useful lives of the respective assets, are applied throughout the Group:

• Buildings and general installations of land and buildings:	25 years
• Industrial and commercial equipment:	5-12 years
• Computer and telecommunication equipment:	5 years
• Vehicles:	5 years
• Other:	2-12 years

The useful lives of the assets and their respective residual values are reviewed annually.

When assets are sold or otherwise disposed of, the difference between the net proceeds and the net carrying amounts of the assets is recognized in other operating income and expenses.

Property, plant and equipment which are financed by leases giving the Group substantially all of the risks and rewards of ownership are capitalized at the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease. The leased assets are depreciated over the shorter of the lease term and the useful life of the leased assets if the transfer of ownership of the leased assets is uncertain.

The obligations arising from future finance lease payments are discounted and recognized as a financial liability in the balance sheet. The payments related to operating leases are expensed on a straight-line basis over the lives of the contracts.

3.16 Impairment of non-financial assets

When there is any indication that the recoverable amount of an asset (intangible assets or property, plant and equipment) may be less than its carrying amount, the recoverable amount of the asset is measured and an expense is potentially accounted for. Whether there is an indication of impairment or not, an annual impairment test for goodwill, intangible assets with indefinite useful life and intangible assets not ready for use is performed by comparing their carrying amount with their recoverable amount.

At individual asset level, indications of impairment generally come from a fall in market value, technical obsolescence or an anticipated change of use. The recoverable amount is usually based on the market value.

At Group level, non-financial assets are combined for impairment testing purposes at the lowest level for which there are separately identifiable cash flows (Cash Generating Units – CGUs).

The CGUs are defined according to the way the Group operations are managed: it could be the crossings of Product Lines and Geographic Zones (for example: CGU North America Passenger car and light truck), the Distribution Networks (for example: CGU Euromaster) or the Business Subsidiaries (for example: CGU Michelin Travel Partner). This approach allows having CGUs with cash flows that are separately identifiable from cash flows of other CGUs.

CGUs to which goodwill have been allocated are tested annually or more frequently if events or changes in circumstances indicate a potential impairment. Those without goodwill are tested if there is a specific indication of impairment.

The recoverable amount is the higher of the value in use and the fair value less cost of disposal.

For most CGUs, recoverable amount is based on value in use, which is equal to future discounted cash flows using the Weighted Average Cost of Capital (WACC) as a discount rate. Future cash flows are based on the CGU's ten-year cash flow forecasts plus a terminal value, measured by dividing projected cash flows by the WACC. The discount rate is based on the cost of equity capital derived from the market-expected return on the Company's shares, the cost of debt capital and a risk premium reflecting the risks of the countries where the assets are located. Those rates are adjusted in order to determine a pre-tax discount rate, consistent with the pre-tax cash flow forecasts. The gearing is based on target information. The beta is calculated according to the variance and the covariance between the Company stock price and the CAC 40 index using a moving average on 24 months.

The recoverable amount of the distribution CGUs on the other hand is measured at fair value less costs of disposal. Since most of these assets are land and buildings, external appraisals or other real estate valuation techniques are applied to measure their fair value.

Any impairment loss is recognized first against goodwill and any remaining amount is allocated among the other assets, based on their net carrying amounts at the closing date.

When the circumstances which previously caused non-financial assets to be impaired no longer apply, the impairment losses are reversed accordingly. However, goodwill impairment can never be reversed.

Changes in impairment losses are recognized in other operating income and expenses unless classified as non-recurring items.

3.17 Non derivative financial assets

3.17.1 Asset categories

The Group classifies its non-derivative financial assets in one of the following categories: loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss. The classification depends on the purpose for which the assets have been acquired as well as its nature. The Group determines the classification of its non-derivative financial assets at initial recognition and reviews this designation at every reporting date.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date.
- Available-for-sale financial assets are usually non-monetary securities. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.
- Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of being sold in the short term or if it is so designated by the Group. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

3.17.2 Transactions

Purchases and sales of non-derivative financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Non-derivative financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Non-derivative financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value gains or losses are included in the income statement.

3.17.3 Measurement

Available-for-sale financial assets are measured at fair value determined essentially by reference to a published price quotation in an active market. Loans and receivables are measured at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other items of comprehensive income unless these assets are part of fair value hedges and therefore included in the income statement for the hedged risk in the period in which they arise.

3.17.4 Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other items of comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments cannot be reversed.

3.18 Inventories

Inventories are carried at the lower of cost and net realizable value.

The cost of raw material, supplies and purchased finished goods includes the purchase price and other costs directly attributable to the acquisition. The cost of work in progress and manufactured finished goods comprises direct labour cost, other direct costs and production overheads based upon normal capacity of production facilities. Borrowing costs are expensed as incurred. The measurement of inventories and of cost of sales with the standard cost method put in place by the Group is close to what would be obtained using the actual cost method, after taking under consideration variances.

Net realizable value is the estimated selling price less the estimated costs of completion and sale.

An impairment loss is recognized when net realizable value is lower than cost and is reversed when it becomes apparent that the circumstances which previously caused inventories to be written down below cost no longer exist.

3.19 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment.

When payment terms are shorter than one year, the initial fair value and the subsequent amortized cost are considered as being equal to the nominal amount.

An impairment loss is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bankruptcy, legal creditor protection processes, manifest insolvency of the debtor, disappearance of the debtor, more than six months overdue, economic or political risk in the debtor country, adverse change in the debtor's credit situation are considered indicators that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Prior to recognizing an impairment loss, the quality of any guarantees, as well as the ability to realize them, have to be assessed. In the case of receivables that are more than six months overdue, the Credit Department determines if the risk is limited to the overdue amount, or if it includes all other receivables from the debtor. The impairment loss is also determined by the Credit Department for economic and/or political risk, and for an adverse change in the debtor's credit situation. For all other cases the total amount of the receivable is considered as impaired. The impairment charge is recognized under sales and marketing expenses.

When a trade receivable is uncollectible, it is written off against the corresponding allowance account. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

3.20 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

3.21 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are presented in other reserves. The amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. When treasury shares are sold, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

3.22 Non-derivative financial liabilities

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Non-derivative financial liabilities are recognized initially at fair value, net of transaction costs, and subsequently at amortized cost. Any difference between the issue proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability at amortized cost. The remainder of the proceeds is allocated to the conversion option. This is recognized in equity, net of income tax effects.

To the extent that borrowings are hedged by qualifying fair value hedges, the carrying value of the hedged item is adjusted for the change in fair value attributable to the risk being hedged.

3.23 Employee benefits

Wages, salaries, social security contributions, payments to defined contribution plan, annual leave and sick leave payments, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by Group employees.

Where employee benefits, such as pension, other post-employment benefits and other long-term benefits, are provided by the Group, a liability or an asset and the related costs are recognized.

3.23.1 Pension and other post-employment benefits

Post-employment benefits are benefits payable after the completion of employment. The Group provides retirement benefits for most of its employees, either directly or by contributing to independently administered funds. The benefits provided by the Group vary according to the legal, tax and economic situation in each country and are usually based on one or more factors such as employees' remuneration, age and years of service. The obligations relate both to current retirees and to entitlements of future retirees.

The Group provides post-employment benefits under defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group pays fixed contributions to fund managers or insurance companies. Once the contributions have been paid, the Group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay the benefits expected by the beneficiaries.

The regular contributions are recognized as an expense for the year in which they are due and, as such, are included in cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

Group guidelines regarding post-employment benefits have led to the transformation of defined benefit plans to defined contribution benefit plans since early 2000's. Nevertheless most of the current post-employment benefit plans are defined benefit plans. They are either externally funded plans (mainly pension plans), for which the plan assets are held separately in independently administered funds, or unfunded plans such as healthcare benefit plans and retirement bonus plans.

The post-employment benefit liabilities, and the related current service cost, are measured using the Projected Unit Credit Method.

A defined benefit plan is a plan that defines an amount of benefits that the Group is committed to pay to current and former employees.

All defined benefit plans are subject to actuarial calculations carried out annually for the largest plans and on a regular basis for other plans. These actuarial valuations are provided by independent actuaries. Actuarial assumptions primarily discount rates, projected rates of remuneration growth, inflation and expected growth of healthcare costs are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. They take into account any unrecognized assets not available in form of refunds or reduction in future contributions.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds in the currency of the obligation that have maturities approximating the duration of the related benefit liability.

A net asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group in the form of refunds from the plan or reductions in future contributions to the plan.

When a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group determines whether paying these contributions may give rise to a surplus in that defined benefit plan. To the extent that the surplus in the plan exceeds the economic benefits available, the Group recognizes immediately a decrease in the defined benefit asset or an increase in the defined benefit liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

Past service costs may arise when new defined benefit plans are set up, when changes to benefits payable under an existing defined benefit plan are introduced or when curtailments occur. They are recognized immediately in the income statement.

The Group net benefit plan cost recognized in operating income consists of current service cost, curtailment and settlements gains and losses, past service cost as well as actuarial gains and losses arising under other long term benefit plans. Net interest on the net defined benefit liability (asset) is recognized below operating income.

3.23.2 Share based payments

Employee share option plans

Benefits related to share options which can be granted to some Group employees are measured at grant date using a binomial model.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of options granted to them.

The binomial model is based on the spot price for Company shares, the exercise price, the historical volatility (over a period equal to the expected lifetime of the option), a risk-free interest rate (zero coupon government bonds with a maturity equal to the expected lifetime of the option), and a dividend stream based on market expectations.

Benefits are spread over the period during which the services are rendered. They are recognized in Other operating income and expenses.

Performance share plans

The Group may adopt plans to grant free shares of the Company to certain of its employees.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of performance shares granted to them.

The fair value of the performance shares is based on the spot price of the Company's share at grant date, less the present value of expected dividends that will not be received by grantees during the vesting period.

The number of shares that will finally be issued at the end of the vesting period depends on the realization of Group performance and service conditions.

The total compensation cost is based on the fair value of the performance shares and the estimated number of shares that will finally be issued. This cost is recognized over the vesting period and is booked in Other operating income and expenses.

Employee share purchase plans

The Group may offer to most of its employees the opportunity to subscribe to a share purchase plan that allows them to purchase Company shares.

These shares, which are subject to certain restrictions relating to their sale or transfer, are purchased by the employees at a subscription price based on the market prices of the Company shares set with a discount. The benefit to the employees equals the difference between the fair value of the purchased shares (after allowing for the five-year lock-up cost) and the price paid by the employee, multiplied by the number of shares subscribed.

The benefit granted to the employees is immediately expensed by the Group, as no vesting period applies, and is booked under Employee benefit costs – Share-based payments.

3.24 Provisions

Provisions are recognized when a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated.

Restructuring provisions are recognized when the Group has a detailed formal plan that has been announced.

Provisions are recorded at the net present value of the estimated cash outflows.

3.25 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTE 4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk management policy

4.1.1 Organization of financial risk management

Financial risk control, measurement and supervision are carried out under the responsibility of the Corporate Financing Department, at the subsidiary, geographic zone level as well as at the Group level. It reports directly to the Group Financial Department.

One of the Corporate Financing Department's ongoing missions is the formulation of financial risk management policies, monitored on the basis of a full array of internal standards, procedures and authoritative literature. Geographic zone finance managers oversee the implementation of the Group's financial risk management policies by the finance managers of the companies in their zone. In addition, compliance with financial risk policies is assessed through internal audit reviews to evaluate risk control efficiency and identify means of improvement.

All strategic decisions regarding Group financial risk hedging policy are taken by the Group Financial Department. As a general rule, the Group strictly limits the use of derivatives to the sole purpose of hedging clearly identified exposures.

A Financial Risks Committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The Financial Risks Committee meets on a monthly basis and includes members of the Group Financial Department and of the Corporate Financing Department.

4.1.2 Liquidity risk

4.1.2.1 Risk factors

Liquidity is defined as the ability to repay borrowings when they fall due and to find new stable sources of financing so that there is always sufficient money to cover expenses. In the course of its business, the Group is exposed to the risk of having insufficient liquid resources to finance its operations and make the investments needed to drive its growth. It must therefore manage its cash reserves and committed lines of credit on a continuous basis.

4.1.2.2 Risk management processes

The Corporate Financing Department is responsible for the Group's financing and liquidity at the lowest cost. The Group raises financing on the capital markets through long-term financial instruments (bond issues), as well as through bank resources (loans and credit lines), commercial paper programs and securitization of accounts receivable. The Group has also negotiated committed back-up credit lines and maintains cash reserves that are calibrated in order to ensure the refinancing of the short term debt. Long term financing and committed back-up credit lines are essentially concentrated at the level of the financial holding companies, in particular the Compagnie Financière du Groupe Michelin, "Senard et Cie" (CFM), which acts as the financing hub for the Group.

Except in the case of particular obligations related to the specific features of local financial markets, the Group companies are financed in accordance with a model that is being progressively deployed across the Group:

- cash pooling with the Group for the management of day to day liquidity requirements;
- intercompany credit lines and loans to meet medium and long term requirements.

Short term financing for subsidiaries that do not participate in the cash pooling is under the responsibility of the local treasurer.

The management of liquidity risk is supported by a forecasting system of short and long term financing requirements based on business forecasts and the strategic plans of the operating entities.

As a matter of prudent financial policy, the Group guards against the inclusion in its financial contracts of covenants providing for ratios or "material adverse change" clauses that could affect its ability to mobilize credit lines or affect their term. At closing date no such clause featured in Group loan agreements. With regard to clauses in financial contracts relating to default or acceleration, the probability of such circumstances arising is low and their possible impact on the financial situation of the Group is not significant.

4.1.3 Currency risk

4.1.3.1 Risk factors

Currency risk is defined as the impact on financial indicators of fluctuations in the exchange rates of foreign currencies used in the normal course of business. The Group is exposed to currency risks on its foreign currency transactions (transaction risk) and also on the translation of its net investment in foreign subsidiaries (translation risk).

Foreign currency transaction risk arises from the monetary assets and liabilities of the Group and its subsidiaries (mainly cash and cash equivalents, receivables, payables and borrowings) that are denominated in foreign currencies. It corresponds to the risk of a change in the exchange rate between the date when these monetary assets and liabilities are recorded in the accounts and the date when they are recovered or settled.

Foreign currency translation risk arises from the Group's net investment in foreign subsidiaries. It corresponds to the risk of a change in the exchange rate used to translate the net investment in the foreign subsidiary into Euros during the consolidation process.

4.1.3.2 Risk management processes

Currency transaction risk

Foreign currency transaction risk is monitored by the Corporate Financing Department.

Each Group companies continually calculate its accounting foreign exchange exposure in relation to its functional currency and hedges it systematically. A number of temporary exemptions can, however, be granted by the Group Financial Department when it is not possible to hedge a currency or when it is justified under exceptional market conditions.

Foreign currency payables and receivables of the same type and with equivalent maturities are netted off and only the net exposure is hedged. This is normally carried out through the financial holding company, or, alternatively, through a bank. The financial holding company in turn assesses its own resulting exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts. The structural part of the exposure is hedged with long term instruments (five years maturity at the longest) and the operating part is hedged with short term instruments (generally maturity is shorter than or equal to three months). Currency risk monitoring and hedging is based on Group internal standards and procedures. A transactional currency risk alert system is implemented throughout the Group under the responsibility of the Corporate Financing Department. These exposures are tracked on a monthly basis on a detailed management report.

Currency translation risk

The Group does not use hedging instruments to actively manage this risk.

Investments in foreign subsidiaries are booked in the functional currency of the parent company and are not included in the latter's foreign exchange position.

4.1.4 Interest rate risk

4.1.4.1 Risk factors

The Group's income statement may be affected by interest rate risk. An unfavourable change in interest rates may adversely affect future finance costs and cash flows. The Group is in a net debt position and is exposed to the risk of an increase in interest rates on the portion of debt at variable rate. It may also be exposed to an opportunity risk in the case of a fall in interest rates, if too great a proportion of debt is at fixed rates, as well as on financial investments, depending on their interest terms.

4.1.4.2 Risk management processes

The objective of interest rate management is to minimize financing costs whilst protecting future cash flows against unfavourable movements in interest rates. For this purpose, the Group uses various derivative instruments available in the market, but restricts itself to the use of "plain vanilla" instruments (interest rate swaps, caps, collars, etc).

Interest rate exposure is analyzed and monitored by the Financial Risks Committee using monthly performance indicators and management reports.

The interest rate position is centralized by currency by the Corporate Financing Department that is the only department permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies. The Financial Risk Committee determines the limits for hedging by currency, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

4.1.5 Equity risk

4.1.5.1 Risk factors

The Group owns shares in listed companies whose share price fluctuates, among other things, in line with changes in the global stock markets, the multiples applied by the markets to the industries in which these companies operate and their specific economic and financial metrics.

Equity investments are made for strategic rather than trading purposes. Equities are held under a medium or long term strategy, and not for short term trading portfolio management.

4.1.5.2 Risk management processes

The Group Investment Committee, which includes representatives of the Financial, Legal and Corporate Finance Departments, is responsible for the application of monitoring rules on investments. It therefore makes an annual review of the investments to assess the risk level and the evolution of the results compared to defined targets.

4.1.6 Counterparty risk

4.1.6.1 Risk factors

Counterparty risk is the risk of a debtor refusing or being unable to fulfil all of part of its obligations. The Group is exposed to counterparty risk on its contracts and financial instruments. Counterparty risk may lead to an impairment loss or a loss of liquidity. The Group is exposed to the risk of impairment losses arising from the investment of available cash in money market instruments and other marketable securities, as well as on finance receivables, derivative instruments and third party guarantees. It is exposed to the risk of a loss of liquidity on its undrawn committed lines of credit.

4.1.6.2 Risk management processes

The Group chooses its banks extremely carefully, particularly when it comes to the management of its cash investments. As it would be inappropriate to add financial risk to the industrial and commercial risks that are associated with its operations, the Group gives priority to the security and the liquidity of all its cash investments. Cash investments consist of (i) financial instruments that are subject to no risk or an insignificant risk of changes in value purchased from a sufficiently diversified group of leading banks, and (ii) unrestricted units in diversified money market funds or short-term bond funds.

As well as cash investments, counterparty risk is borne on the value of the assets of derivative instruments used for hedging purposes. These amounts and their distribution by bank are tracked weekly by the Group Treasury and monitored monthly by the Financial Risks Committee.

In order to mitigate the counterparty risk on its derivatives instruments, the Group realizes exchange of collaterals with its main banks.

4.1.7 Credit risk

4.1.7.1 Risk factors

Credit risks may arise when the Group grants credit to its customers. If a customer becomes insolvent or files for bankruptcy, it may default on the receivables held by the Group and this may have a negative impact on the Group's income statement.

4.1.7.2 Risk management processes

The Credit Department, which is part of the Group Financial Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for credit and collection. The main policies and procedures are defined at Group level and are monitored and controlled at both the geographical zone and Group level. A monthly credit reporting system operates within the Group.

4.2 Financial risk data

4.2.1 Liquidity risk

At December 31, 2014, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2015	2016	2017	2018	2019	2020	2021 and beyond
Bonds	463	11	698	11	432	-	-
Loans from financial institutions and other	280	107	56	2	42	17	181
Obligation under finance lease	9	7	4	4	18	4	25
Derivative instruments	10	13	2	15	(7)	-	(1)
Repayment schedule of financial debts	**762**	**138**	**760**	**32**	**485**	**21**	**205**
Long-term undrawn confirmed credit lines	**-**	**-**	**-**	**-**	**1,500**	**-**	**-**

This table shows debt principals plus interests according to their payment date, as projected with available market data at closing date (interests are computed in each currency on the basis of the market rates, and converted in Euros at closing rates). Thus displayed amounts are not discounted.

The refinancing risk of the Group short term debt is covered by the amount of the undrawn confirmed credit lines (€1,500 million), cash available (€1,167 million) as well the cash management financial assets (€313 million).

In December 2014, the Group renewed its syndicated credit line for five years with an option to extend it twice for a one year period.

4.2.2 Currency risk

Transactional currency risk

The following table set forth the Group transactional foreign currency accounting exposures (when a monetary asset or liability is denominated in a currency other than the functional currency), before and after hedging:

	December 31, 2014						December 31, 2013					
(in € million)	USD	EUR	RON	CNY	BRL	Other	USD	EUR	RON	CNY	BRL	Other
Monetary assets	3,867	971	51	496	28	2,376	3,679	744	62	294	26	2,030
Monetary liabilities	(2,471)	(1,752)	(72)	-	(14)	(1,666)	(2,983)	(1,450)	(58)	-	(7)	(1,358)
Net position before hedging	**1,396**	**(781)**	**(21)**	**496**	**14**	**710**	**696**	**(706)**	**4**	**294**	**19**	**672**
Hedges	(1,381)	771	(5)	(509)	(28)	(714)	(674)	686	(16)	(294)	(26)	(681)
NET POSITION AFTER HEDGING	**15**	**(10)**	**(26)**	**(13)**	**(14)**	**(4)**	**22**	**(20)**	**(12)**	**-**	**(7)**	**(9)**

An unfavourable change in each of the foreign currencies mentioned in the table above against the functional currencies of the companies which have the currency transaction exposure would have a negative aggregate impact, after hedging, of less than €1 million (2013: €1 million) in the consolidated income statement for every cent change. A favourable change would have a totally symmetrical impact. This relatively low sensibility to the transaction currency risk is due to the objective described in paragraph 4.1.3 "Currency risk".

Because of the low volume of cash flow hedge derivatives (note 16 "Derivative financial instruments"), the equity sensitivity to currency risk is not significant.

Currency translation risk

A breakdown of equity by currency is provided in the following table:

(in € million)	December 31, 2014	December 31, 2013
EUR	5,452	5,638
BRL	870	824
USD	782	754
THB	710	479
CNY	431	433
CAD	398	368
INR	251	187
RSD	195	161
Other	434	412
TOTAL	**9,523**	**9,256**

4.2.3 Interest rate risk

Net debt at December 31, 2014 by type of hedges and currencies can be detailed as follows:

	Net debt before hedging			Currency hedging	Net debt after currency hedging but before interest rate hedging			Interest rate hedging		Net debt after hedging		
(in € million)	Fixed	Variable	Total		Fixed	Variable	Total	Fixed	Variable	Fixed	Variable	Total
EUR	1,086	(529)	**557**	(2,238)	1,086	(2,767)	**(1,681)**	(400)	400	686	(2,367)	**(1,681)**
USD	-	27	**27**	856	-	883	**883**	412	(412)	412	471	**883**
CNY	-	23	**23**	834	-	857	**857**	397	(397)	397	460	**857**
THB	-	87	**87**	22	-	109	**109**	175	(175)	175	(66)	**109**
BRL	116	77	**193**	161	116	238	**354**	65	(65)	181	173	**354**
INR	-	-	**-**	121	-	121	**121**	65	(65)	65	56	**121**
Other currencies	7	(219)	**(212)**	244	7	25	**32**	40	(40)	47	(15)	**32**
Total before derivatives	**1,209**	**(534)**	**675**	**-**	**1,209**	**(534)**	**675**	**754**	**(754)**	**1,963**	**(1,288)**	**675**
Fair value of derivatives included in net debt			**32**				**32**					**32**
NET DEBT (NOTE 26)			**707**				**707**					**707**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2014:

		Fair value impact			
(in € million)	Annualized cash impact booked in income statement	Booked in income statement [(1)]	Booked in other comprehensive income [(2)]	Not booked [(3)]	Total
1-point downward shift	(13)	(17)	(3)	(15)	**(35)**
1-point upward shift	13	17	3	15	**35**

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.
(2) For derivatives qualifying for hedge accounting (cash flow hedges).
(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

4.2.4 Equity risk

Equity risk is the risk of a 10% unfavourable change in the price of the Group investment portfolio.

(In € million)	December 31, 2014	December 31, 2013
Carrying amount (note 15.1)	151	174
Impact on equity of a 10% unfavourable change in the price of the Group investment portfolio	**(10)**	**(11)**

4.2.5 Counterparty risk

At December 31, 2014, 42% of cash and cash equivalents (including cash management financial assets) is invested in money market or short term bond funds to allow for a maximum diversification of the counterparty risk. The balance is invested directly in international bank institutions with a credit rating equivalent or exceeding the credit rating of the Group.

Furthermore, most of the derivatives are contracted with the same banking groups.

4.2.6 Credit risk

At December 31, 2014, net receivable balances from the ten largest customers amounted to €439 million (2013: €424 million). Seven of these customers are located in Europe and three in North America. At the same date, 49 customers (2013: 49) have been granted credit limits in excess of €10 million. Out of these, 23 are located in Europe, 22 in North America, 2 in Asia, 1 in Middle-East and 1 in South America. There was no significant collateral received to limit credit risk. In 2014, credit losses represented 0.10% of sales (2013: 0.13%).

4.2.7 Commodities derivatives

In 2014, the Group did not have any significant hedges of commodities purchases (note 16.3 "Derivative contractual amounts").

4.3 Capital risk management

The Group's objectives when managing its capital is to safeguard its ability to continue as a going concern and to ensure its development, so that it can provide returns for shareholders and benefits for other stakeholders.

The Group monitors its capital on the basis of the gearing ratio, corresponding to the ratio of net debt to total equity.

(in € million)	December 31, 2014	December 31, 2013
Net debt (note 26)	707	142
Total equity	9,523	9,256
Gearing ratio	**0.07**	**0.02**

4.4 Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2014 and 2013 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total 2014
Cash and cash equivalents	816	351	-	**1,167**
Cash management financial assets	10	303	-	**313**
Deposits borrowing collaterals	72	-	-	**72**
Derivatives (note 16.1)	-	88	-	**88**
Available-for-sales financial assets	48	-	103	**151**
TOTAL ASSETS	**946**	**742**	**103**	**1,791**
Derivatives (note 16.2)	-	120	-	**120**
TOTAL LIABILITIES	**-**	**120**	**-**	**120**

(in € million)	Level 1	Level 2	Level 3	Total 2013
Cash and cash equivalents	1,335	228	-	**1,563**
Cash management financial assets	-	486	-	**486**
Deposits borrowing collaterals	12	-	-	**12**
Derivatives (note 16.1)	-	100	-	**100**
Available-for-sales financial assets	64	-	110	**174**
TOTAL ASSETS	**1,411**	**814**	**110**	**2,335**
Derivatives (note 16.2)	-	24	-	**24**
TOTAL LIABILITIES	**-**	**24**	**-**	**24**

There has been no significant transfer during these two years between level 1 and level 2.

The following table presents the changes in level 3 instruments for the year ended December 31, 2014:

(in € million)	
At January 1, 2014	**110**
Additions	13
Disposals	(20)
Transfers from other level to level 3	1
Transfers from level 3 to other levels	-
Gains or losses for the year included in net income	-
Gains or losses for the year included in other comprehensive income	(11)
Others	10
AT DECEMBER 31, 2014	**103**

NOTE 5 SEGMENT REPORTING

The Group is organized into Product Lines, each one dedicated to an area of activity, with its own marketing, development, production and sales resources. The Group has three operating segments as follows:

- Passenger car and Light truck tires and related distribution;
- Truck tires and related distribution; and
- Specialty businesses.

Specialty businesses include the Specialty tire business activities (Earthmover, Agricultural, Two-wheel and Aircraft tires) and the activities Michelin Travel Partner and Michelin Lifestyle.

The operating segment performance is evaluated based on operating income before non-recurring income and expenses, consistently with that of the consolidated income statement.

This measurement basis excludes the effects of non-recurring income and expenses from the operating segments. Group financing (including the cost of net debt and other financial income and expenses), result sharing from associates and income tax are managed on a Group basis and are not allocated to operating segments.

Segment assets consist of goodwill, intangible assets, property, plant and equipment, trade receivables and finished products inventories. Corporate intangible assets and property, plant and equipment are allocated to each segment in proportion of directly attributed assets. The amounts provided to the Managing Chairman with respect to segment assets are measured in a manner consistent with that of the consolidated financial statements. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

No operating liabilities are allocated to the segments in the Group internal reporting.

The segment information is as follows:

	2014				2013			
(in € million)	Passenger car and Light truck tires and related distribution	Truck tires and related distribution [1]	Specialty businesses	Total	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	Specialty businesses	Total
Profit and loss information								
Net sales	10,498	6,082	2,973	**19,553**	10,693	6,425	3,129	**20,247**
Operating income before non-recurring income and expenses	1,101	495	574	**2,170**	1,086	503	645	**2,234**
In percentage of net sales	*10.5%*	*8.1%*	*19.3%*	***11.1%***	*10.2%*	*7.8%*	*20.6%*	***11.0%***
Depreciation and amortization	(590)	(322)	(200)	**(1,112)**	(540)	(326)	(183)	**(1,049)**
Impairment	(4)	1	(1)	**(4)**	(1)	(1)	-	**(2)**
Segment assets								
Intangible assets and PP&E	5,794	3,640	2,084	**11,518**	4,887	3,056	1,851	**9,794**
Finished products inventories	1,313	882	457	**2,652**	1,214	887	425	**2,526**
Trade receivables	1,304	967	298	**2,569**	1,233	982	302	**2,517**
Total of segment assets	**8,411**	**5,489**	**2,839**	**16,739**	**7,334**	**4,925**	**2,578**	**14,837**
Other information								
Capital expenditure	1,034	511	338	**1,883**	977	525	478	**1,980**

(1) Including the activities of Sascar.

Sales between segments are carried at arm's length. The sales to external parties reported to the Managing Chairman are measured in a manner consistent with that in the consolidated income statement.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	December 31, 2014	December 31, 2013
Segment assets	**16,739**	**14,837**
Non-current financial assets and other assets	283	309
Investments in associates and joint ventures	189	195
Deferred tax assets	1,149	1,054
Other net inventories (raw materials and supplies, work in progress)	1,551	1,453
Current financial assets	462	564
Other current assets	883	707
Cash and cash equivalents	1,167	1,563
TOTAL GROUP ASSETS	**22,423**	**20,682**

The geographic information is broken down by zone hereunder:

	2014				2013			
(in € million)	Europe	North America	Other	Total	Europe	North America	Other	Total
Net sales	7,990	6,883	4,680	**19,553**	8,193	7,032	5,022	**20,247**
Intangible assets and PP&E	5,141	2,593	3,784	**11,518**	4,922	2,091	2,781	**9,794**
Capital expenditure	870	533	480	**1,883**	750	624	606	**1,980**

Europe includes western and eastern European countries. North America includes Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in "Other".

The Group sales information is based on the location of the customer.

The net sales in France amounted to €1,924 million (2013: €1,979 million). The intangible assets and PP&E located in France amounted to €2,043 million (2013: €1,971 million).

Approximately 80% of the North American net sales are done in the United States of America during these two years.

No single external customer amounted to 10% or more of the Group net sales in 2014 and 2013.

NOTE 6 EXPENSES BY NATURE

The following recurring items are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Raw materials and consumables used and changes in finished products inventories	(7,344)	(8,144)
Employee benefit costs (note 7)	(5,292)	(5,292)
Transportation of goods	(1,020)	(1,030)
Depreciation, amortization and impairment charges	(1,116)	(1,051)
Other expenses	(2,611)	(2,496)
EXPENSES BY NATURE	**(17,383)**	**(18,013)**

NOTE 7 EMPLOYEE BENEFITS COSTS

The charges for employee benefits are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Wages and salaries	(3,929)	(3,931)
Payroll taxes	(1,110)	(1,096)
Defined benefit plan costs (note 27.1)	(107)	(125)
Defined contribution plan costs (note 27.2)	(139)	(129)
Share-based payments – cost of services rendered (note 25)	(7)	(11)
EMPLOYEE BENEFIT COSTS	**(5,292)**	**(5,292)**

The average number of employees in 2014 is 111,671 (2013: 112,199).

NOTE 8 OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses are recognized within in the income statement:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Net restructuring costs	(12)	15
(Charge)/reversal on impairment of intangible assets and property, plant and equipment	(5)	(2)
Retiree benefit costs	(5)	(9)
Employee shareholder plan cost	-	(18)
Share-based payments – cost of services rendered (note 25)	(7)	(11)
Other operating income/(expenses)	39	(19)
OTHER OPERATING INCOME AND EXPENSES	**10**	**(44)**

NOTE 9 NON-RECURRING INCOME AND EXPENSES

9.1 Year 2014

9.1.1 Canada

The Group announced in March 2014 a significant reduction of tire manufacturing capacity at its Pictou, Canada car and light truck tire plant. The move was in response to a continuing shift in the North American car tire market to larger size tires and the limits of the existing plant (14-, 15-, and 16-inch tires) that would have required investment costs deemed to be too important to adapt its production equipment for the manufacturing of larger size tires.

The global charge corresponding to this operation has been recorded in non-recurring expenses, in the amount of €46 million, which includes costs of the social elements of the reorganization as well as adjustments to the value of employee defined benefits and to the fixed assets of the Company.

9.1.2 Hungary

In June 2014, the Group announced the closure of its truck tire production unit in Budapest. The plant will discontinue its operations in the course of 2015. Despite the efforts made and the productivity gains achieved in recent years, the site has reached its limits in terms of development and competiveness because its urban location is preventing any expansion and because of the excessive amounts of investments required to adapt its machinery.

A provision amounting to €38 million has been recognized in non-recurring expenses corresponding to the social costs of the restructuring, the equipment impairments and the cost necessary to deploy the revitalization plan implemented to help the impacted region.

9.1.3 Logistics and distribution

In the context of the optimization of its European operations, the Group reorganizes its logistic and distribution activities. A provision amounting to €39 million has been recognized in non-recurring items covering the social costs of the restructuring as well as the warehouse and the distribution centre closures.

9.1.4 URSSAF audit

A French subsidiary of the Group received formal claims, by the administration in charge of the social security contribution collection, to pay €97 million (excluding interests and penalties) relating to several grievances.

Certain of these claims, not accepted, and for which the Group has submitted for out-of-court and/or legal settlements, have been provided for an amount of €52 million.

9.2 Year 2013

9.2.1 France

The Group wants to strengthen its competitiveness within the industry and decided to consolidate its French truck tires production into a modernized single facility in La Roche-sur-Yon. The Joué-lès-Tours manufacturing plant, whose truck tires manufacturing activities will cease in 2015, will be refocused on the manufacturing of semi-finished products.

A provision amounting to €115 million, recognized in relation to the shutdown of the truck tire manufacturing site in Joué-lès-Tours, covers essentially the social costs, impairment of unusable equipment and costs to deploy a job revitalization plan for the affected region.

9.2.2 Colombia

The Group has decided to cease in 2013 the industrial activities of its Columbian subsidiary. This entity has never reached the standards of competitiveness due to its small size.

A provision amounting to €93 million covers primarily the social costs and the impairment of unusable equipment.

9.2.3 Algeria

The Group had announced that it would cease the production of truck tires at the Algeria plant, which is too small to be sufficiently competitive, at the end of 2013.

This decision has led to the recognition of a provision amounting to €35 million covering mainly the social costs and the impairment of fixed assets of the subsidiary in Algeria.

The subsidiary disposal plan has been deferred.

NOTE 10 COST OF NET DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

Cost of net debt and other financial income and expenses are broken down in the table below:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Interest expenses	(149)	(153)
Interest income	13	11
Interest rate derivatives	(9)	18
Fees on credit lines	(8)	(9)
Capitalized borrowing costs	23	39
COST OF NET DEBT	**(130)**	**(94)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	27	11
Currency remeasurement (including currency derivatives)	(14)	(5)
Other	(56)	(21)
OTHER FINANCIAL INCOME AND EXPENSES	**(43)**	**(15)**

10.1 Derivatives not accounted for using hedge accounting

As described in the financial risk management policy, the Group financing activities are mostly centralized (note 4.1.2 "Liquidity risk") and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (note 4.1.4 "Interest rate risk"). As a consequence:

- borrowings are essentially raised in Euros (note 26 "Financial liabilities");
- part of these borrowings is subsequently swapped into foreign currencies to finance the foreign subsidiaries; and
- derivatives are contracted to manage the foreign currency interest rates (note 16 "Derivative financial instruments").

This process is described in the summary table in note 4.2.3 "Interest rate risk".

Although these transactions provide effective economic hedges, they do not qualify for hedge accounting under IFRS (and therefore they cannot be recognized as cash flow hedges as described in note 3.5 "Hedging"). Fluctuations in the derivatives' fair values are therefore accounted for in the income statement. The decrease in fair value during the year amounted to €9 million (2013: increase of €19 million) and is included in "Interest rate derivatives" ("Cost of net debt").

10.2 Ineffective hedges

No ineffective portion of fair value hedges was recognized in the income statement (2013: expense of €1 million) in "Interest rate derivatives" ("Cost of net debt"). No cash flow hedge ineffectiveness was recognized in the income statement (2013: nil).

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Current tax expense (note 18.2)	(563)	(515)
Deferred tax income/(expense) (note 18.1)	(57)	(60)
INCOME TAX	**(620)**	**(575)**

Current tax includes €52 million of withholding tax on royalties and distribution of retained earnings between Group companies (2013: €35 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Income before tax	**1,651**	**1,702**
Tax calculated using domestic tax rates applicable to income in the respective countries	**(464)**	**(460)**
Tax effect from:		
▶ untaxed transactions	(9)	45
▶ deferred tax assets not recognized during the year	(73)	(109)
▶ net change in unrecognized deferred tax assets	(21)	12
▶ changes in tax rates	(4)	(5)
▶ taxes with no tax base (tax credits, withholding tax, etc.)	(51)	(5)
▶ other items	2	(53)
INCOME TAX	**(620)**	**(575)**

The Group has operations in various countries that have differing tax laws and rates. The weighted average domestic tax rate of Group companies may therefore vary from year to year depending on the relative size of taxable incomes.

In 2014, the difference between the Group's effective and theoretical tax rates can be explained in particular by deferred tax assets not recognized during the year.

In 2013, the difference between the Group's effective and theoretical tax rates can be explained in particular by the remeasurement of a portion of its deferred tax assets taking into account the tax rate to use within the French tax group. It results in a decrease of €183 million in deferred tax assets with €98 million increasing the deferred income tax charge and €85 million decreasing the comprehensive income. The impact of this remeasurement is included in "Other items" above. The Group has moreover reversed deferred tax liabilities of €32 million related to investments in some of its subsidiaries. The impact of this reversal is included in "Other items" above.

NOTE 12 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing income attributable to the shareholders of the Company by the weighted average number of shares outstanding during the year, excluding shares purchased by the Group and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The Company has three types of dilutive potential shares: convertible bonds (note 26.1 "Bonds and commercial paper"), stock options (note 28.1 "Stock option plans") and performance shares (note 28.2 "Performance share plans"). When at closing date the convertible bonds are dilutives, they are assumed to have been converted into ordinary shares, and net income is adjusted to eliminate the interest expense less the tax effect. For the stock options and when they are dilutives at closing date, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the stock options. Since performance shares are dilutives by definition, the number of shares that are expected to be issued is determined at closing date based on estimate.

Components of the basic and diluted earnings per share calculations are presented in the table below:

	Year ended December 31, 2014	Year ended December 31, 2013
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,031	1,127
▶ Less, estimated grants to the General Partners	(6)	(7)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,025**	**1,120**
▶ Plus, interest expenses on convertible bonds	27	27
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,052**	**1,147**
Weighted average number of shares *(in thousands of shares)* **outstanding used in the calculation of basic earnings per share**	**185,669**	**184,179**
▶ Plus, adjustment for share option plans	685	775
▶ Plus, adjustment for convertible bonds	5,900	6,161
▶ Plus, adjustment for performance shares	754	664
Weighted average number of shares used in the calculation of diluted earnings per share	**193,008**	**191,779**
Earnings per share *(in €)*		
▶ Basic	5.52	6.08
▶ Diluted	5.45	5.98

Since the convertible bonds, as described in the note 26.1 "Bonds and commercial paper", are dilutive in 2014, they have been considered in the calculation of diluted earnings per share. Taking into account the evolution of the average share price in 2014, the stock option plan of May 2007 as described in the note 28.1 "Stock option plans" is antidilutive.

No transaction on shares having an impact on the weighted average number of shares entering in the calculation of basic earnings per share and diluted earnings per share has occurred after the 2014 reporting period.

NOTE 13 GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill and intangible assets are as follows:

(in € million)	Goodwill	Intangibles	Total
Gross carrying amounts at January 1, 2013	**435**	**1,262**	**1,697**
Translation adjustments	(19)	(16)	**(35)**
Additions (including new emission rights: €1 million)	-	139	**139**
Disposals	(7)	(9)	**(16)**
Changes in scope of consolidation	-	-	**-**
Transfers and other	-	6	**6**
Gross carrying amounts at December 31, 2013	**409**	**1,382**	**1,791**
Translation adjustments	(15)	25	**10**
Additions (including new emission rights: €9 million)	-	140	**140**
Disposals	-	(10)	**(10)**
Changes in scope of consolidation	462	103	**565**
Transfers and other	-	7	**7**
Gross carrying amounts at December 31, 2014	**856**	**1,647**	**2,503**
Amortization and impairment at January 1, 2013	**(21)**	**(859)**	**(880)**
Translation adjustments	-	11	**11**
Amortization	-	(83)	**(83)**
Net impairment	-	-	**-**
Disposals	-	4	**4**
Changes in scope of consolidation	-	-	**-**
Transfers and other	-	(4)	**(4)**
Amortization and impairment at December 31, 2013	**(21)**	**(931)**	**(952)**
Translation adjustments	-	(22)	**(22)**
Amortization	-	(99)	**(99)**
Net impairment	-	-	**-**
Disposals	-	4	**4**
Changes in scope of consolidation	-	3	**3**
Transfers and other	-	-	**-**
Amortization and impairment at December 31, 2014	**(21)**	**(1,045)**	**(1,066)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2014	**835**	**602**	**1,437**
Net carrying amounts at December 31, 2013	**388**	**451**	**839**

13.1 Goodwill

The amounts allocated to the CGUs are as follows:

(in € million)	December 31, 2014	December 31, 2013
CGU Passenger car and light truck tires Southeast Asia/Australia	118	104
CGU Passenger car and light truck tires North America	113	103
CGU Passenger car and light truck tires Europe	77	65
CGU Truck tires Europe	68	68
Other CGUs	52	48
Unallocated goodwill (1)	407	-
GOODWILL	**835**	**388**

(1) This amount corresponds to the goodwill recognized in the recent acquisition of Sascar. As at December 31, 2014, studies are ongoing to determine how the benefits that arose from the acquisition will be allocated to the different CGUs.

The impairment tests have been done taking into account the two main following assumptions:

- The terminal value measured with a 1.5% annual growth rate for the CGUs located in mature countries, and a 3.0% annual growth rate for the CGUs located in emerging countries.
- The discount rate used to discount the future cash flows of the CGUs is based on the WACC (Weighted Average Cost of Capital) before tax, which is calculated based on the Capital Asset Pricing Model (CAPM). The rates range between 11.3% and 12.2% and include a specific premium risk for each country. The main market data used to calculate the WACC are: a beta of 1.1, a market premium of 7.3% and a risk free interest rate of 2.8%.

Since the amount of goodwill is low compared to its total balance sheet or to its net equity, the Group does not disclose any sensitivity analysis to the main key assumptions.

13.2 Intangible assets

In 2014, additions to intangible assets, amounting to €140 million (2013: €139 million) break down into the following categories:

- Software €125 million
- Emission rights – allowances granted €9 million
- Other €6 million

The most significant variation in the scope of consolidation is the acquisition of Sascar (note 33 – "Acquisitions and divestments of businesses").

13.2.1 Software

The net carrying amount of software at December 31, 2014 was €392 million (2013: €343 million). Software is initially recognized at cost. Cost includes cost of acquisition or production cost and other cost directly attributable to the acquisition or production.

13.2.2 Emission rights

The allowances granted are recognized as an intangible asset at their price on the grant date. A government grant for the same amount is recognized in liabilities. The expense and the related liability for actual emissions and the income corresponding to the use of the government grant are accounted for using the price in force at the grant date. The balance of the rights granted at December 31, 2014 amounted to 1.9 million metric tons (2013: 1.7 million metric tons) representing a value of €14 million (2013: €16 million). The liability related to actual emissions in 2014 amounts to 0.9 million metric tons (2013: 0.8 million metric tons) representing a value of €6 million (2013: €5 million). It will be offset by the delivery of the allowances granted. Due to delays in the free allocation of allowances by the European Union's Emission Trading Scheme, no rights had been granted to the Group in 2013.

13.2.3 Development costs

In 2014 and 2013, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfil six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

13.3 Impairment of intangible assets

Accumulated impairment losses on intangible assets at December 31, 2014 amounted to €34 million (2013: €35 million).

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment are as follows:

(in € million)	Lands and Buildings	Plant and Industrial Equipment	Other Equipment	Total
Gross carrying amounts at January 1, 2013	**5,051**	**14,490**	**1,423**	**20,964**
Translation adjustments	(185)	(557)	(43)	**(785)**
Additions (including finance leases: nil)	397	1,360	85	**1,842**
Disposals	(79)	(256)	(52)	**(387)**
Changes in scope of consolidation	1	-	-	**1**
Transfers and other	(61)	49	10	**(2)**
Gross carrying amounts at December 31, 2013	**5,124**	**15,086**	**1,423**	**21,633**
Translation adjustments	191	698	40	**929**
Additions (including finance leases: €24 million)	374	1,283	119	**1,776**
Disposals	(17)	(349)	(50)	**(416)**
Changes in scope of consolidation	(3)	30	23	**50**
Transfers and other	103	84	(189)	**(2)**
Gross carrying amounts at December 31, 2014	**5,772**	**16,832**	**1,366**	**23,970**
Depreciation and impairment at January 1, 2013	**(2,299)**	**(9,045)**	**(1,041)**	**(12,385)**
Translation adjustments	66	309	30	**405**
Depreciation	(140)	(760)	(66)	**(966)**
Net impairment	(17)	(58)	(2)	**(77)**
Disposals	64	230	52	**346**
Changes in scope of consolidation	(1)	-	-	**(1)**
Transfers and other	1	(1)	-	**-**
Depreciation and impairment at December 31, 2013	**(2,326)**	**(9,325)**	**(1,027)**	**(12,678)**
Translation adjustments	(85)	(415)	(31)	**(531)**
Depreciation	(152)	(801)	(59)	**(1,012)**
Net impairment	(14)	(7)	(2)	**(23)**
Disposals	10	309	36	**355**
Changes in scope of consolidation	1	3	4	**8**
Transfers and other	(1)	(139)	132	**(8)**
Depreciation and impairment at December 31, 2014	**(2,567)**	**(10,375)**	**(947)**	**(13,889)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2014	**3,205**	**6,457**	**419**	**10,081**
Net carrying amounts at December 31, 2013	**2,798**	**5,761**	**396**	**8,955**

PP&E under construction amounted to €2,208 million (2013: €2,292 million).

Accumulated impairment losses amounted to €220 million (2013: €203 million).

The borrowing costs capitalized in 2014 in PP&E amounted to €23 million (2013: €39 million).

PP&E held under finance leases amounted to €84 million (2013: €76 million). The gross carrying amounts of these assets totalled €130 million (2013: €121 million).

The future minimum payments under finance leases by maturity are shown in the following table:

	December 31, 2014		December 31, 2013	
(in € million)	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	9	9	10	12
Between one and five years	41	47	33	43
More than five years	22	29	16	26
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**72**	**85**	**59**	**81**

NOTE 15 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

The carrying amount of the non-current financial assets and other assets is analyzed in the table below:

(in € million)	December 31, 2014	December 31, 2013
Available-for-sale financial assets (note 15.1)	151	174
Loans and deposits (note 15.2)	61	66
Derivative instruments (note 16.1)	63	65
Other	8	4
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**283**	**309**

15.1 Available-for-sale financial assets

Available-for-sale financial assets consist essentially of a portfolio of shares, which are mostly quoted on a stock exchange.

Movements in the portfolio during the year are broken down in the table below:

(in € million)	2014	2013
At January 1	**174**	**181**
Translation adjustments	5	(2)
Additions	13	20
Disposals	(20)	(4)
Impairment reversal	5	-
Fair value changes	(26)	(21)
AT DECEMBER 31	**151**	**174**

15.2 Loans and deposits

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2014	December 31, 2013
Gross loans and deposits	101	106
Impairments	(40)	(40)
TOTAL	**61**	**66**

The balance includes loans to employees and customers.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note 3.5 "Hedging", some derivatives, while complying with the Group financial risk management policies, do not qualify or have not been designated as hedging instruments for hedge accounting purposes.

16.1 Derivatives recognized in assets

	December 31, 2014		December 31, 2013	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	23	400	5	400
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	1	30	2	50
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	39	585	57	515
▶ Interest-rate derivatives	-	82	1	168
▶ Other derivatives	-	-	-	-
Non-current derivative instruments (note 15)	**63**	**1,097**	**65**	**1,133**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	10	404
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	-	12	2	27
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	9	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	25	1,173	23	1,437
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 21)	**25**	**1,194**	**35**	**1,868**
TOTAL ASSETS	**88**	**2,291**	**100**	**3,001**

The Group grants cash collaterals to mitigate its credit risk associated with its derivative assets. The amount of collaterals received is €72 million as of December 31, 2014 (December 31, 2013: €12 million).

16.2 Derivatives recognized in liabilities

(in € million)	December 31, 2014 Fair values	December 31, 2014 Contractual amounts	December 31, 2013 Fair values	December 31, 2013 Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	4	79	-	64
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	61	601	-	-
▶ Interest-rate derivatives	8	1,261	7	387
▶ Other derivatives	-	-	-	-
Non-current derivative instruments (note 26)	**73**	**1,941**	**7**	**451**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	5	69	1	9
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	2	8	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	38	1,916	15	1,306
▶ Interest-rate derivatives	2	174	1	291
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 26)	**47**	**2,167**	**17**	**1,606**
TOTAL LIABILITIES	**120**	**4,108**	**24**	**2,057**

The Group holds cash collaterals to guarantee its own credit risk associated with its derivatives liabilities. The amount of collaterals paid is €10 million as of December 31, 2014 (December 31, 2013: €15 million).

16.3 Derivative contractual amounts

The Group concluded long term currency derivative contracts with maturities between 1 and 6 years for a total amount of €1,191 million (2013: €631 million). The nominal amounts by major currencies bought against the euro are denominated in USD for €295 million (2013: €1 million), in BRL for €236 million (2013: €65 million), in CNH and CNY for €284 million (2013: €337 million) and in THB for €220 million (2013: €150 million). The maturity of the other currency derivative contracts does not generally exceed one year.

The contractual amounts of the currency derivatives are presented by currency in the table below:

	December 31, 2014						December 31, 2013					
	Currencies purchased forward						Currencies purchased forward					
(in € million)	EUR	USD	THB	BRL	Other	Total	EUR	USD	THB	BRL	Other	Total
Currencies sold forward												
EUR	-	405	288	344	1,057	**2,094**	-	238	166	67	948	**1,419**
USD	244	-	192	43	221	**700**	291	-	147	68	14	**520**
JPY	368	3	2	-	-	**373**	124	12	2	-	-	**138**
CNY	326	96	-	-	30	**452**	150	90	-	-	26	**266**
BRL	164	6	-	-	-	**170**	114	5	-	-	-	**119**
ZAR	62	19	-	-	-	**81**	41	16	-	-	-	**57**
THB	24	41	-	-	2	**67**	147	40	-	-	5	**192**
Other	455	72	1	1	(1)	**528**	654	41	-	-	2	**697**
TOTAL	**1,643**	**642**	**483**	**388**	**1,309**	**4,465**	**1,521**	**442**	**315**	**135**	**995**	**3,408**

Currency hedges in CNY include off-shore derivatives denominated in CNH.

The contractual amounts of other derivative financial instruments are presented by currency and by maturity in the table below:

(in € million)	December 31, 2014 Less than 1 year	Between 1 and 3 years	More than 3 years	Total	December 31, 2013 Less than 1 year	Between 1 and 3 years	More than 3 years	Total
▶ EUR	-	100	1,000	**1,100**	404	-	400	**804**
▶ USD	124	412	41	**577**	291	255	146	**692**
▶ THB	50	100	25	**175**	-	88	66	**154**
▶ INR	-	43	22	**65**	-	-	-	**-**
Interest-rate derivatives	**174**	**655**	**1,088**	**1,917**	**695**	**343**	**612**	**1,650**
▶ EUR	12	1	-	**13**	-	-	-	**-**
▶ USD	4	-	-	**4**	-	-	-	**-**
▶ Other currencies	-	-	-	**-**	-	-	-	**-**
Other derivatives	**16**	**1**	**-**	**17**	**-**	**-**	**-**	**-**
TOTAL	**190**	**656**	**1,088**	**1,934**	**695**	**343**	**612**	**1,650**

At December 31, 2014, the Group has outstanding short term futures contracts with an asset market value of €1 million (2013: liability of €1 million) which has been fully cashed in through the daily margin calls.

NOTE 17 EQUITY METHOD INVESTMENTS

Investments in joint ventures and associates of €189 million (2013: €195 million) include essentially Double Coin Group (Anhui) Warrior Tire Co., Ltd in China, E.A. Juffali & Brothers for Tyres in Saudi Arabia, MC Projects B.V. in the Netherlands and SIPH Group in France.

The financial statements of equity method investments include the following amounts:

(in € million)	2014	2013
Assets	1,007	1,077
Liabilities	468	399
Net sales	1,206	1,154
Net income	(49)	(21)

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the balance sheet are as follows:

(in € million)	December 31, 2014	December 31, 2013
Deferred tax assets	1,149	1,054
Deferred tax liabilities	(95)	(43)
NET DEFERRED TAX ASSET	**1,054**	**1,011**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2014	December 31, 2013
Employee benefits	1,098	939
Inventories	134	102
Financial instruments	125	122
Provisions	96	68
Unused tax losses	31	50
Unused tax credits	15	16
Goodwill & Intangible assets	(52)	19
Property, plant and equipment	(549)	(503)
Other	156	198
NET DEFERRED TAX ASSET	**1,054**	**1,011**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2014	2013
At January 1	**1,011**	**1,421**
Translation adjustments	70	(52)
Deferred tax income/(expense) (note 11)	(57)	(60)
Tax recognized in other comprehensive income	89	(298)
Changes in scope of consolidation	(62)	-
Other	3	-
AT DECEMBER 31	**1,054**	**1,011**

In 2014, excluding the effect of tax recognized in comprehensive income, the reduction in the net deferred tax asset comes essentially from the acquisition of Sascar (note 33 "Acquisitions and divestments of businesses") and from the net reversal of deductible temporary differences in the USA.

In 2013, excluding the effect of tax recognized in comprehensive income, the reduction in net deferred tax asset comes essentially from the remeasurement of the deferred tax assets of one of the Group's tax group (note 11 "Income tax") and from the net reversal of deductible temporary differences in the USA.

The deferred income tax recognized in other items of comprehensive income is as follows:

(in € million)	December 31, 2014	December 31, 2013
Post-employment benefits	494	409
Available-for-sale financial assets	(13)	(19)
Compound financial instruments (convertible bond)	(13)	(14)
TOTAL DEFERRED TAX INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**468**	**376**

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2014	December 31, 2013
Deductible temporary difference	**127**	**103**
Tax losses		
▶ of which expiring in less than one year	5	5
▶ of which expiring between one to five years	65	42
▶ of which expiring in more than five years	54	36
▶ of which no expiration	257	168
Total tax losses	**381**	**251**
Tax credits	**1**	**3**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**509**	**357**

18.2 Current taxes

Current taxes in the balance sheet are as follows:

(in € million)	2014	2013
Taxes receivables (note 22)	162	175
Taxes payables (note 30)	(87)	(97)
Net total at January 1	**75**	**78**
Current tax expense (note 11)	(563)	(515)
Income tax paid	616	516
Translation adjustments and other	6	(4)
Total changes	**59**	**(3)**
Taxes receivables (note 22)	278	162
Taxes payables (note 30)	(144)	(87)
NET TOTAL AT DECEMBER 31	**134**	**75**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2014	December 31, 2013
Raw materials and supplies	1,158	1,145
Work in progress	437	355
Finished goods	2,702	2,572
Total gross inventory	**4,297**	**4,072**
Write-downs on raw materials and supplies	(44)	(46)
Write-downs on work in progress	-	(1)
Write-downs on finished goods	(50)	(46)
Total write-downs	**(94)**	**(93)**
NET INVENTORY	**4,203**	**3,979**

Movements in inventory write-downs were as follows:

(in € million)	2014	2013
At January 1	**(93)**	**(92)**
Translation adjustments and other	(1)	4
Write-downs of inventories recognized as an expense in the period	(49)	(73)
Reversals of write-downs	49	68
AT DECEMBER 31	**(94)**	**(93)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2014	December 31, 2013
Gross trade receivables	2,690	2,611
Impairment	(121)	(94)
TRADE RECEIVABLES	**2,569**	**2,517**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2014:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,335**	**(24)**	**2,311**
Overdue			
▶ from less than three months	231	(4)	227
▶ between three and six months	25	(7)	18
▶ from more than six months	99	(86)	13
Overdue trade receivables	**355**	**(97)**	**258**
TRADE RECEIVABLES	**2,690**	**(121)**	**2,569**

Movements in impairment are broken down in the table below:

(in € million)	2014	2013
At January 1	**(94)**	**(99)**
Translation adjustments	(2)	2
Impairment charges	(45)	(39)
Impairment reversals	34	42
Changes in scope of consolidation	(14)	-
AT DECEMBER 31	**(121)**	**(94)**

Impairment reversals in 2014 include write-offs of €20 million (2013: €27 million).

NOTE 21 CURRENT FINANCIAL ASSETS

The carrying amount of the current financial assets is broken down in the table below:

(in € million)	December 31, 2014	December 31, 2013
Loans and deposits	124	43
Cash management financial assets (note 26)	313	486
Derivative instruments (note 16.1)	25	35
CURRENT FINANCIAL ASSETS	**462**	**564**

The characteristics of the cash management financial assets, although being highly liquid, little affected by the interest rate risk and by the foreign currency risk (mainly invested in Euros or hedged), do not strictly meet those of cash and cash equivalent (note 3.20 "Cash and cash equivalents"). They are therefore accounted for at fair value through profit or loss (note 3.17 "Non derivative financial assets").

NOTE 22 OTHER CURRENT ASSETS

The carrying amount of other current assets is broken down in the table below:

(in € million)	December 31, 2014	December 31, 2013
Suppliers – advances	110	127
Current tax – advance payments	278	162
Other taxes receivable	288	232
Other	216	196
Less impairment	(9)	(10)
OTHER CURRENT ASSETS	**883**	**707**

Other tax receivables mainly relate to VAT.

NOTE 23 CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents is broken down in the table below:

(in € million)	December 31, 2014	December 31, 2013
Cash at bank and in hand	177	200
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)	990	1,363
CASH AND CASH EQUIVALENTS	**1,167**	**1,563**

The average effective interest rate on short-term bank deposits was 0.88% in 2014 (2013: 0.66%).

Cash and cash equivalents are essentially held in Euros (2014: 88% after hedge, 2013: 92%)

Cash and cash equivalents as well as cash management financial assets and borrowing collaterals are essentially managed by the Group central treasury team with the exception of €326 million (2013: €326 million) which are managed directly by the Group companies.

These amounts are less easily available to meet the needs of other Group companies and are related to:

- capital increases made in some companies to finance the capital investments planned in 2015 and/or constraints (foreign exchange control or others) in some countries preventing the immediate availability of the cash held (2014: €45 million, 2013: €84 million); and
- prudential rules in Ireland specific to captive insurance companies (2014: €113 million, 2013: €109 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2013: 182,556,713 shares outstanding	**365**	**3,508**	**3,873**
Issuance of 4,467,601 shares from the partial payment of dividend in shares	9	240	**249**
Cancellation of 1,809,260 shares	(3)	(133)	**(136)**
Issuance of 574,583 shares from the exercise of share options and the delivery of performance shares	1	26	**27**
Transactions on treasury shares (reduction of 30,000 shares)	-	-	**-**
Other (issuance of 6 shares)	-	-	**-**
At December 31, 2013: 185,759,643 shares outstanding	**372**	**3,641**	**4,013**
Issuance of 946,891 shares from the exercise of share options and the delivery of performance shares	2	44	**46**
Cancellation of 1,010,336 shares	(2)	(85)	**(87)**
Transactions on treasury shares (increase of 30,000 shares)	-	-	**-**
Other (issuance of 2 shares)	(1)	1	**-**
AT DECEMBER 31, 2014: 185,726,200 SHARES OUTSTANDING	**371**	**3,601**	**3,972**

The par value per share amounts to €2 (unchanged from 2013). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2014, the dividend payable for the year 2013 to the shareholders was €2.50 per share (2013: €2.40 per share). It has been fully settled in cash for a net amount of €464 million.

In 2013, the settlement was as follows:

- payment in cash for €189 million;
- issuance of new shares for a net amount of €249 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €2.50 per share in 2015 for the year 2014.

NOTE 25 RESERVES

(in € million)	Translation reserve	Other reserves	Retained earnings	Total
At January 1, 2013	**(62)**	**192**	**4,530**	**4,660**
Dividends and other allocations	-	-	(455)	(455)
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	11	11
Transactions on treasury shares (1)	-	(2)	(19)	(21)
Other	-	-	-	-
Transactions with the shareholders of the Company	**-**	**(2)**	**(463)**	**(465)**
Net income/(loss) attributable to the shareholders of the Company	-	-	1,127	1,127
Post-employment benefits	-	-	*573*	*573*
Tax effect – Post-employment benefits	-	-	*(294)*	*(294)*
Other items of comprehensive income that will not be reclassified to income statement	-	-	279	279
Available-for-sale financial assets – change in fair values	-	*(21)*	-	*(21)*
Tax effect – available-for-sale financial assets – change in fair values	-	*(4)*	-	*(4)*
Available-for-sale financial assets – (gain)/loss recognized in income statement	-	-	-	-
Currency translation differences	*(341)*	-	-	*(341)*
Other	-	*(4)*	*6*	*2*
Other items of comprehensive income that may be reclassified to income statement	(341)	(29)	6	(364)
Comprehensive income	**(341)**	**(29)**	**1,412**	**1,042**
At December 31, 2013	**(403)**	**161**	**5,479**	**5,237**
Dividends and other allocations	-	-	(486)	(486)
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	7	7
Transactions on treasury shares (2)	-	2	-	2
Other	-	-	-	-
Transactions with the shareholders of the Company	**-**	**2**	**(479)**	**(477)**
Net income/(loss) attributable to the shareholders of the Company	-	-	1,031	1,031
Post-employment benefits	-	-	*(484)*	*(484)*
Tax effect – Post-employment benefits	-	-	*85*	*85*
Other items of comprehensive income that will not be reclassified to income statement	-	-	(399)	(399)
Available-for-sale financial assets – change in fair values	-	*(26)*	-	*(26)*
Tax effect – available-for-sale financial assets – change in fair values	-	*4*	-	*4*
Available-for-sale financial assets – (gain)/loss recognized in income statement	-	-	-	-
Currency translation differences	*169*	-	-	*169*
Other	*(2)*	*(3)*	*5*	-
Other items of comprehensive income that may be reclassified to income statement	167	(25)	5	147
Comprehensive income	**167**	**(25)**	**637**	**779**
AT DECEMBER 31, 2014	**(236)**	**138**	**5,637**	**5,539**

(1) Purchases of 2,685,194 shares for €207 million; disposals of 845,934 shares for €69 million; and cancellations of 1,809,260 shares for €136 million.
(2) Purchases of 1,000,000 shares for €86 million; disposals of 19,664 shares for €2 million; and cancellations of 1,010,336 shares for €87 million.

The equity part of the OCEANE zero coupon convertible bond (note 26 "Financial debts") amounts to €65 million (2013: €70 million) after tax. It is included in "Other reserves".

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2014	December 31, 2013
Bonds	1,108	1,118
Loans from financial institutions and other	377	273
Finance lease liabilities	63	49
Derivative instruments	73	7
Non-current financial liabilities	**1,621**	**1,447**
Bonds and commercial paper	419	598
Loans from financial institutions and other	251	231
Finance lease liabilities	9	10
Derivative instruments	47	17
Current financial liabilities	**726**	**856**
FINANCIAL LIABILITIES	**2,347**	**2,303**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2014	December 31, 2013
Financial liabilities	2,347	2,303
Derivatives recognized as assets (note 16.1)	(88)	(100)
Borrowing collaterals (note 32.3.2)	(72)	(12)
Cash management financial assets (note 21)	(313)	(486)
Cash and cash equivalents (note 23)	(1,167)	(1,563)
NET DEBT	**707**	**142**

The fair value of non-current financial liabilities, calculated in accordance with note 3.6 “Fair value of financial instruments”, is presented in the table below:

(in € million)	December 31, 2014	December 31, 2013
Bonds	1,091	1,127
Loans from financial institutions and other	377	273
Finance lease liabilities	63	49
Derivative instruments	73	7
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**1,604**	**1,456**

26.1 Bonds and commercial paper

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

	December 31, 2014		December 31, 2013	
(in € million)	Current	Non-current	Current	Non-current
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €400 million (2013: €400 million) ▶ issued in June 2012 and due in June 2019 ▶ nominal interest rate of 2.75% (0.26% after hedging) ▶ hedged through a €400 million interest rate swaps (2013: €400 million) expiring in June 2019 (fair value hedge) (note 16)	-	421	-	406
Liability component of zero-coupon convertible bonds (OCEANE) issued by Compagnie Générale des Établissements Michelin ▶ net proceeds received of €694 million ▶ annual gross yield of 3.07% ▶ effective interest rate of 4.76% at December 31, 2014 ▶ conversion and/or exchange ratio of 1 bond for 1.036 ordinary share ▶ issued in March 2007 and due in January 2017 ▶ amount redeemable at maturity date: €754 million	-	687	-	712
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €404 million (2013: €404 million) ▶ redeemed in April 2014 ▶ nominal interest rate of 8.625% ▶ effective interest rate of 8.63% (6.30% after hedging) in April 2014 ▶ step-up of 125bp if downgraded below investment grade by at least one rating agency ▶ hedged through a €404 million interest rate swaps (2013: €404 million) expired in April 2014 (fair value hedge) (note 16)	-	-	404	-
Commercial paper issued by Compagnie Générale des Établissements Michelin ▶ nominal value of €385 million (2013: €25 million) ▶ effective interest rate of 0.06% at December 31, 2014	385	-	25	-
Commercial paper issued by Compagnie Générale des Établissements Michelin and Michelin Luxembourg SCS ▶ nominal value of $41 million (2013: $233 million) ▶ effective interest rate of 0.21% at December 31, 2014	34	-	169	-
TOTAL	**419**	**1,108**	**598**	**1,118**

At December 31, 2014, the weighted average effective interest rate for bonds and commercial paper is 2.63% (1.86% after hedging).

26.2 Loans from financial institutions and other

Loans from financial institutions and other include mainly amounts drawn on credit lines, borrowings secured by trade receivables as mentioned in note 32.3.3 "Trade receivables" and liabilities arising from put options granted to minority shareholders of subsidiaries.

Loans from financial institutions and other at December 31, 2014 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	BRL	Other	Total
Fixed rates	-	-	116	7	**123**
Floating rates	228	86	106	85	**505**
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**228**	**86**	**222**	**92**	**628**
Average effective interest rate paid in 2014	**0.97%**	**4.27%**	**7.19%**	**7.83%**	**4.55%**

The contractual repricing of the interest rates of these loans is generally less than six months.

26.3 Rating

At December 31, 2014, the corporate credit ratings sought by the Group are as follows:

		CGEM	CFM
Short-term	Standard & Poor's	A-2	A-2
	Moody's	P-2	P-2
Long-term	Standard & Poor's	BBB+	BBB+
	Moody's	Baa1	Baa1
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Stable	Stable

NOTE 27 EMPLOYEE BENEFIT OBLIGATIONS

According to the laws and regulations applicable in each country, as well as in application of its social responsibility policy, the Group takes part in pension, insurance, healthcare and end of service benefits, for which the amount of benefits paid varies based on a number of factors including the employee's years of service, salary, accumulated funds with an independent manager or contributions paid to insurers.

Such plans can be either defined benefit plans or defined contribution plans. In the case of defined benefit plans, Group commitments are measured using the Projected Credit Unit method. These commitments are calculated by independent actuaries. In the case of defined contribution plans, liabilities correspond to the contributions due.

Since 2003 the Group has been closing its defined benefit plans to new entrants and also, in some cases, to future accruals in order to reduce the risk on the Group's balance sheet and has put in place new or improved defined contribution plans.

Since 2005 the Group has a governance body, the Global Employee Benefit Board, that monitors benefits. This Board defines Group policies in term of benefits and ensures that local benefit programs comply with them (validation of the changes, introduction of new benefits, etc.), monitors asset returns and benchmarks, as well as the de-risking policies put in place by local boards or Trustees, and proposes an audit plan. The Board is assisted by two teams, the Global Benefit Policy Team composed of members from the accounting, finance and human resources departments and the Global Benefit Investment Team composed of the chairmen of the investment committees of the main funded pension plans. In countries with substantial benefit obligations similar organization exists.

27.1 Defined Benefit Plans

These plans are retirement plans and retiree healthcare plans, the vast majority of which are now closed to new entrants, even to future accruals, as well as some minor plans such as long service awards or end-of-service benefits.

In Europe, the discount rates are determined using the actuary's yield curve models. These rates are based on the yield of high quality corporate bonds and have the same durations as the liabilities. The discount rate in the USA is based on the actuary's AA Only Bond yield curve rates. The discount rate in Canada is based on the Canadian Institute of Actuaries Canadian Corporate Aa Bond yield curve rates. For countries having several plans (but only one material plan) the assumption of the main plan is used for all plans. For countries having several plans of comparable size different rates can be used depending on the duration of these plans.

The inflation assumptions are set using different methods. In most cases the target inflation set by the central banks are used. In the UK, the market implied inflation rate is also considered (differential between gilts and indexed linked gilts less a spread). In the USA, the cost of living increases for some pensions is set using historical averages.

The salary increase assumptions can be either spreads above inflation (either RPI or CPI) or absolute values. These assumptions take into account expected long-term yearly average salary increases as well as the effects of promotions. In some cases, assumptions by category of personnel can be used.

The post-employment mortality assumptions used for the pension plans which are funded through insured contracts are the insurers' tables. For the other main post-employment plans the following tables have been used: (i) USA: RP-2000 Fully Generational Combined Healthy Tables for Males and Females using Scale BB; (ii) Canada: 95% of CPM 2014 Private – Scale B; (iii) UK: Generational SAPS S2PA CMI 2013 adjusted with 1.25% underpin and (iv) Germany: Heubeck RT 2005 G.

	December 31, 2014				December 31, 2013			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	18.6	21.8	21.9	18.8	18.5	19.1	22.0	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	20.2	22.7	22.9	20.7	20.1	19.1	22.6	20.7
Life expectancy for females at 65 at the end of the reporting period	20.9	24.3	24.7	22.8	20.8	21.6	24.3	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.3	25.1	25.9	24.8	22.2	21.6	25.4	24.8

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2014	December 31, 2013
Present value of fully or partly funded obligations	7,518	-	7,518	6,323
Fair value of plan assets	(6,142)	-	(6,142)	(5,182)
Funded status deficit/(surplus)	**1,376**	**-**	**1,376**	**1,141**
Present value of unfunded obligations	922	2,286	3,208	2,749
Unrecognized asset due to application of asset ceiling	28	-	28	5
NET DEFINED BENEFIT OBLIGATION	**2,326**	**2,286**	**4,612**	**3,895**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			4,612	3,895
NET LIABILITY			**4,612**	**3,895**

At December 31, 2014, the present value of the defined benefit obligation is made up of €4,615 million relating to active employees, €1,094 million relating to deferred members and €5,017 million relating to members in retirement (2013: respectively €4,018 million, €1,028 million and €4,026 million).

At December 31, 2014, the present value of the defined benefit obligation is made up of €8,239 million relating to vested benefits and €2,487 million relating to non-vested benefits (2013: respectively €6,917 million and €2,155 million).

Actuarial gains and losses on post-employment defined benefit plans are recognized in other comprehensive income when they occur.

The Group does not recognize as an asset any surplus in excess of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group immediately recognizes a liability for any surplus resulting from the contributions paid under the MFR which would not be fully recoverable through economic benefits available to the Group.

Any reduction in assets or increase in liabilities resulting from the asset ceiling application is recognized in other comprehensive income.

The movements in net defined benefit obligations recognized in the balance sheet are shown below:

(in € million)	Pension plans	Other plans	2014	2013
At January 1	**1,902**	**1,993**	**3,895**	**4,623**
Contributions paid to the funds	(70)	-	(70)	(185)
Benefits paid directly to the beneficiaries	(28)	(124)	(152)	(146)
Other movements	-	-	-	-
Items recognized in operating income				
Current service cost	64	57	121	133
Actuarial (gains) or losses recognized on other long term benefit plans	-	20	20	(2)
Past service cost resulting from plan amendments	(1)	(6)	(7)	-
Effect of plan curtailments or settlements	(17)	(10)	(27)	(6)
Effect of plan amendments recognized in non-recurring items	12	(1)	11	(14)
Other items	-	-	-	-
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	74	79	153	162
Items recognized in other comprehensive income				
Translation adjustments	78	106	184	(97)
Actuarial (gains) or losses	289	172	461	(574)
Portion of unrecognized asset due to the application of the asset ceiling	23	-	23	1
AT DECEMBER 31	**2,326**	**2,286**	**4,612**	**3,895**

The amount of actuarial gains or losses presented in the statement of comprehensive income and recognized in equity is detailed in the table below:

(in € million)	Pension plans	Other plans	2014	2013
At January 1	**1,236**	**329**	**1,565**	**2,139**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	99	35	134	102
▶ Due to experience	(39)	(69)	(108)	(62)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	763	201	964	(468)
▶ Due to experience	(532)	4	(528)	(147)
Unrecognized asset due to application of asset ceiling	24	-	24	1
AT DECEMBER 31	**1,551**	**500**	**2,051**	**1,565**
Of which actuarial gains or (losses)	*1,521*	*500*	*2,021*	*1,559*
Of which asset ceiling effect	*30*	*-*	*30*	*6*

In 2014, the net amount recognized in the consolidated income statement was an expense of €271 million (2013: expense of €273 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2014	Year ended December 31, 2013
Cost of services rendered during the year	64	57	121	133
Net interest on the defined benefit liability (asset)	74	79	153	162
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	20	20	(2)
Past service cost recognized during the year:				
▶ Due to the introduction of or modifications to defined benefit plans	(1)	(6)	(7)	(6)
▶ Due to curtailments of defined benefit plans	(1)	(10)	(11)	-
Effect of defined benefit plans settlements	(16)	-	(16)	-
Portion of defined benefit expenses recognized within non-recurring restructuring costs	12	(1)	11	(14)
TOTAL RECORDED IN THE INCOME STATEMENT	**132**	**139**	**271**	**273**

Annual charges are determined by independent actuaries at the beginning of each financial year based on the following factors:

- charge corresponding to acquisition of an additional year of rights ("cost of services rendered during the year");
- charge/income corresponding to the discounting adjustment to reflect the impact of the passage of time ("net interest");
- income or charge from annual recognition of actuarial gains or losses on other long term defined benefit plans ("Actuarial (gains) or losses recognized during the year");
- gain/loss resulting from changes or introduction of benefit plans ("past service cost recognized during the year");
- gain/loss resulting from curtailments of any benefit plans ("past service cost recognized during the year");
- gain/loss resulting from settlements of any benefit plans ("settlements").

▶ 27.1.1 Pension plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary.

Under defined benefit plans, future level of benefits are defined by the plan regulations. The valuation of such defined benefit plans is carried out by independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds or insurers specialized in managing these assets. In the case of unfunded plans such as the German pension plans, a provision is made in the consolidated balance sheet.

The main pension plans provided within the Group are as follows:

USA

There is one major defined benefit plan in USA, the Michelin Retirement Plan (MRP). It covers several groups of beneficiaries who participated in inherited plans (Michelin employees, Former Uniroyal Salaried Employees, Former UGTC – BFG Salaried Employees, BFG Wage Employees, UGTC Wage Employees, ASRC Employee). Only the main plan, applicable to Michelin employees is described below. The smaller plans were closed in 2014.

The plan was closed to new entrants as of January 1, 2004. After this date new entrants are enrolled in a defined contribution plan.

Some participants chose to stop participating in the Michelin Retirement Plan as of July 1, 2004 or as of July 1, 2007. Those participants may choose to receive the accrued frozen benefit as an annuity or as a lump sum on retirement. These participants have been enrolled In a defined benefit contribution plan.

For participants that did not choose to stop participating in the Michelin Retirement Plan as of July 1, 2007, accruals will be frozen under the Plan as of December 31, 2016. Those participants may only receive this benefit as an annuity. These participants will be enrolled in a defined contribution plan.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 and have completed at least 10 years of vesting service are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental benefit may be granted for employees reaching age 55 and who have completed 30 years of service until the employee is eligible for social security benefit.

The plan provides a guaranteed monthly benefit at retirement based on a defined formula (with a lower accrual rate on the social security wage bases) that takes into consideration the years of plan membership and total pensionable recurring earnings. Employees can opt for a lump sum instead of an annuity and a majority of them do so.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan's pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides a cost-of-living adjustment of the pension only for employees hired before January 1, 1991.

The plan is funded solely by employer contributions.

Canada

There is one major defined benefit plan in Canada, Michelin Retirement Plan (MRP). There are three other minor defined benefit plans inherited from BFG which are closed to new entrants whose membership is mostly deferred or retired. These plans are not detailed further.

The Michelin Retirement Plan (MRP) was closed to new entrants as from January 1, 2005. After this date new entrants are enrolled in a defined contribution plan. Accruals for most of the participants will be frozen under the plan as of December 31, 2015. These participants will be enrolled in a defined benefit contribution plan.

The plan sets the normal retirement age at 65. However, employees having 30 years of service or who have reached the age 55 are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental bridge is granted for employees having 30 years of service to partially compensate early retirement.

The plan provides a guaranteed monthly annuity at retirement based on a defined formula that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit or a beneficiary pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an annual increase of the pension based on a percentage inferior to Consumer Price Index.

The plan is funded solely by employer contributions.

United Kingdom

The defined benefit retirement plan in the UK is the Michelin Pension and Life Assurance Plan.

The plan was closed to new entrants as from December 6, 2004 and replaced by a defined contribution plan and as of January 1, 2009 it was closed for all future accruals.

Accruals up to December 31, 2008 are frozen but pensions are still linked to the average final salary at retirement.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 are eligible for early retirement with the Group's consent. In the case of early retirement, the accrued benefit is reduced by an actuarial reduction factor.

The plans provide for an annual pension based on the employee's pensionable earnings. Most employees take the maximum amount allowed by tax legislation in the form of a lump sum.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan’s pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an indexation of the pension benefit based on a capped inflation rate.

The plan is funded solely by employer contributions.

Germany

There is one major defined benefit retirement plan in Germany, the *“Versorgungsordnung 1979 (VO 1979)”* of MRW (Michelin Reifenwerke AG).

The plan was closed to new entrants as from January 1, 2000. After this date new entrants are enrolled in defined contribution plans.

The plan sets the normal retirement age at 65.

The plans provide lifetime monthly annuity which are based on the employee pensionable compensation.

A flat rate applies to the compensation exceeding the social security ceiling and an additional rate takes into account the years of service on the total pensionable earnings.

The plan includes provision in case of death in service provisions as well as post-retirement spouse and orphan’s pensions and disability provisions.

There is a legal obligation to adjust every three years the pension annuity by the inflation up to the average increase of the employees’ salaries.

France

There is one major pension defined benefit plan in France, *“Régime de retraite supplémentaire MFPM”*.

In order to be eligible, employees must reach 10 years of service and be present at the retirement date.

This plan had been set up in 1996 in order to grant an additional retirement benefit to all employees when the retirement replacement ratio of the mandatory state plans is below the trigger threshold of 55%. At this point an additional benefit is calculated based on service and pensionable earnings (capped additional plan).

If mandatory state pension plus additional benefit from this plan reaches 55% of pensionable salary, the annuity paid by the plan is capped at this level. Closure of the plan was not possible for new entrants therefore as from January 1, 2013, the threshold of 55% is decreasing progressively until 2046 where it will be nil. In return, employees participate to a defined contribution plan (Article 83) and can also participate in other defined contribution plans.

The plan includes provision in case of post-retirement spouse’s pensions and disability provisions.

Plan is insured for the retirees and covered by two insurance companies.

Adjustments or increase of annuity are possible but not automatic and are based on the reserves available.

The following table analyzes changes in the financial position of the Group defined benefit pension plans:

	2014				2013			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	3,486	3,553	40	**7,079**	4,031	3,483	49	**7,563**
Translation adjustments	378	152	-	**530**	(227)	(33)	(5)	**(265)**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Current service cost	33	28	-	**61**	38	27	1	**66**
Interest cost on the defined benefit obligation	174	148	2	**324**	140	132	3	**275**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	8	-	-	**8**	(26)	-	-	**(26)**
▶ Past service cost due to curtailments of defined benefit plans	4	(1)	-	**3**	-	-	-	**-**
▶ (Gains) or losses on settlements of defined benefit plans	(18)	-	-	**(18)**	-	-	-	**-**
Benefits paid	(260)	(147)	1	**(406)**	(230)	(140)	1	**(369)**
Other items	-	(1)	-	**(1)**	-	2	2	**4**
Actuarial (gains) or losses generated during the year	325	533	2	**860**	(240)	82	(11)	**(169)**
Present value of the obligations at the end of the year	**4,130**	**4,265**	**45**	**8,440**	**3,486**	**3,553**	**40**	**7,079**
Fair value of plan assets at the beginning of the year	3,056	2,103	23	**5,182**	3,162	2,007	26	**5,195**
Translation adjustments	325	127	-	**452**	(181)	(27)	(4)	**(212)**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Interest income on plan assets	150	95	2	**247**	109	82	2	**193**
Contributions paid to the plans	49	21	1	**71**	83	102	1	**186**
Administration costs	-	(5)	-	**(5)**	-	(4)	-	**(4)**
Benefits paid by the plans	(258)	(120)	2	**(376)**	(230)	(114)	1	**(343)**
Other items	-	-	-	**-**	-	-	(1)	**(1)**
Actual return on plan assets excluding interest income	409	162	-	**571**	113	57	(2)	**168**
Fair value of plan assets at the end of the year	**3,731**	**2,383**	**28**	**6,142**	**3,056**	**2,103**	**23**	**5,182**
Deficit/(Surplus) at the end of the year	**399**	**1,882**	**17**	**2,298**	**430**	**1,450**	**17**	**1,897**
Deferred items at the beginning of the year	(5)	-	-	**(5)**	(4)	-	-	**(4)**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Unrecognized asset due to application of the asset ceiling generated during the year	(23)	-	-	**(23)**	(1)	-	-	**(1)**
Deferred items at the end of the year	**(28)**	**-**	**-**	**(28)**	**(5)**	**-**	**-**	**(5)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**427**	**1,882**	**17**	**2,326**	**435**	**1,450**	**17**	**1,902**

In 2014, the Group announced a significant reduction of tire manufacturing capacity at its Pictou plant, Canada (note 9.1.1.). The impact of this restructuring on the Canadian pension plan results in a curtailment and a past service cost for a global amount of €12 million recognized in non-recurring expenses.

In 2014, the Group has decided to offer the possibility to the US pension plan participants to get their pension in form of a lump sum generating a partial settlement of the plan amounting to an income of €16 million recognized in operating income before non-recurring expenses and income.

For Canadian pension plans, the Group does not have any rights to a refund of the plan surplus. The economic benefits available are measured as the present value of future service cost. These pension plans are subject to a minimum funding requirement. The surplus recognized as an asset is the sum of:

- any prepaid amount that would reduce the future minimum funding requirement; and
- the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service.

Any amount exceeding this limit is immediately recognized within the other comprehensive income.

In 2014, the amount recognized resulting from the effect of the asset ceiling was to €23 million (2013: €1 million).

In 2014, the present value of defined benefit pension obligations increased by €1,361 million. This change was due to:

(in € million)	2014	2013
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(530)	265
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(860)	169
Difference between the costs (service cost and interest cost) and the benefits paid during the year	21	28
Changes in plan regulations	7	26
Changes in the scope of consolidation	-	-
Other items	1	(4)

The fair value of plan assets amounted to €6,142 million at December 31, 2014, showing an increase of €960 million compared to December 31, 2013. The factors behind this variation were as follows:

(in € million)	2014	2013
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	452	(212)
Difference between the contributions paid to the funds and the benefits paid by the funds	(310)	(162)
Actual return on plan assets	818	361
Changes in the scope of consolidation	-	-
Other items	-	-

The present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan and the experience adjustments are as follows for 2014 and the previous four periods:

(in € million)	2014	2013	2012	2011	2010
Defined benefit obligation	(8,440)	(7,079)	(7,563)	(6,634)	(5,981)
Plan assets	6,142	5,182	5,195	4,810	4,681
SURPLUS/(DEFICIT)	**(2,298)**	**(1,897)**	**(2,368)**	**(1,824)**	**(1,300)**
Experience adjustment to:					
▶ plan liabilities	32	(43)	(60)	8	86
▶ plan assets	538	166	227	(58)	191

The experience adjustments in percentage of the present value of the obligation and the fair value of plan assets are presented in the table below:

	2014	2013	2012	2011	2010
Experience adjustment to:					
▶ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.38%	0.61%	0.79%	-0.12%	-1.44%
▶ to the plan assets in percentage of the fair value of the assets	8.76%	3.20%	4.37%	-1.21%	4.08%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2014			December 31, 2013		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.97%	3.15%	11.50%	4.57%	4.05%	11.30%
Inflation rate	2.36%	2.71%	5.00%	2.36%	2.77%	4.50%
Rate of salary increases	2.88%	2.94%	6.42%	2.87%	3.07%	6.73%
Weighted average duration of the defined benefit obligation	13.0	15.6	11.9	13.5	15.2	14.0

The discount rates, salary increase and inflation are the main financial assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported.

All actuaries provide for each plan sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

For the sensitivity of the fair market value of plan assets due to the interest rates movement it is considered that all the yield curve is moving up or down by 0.5 point and only the value of the bonds are impacted, all other assets keeping their value. The sensitivity indicated is the overall change of the value of the total portfolio due to the change in the interest rates.

A 0.5-point shift in these rates, while holding all other assumptions constant, compared to those used for 2014 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.69%	7.36%
Discount rate on the aggregate of current service cost and interest cost on the obligation	3.63%	-4.54%
Inflation rate on the defined benefit obligation (DBO)	4.97%	-4.59%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	4.85%	-4.47%
Salary increase rate on the defined benefit obligation (DBO)	1.28%	-1.10%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	1.87%	-1.55%
Interest rates on the fair market value of plan assets	-4.07%	4.46%

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

	Year ended December 31, 2014				Year ended December 31, 2013			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	30	32	2	**64**	40	30	2	**72**
Interest cost on the defined benefit obligation	161	144	3	**308**	147	131	3	**281**
Interest income on plan assets	(139)	(92)	(3)	**(234)**	(114)	(80)	(3)	**(197)**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	**-**	-	-	-	**-**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	(1)	-	-	**(1)**	(28)	-	-	**(28)**
▶ Due to curtailments of defined benefit plans	-	(1)	-	**(1)**	-	-	-	**-**
Effect of defined benefit plans settlements	(16)	-	-	**(16)**	-	-	-	**-**
Portion of defined benefit expenses recognized within non-recurring restructuring costs	12	-	-	**12**	-	-	2	**2**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**47**	**83**	**2**	**132**	**45**	**81**	**4**	**130**
Actual return on plan assets	**559**	**257**	**3**	**819**	**221**	**139**	**(1)**	**359**

The asset allocation of fully and partly funded pension plans is as follows:

	December 31, 2014					December 31, 2013				
	Canada	USA	UK	Other	Total	Canada	USA	UK	Other	Total
Quoted securities										
Local equities	5.6%	16.0%	4.3%	2.4%	**9.4%**	7.5%	16.6%	6.1%	2.2%	**10.6%**
Foreign and global equities	10.8%	10.2%	14.5%	0.0%	**11.5%**	13.3%	12.0%	18.2%	0.0%	**14.0%**
Alternative investments	7.8%	7.9%	21.5%	0.0%	**12.4%**	7.9%	8.4%	23.4%	0.4%	**13.5%**
Real estate	0.0%	0.0%	7.2%	0.0%	**2.6%**	0.0%	0.0%	7.1%	0.2%	**2.6%**
Indexed linked bonds	0.2%	0.0%	8.8%	2.2%	**3.3%**	0.1%	0.0%	7.6%	0.0%	**2.8%**
Fixed income government and agencies	17.9%	5.7%	8.4%	4.2%	**11.1%**	16.6%	6.6%	8.0%	0.0%	**11.4%**
Corporate bonds	10.0%	23.2%	10.8%	2.6%	**15.7%**	9.7%	23.8%	8.6%	0.0%	**14.8%**
Other fixed income, multi-asset credit, emerging market bonds	30.7%	24.0%	19.2%	0.1%	**20.3%**	25.6%	20.3%	16.4%	8.0%	**16.4%**
Cash & cash equivalent	2.1%	3.2%	1.8%	0.8%	**2.4%**	2.5%	1.7%	3.1%	19.5%	**3.3%**
Total quoted securities	**85.1%**	**90.2%**	**96.5%**	**12.3%**	**88.7%**	**83.2%**	**89.4%**	**98.5%**	**30.3%**	**89.4%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	87.7%	**3.2%**	0.0%	0.0%	0.0%	69.1%	**2.8%**
Private placements (1)	7.0%	4.2%	3.5%	0.0%	**4.3%**	8.8%	5.2%	1.5%	0.6%	**4.2%**
Real estate	7.9%	5.6%	0.0%	0.0%	**3.8%**	8.0%	5.4%	0.0%	0.0%	**3.6%**
Total non-quoted securities	**14.9%**	**9.8%**	**3.5%**	**87.7%**	**11.3%**	**16.8%**	**10.6%**	**1.5%**	**69.7%**	**10.6%**
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Duration in years of the bond portfolio, excluding cash & cash equivalents	**19.9**	**18.1**	**15.6**	**N/A**	**16.9**	**19.2**	**17.3**	**16.8**	**N/A**	**16.7**

(1) Hedge funds and private equity.

In the above allocation, assets reported under "Quoted Securities" are assets which have a regular market value at which such assets can be sold and the ones under "Non-Quoted Securities" are assets managed by insurance companies and less liquid assets which could be sold at a discounted price.

An internal group of experts, composed by the chairmen of the main investment committees and Group specialists, has issued investment guidelines for the use of the local investment committees giving the investment best practices. Among other issues, these guidelines state not to invest directly in any Michelin securities or in any properties used by the Group. Fund managers do not have such restrictions. The Group has no significant amount invested in its own securities. Michelin does not occupy or use any of the real estate assets included in the various portfolios. Detailed information is not available about the underlying assets held in general insurance funds or alternative investments.

Alternative investments are composed of hedge funds and some funds of hedge funds. In the UK there are also diversified growth funds for which the managers can switch between main asset classes depending on market conditions. This kind of investment is expected to have an equity-like return for a lower volatility.

Other fixed income are composed of emerging market bonds, commingled funds, liability hedging portfolios for which the managers invest in government and corporate bonds as well as in derivatives, as well as in multi asset credit in the UK for which the managers can switch between main credit products depending on market conditions. This kind of investment is expected to have a corporate bonds like return with a lower volatility due to its diversification to asset backed securities, loans, high yield bonds as well as cash, government and corporate bonds.

For the UK portfolio the real estate investment is an investment into a Limited Price Index Property Fund with long term leases which is expected to hedge inflation risk.

In most countries assets are managed by local independent boards which are required under local pension laws. The boards are required by their articles of association as well as by law to act in the best interest of the fund and of all relevant stakeholders in the plan, *i.e.* current and future beneficiaries as well as employers.

Asset allocation studies are performed periodically, generally every three to five years, by an independent fiduciary body (Investment Board, Board of Trustees) based on recommendations made by independent advisors (actuaries, consultants, investment management firms). The asset allocation takes into account the structure of employee-related liabilities and their terms. In case of a large rise in funding ratio such asset allocation study should be performed to ensure the target allocation is still appropriate.

The largest pension plans have implemented a dynamic asset allocation, where the target asset allocations are based on plan funded status. An improvement in funding status results in the de-risking of the portfolios, allocating more funds to liability hedging assets (LHA) and less to return seeking assets (RSA). In case of a decrease of the funding ratio the target allocation remains unchanged, as re-risking of the portfolios is not permitted.

The RSA are diversified with the objective to target efficient portfolios where the level of volatility is minimized for the targeted return. These portfolios combine domestic and global equities with real estate and alternative assets such as hedge funds and private placements. Special attention is given to lower liquid asset classes which may complicate the de-risking process by creating concentrated positions or requiring transactions at discounted prices.

The LHA are hedging the duration risk as well as in some cases the credit spread and inflation risk. The LHA portfolios are primarily composed of government and corporate bonds. The larger plans also use completion managers to implement custom solutions in order to hedge key rate duration according to the policy set by each pension fund.

Foreign exchange risks might be covered when the exposure to foreign currency is considered as non-negligible. For instance the UK fund has a large exposure to non UK equities and has a policy to hedge 75% of its foreign currencies. In other cases, investment managers are given discretion to hedge currency exposure as they deem necessary.

Group contributions to pension plans and benefit payments made by these plans in 2014 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Contributions paid and benefits paid directly by the Group				
2014	48	48	3	**99**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2015	49	90	1	**140**
2016	15	107	-	**122**
2017	15	115	1	**131**
2018	29	105	-	**134**
2019	93	93	-	**186**
2020-2024	392	555	2	**949**

The Group makes contributions to fully and partly funded plans in order to meet its future benefit payment obligations to the beneficiaries. The level of contributions is periodically determined by the Group based on factors such as current funding levels, legal and tax considerations and local practice, in consultation, as the case may be, with local boards and actuaries.

In the US the following year contribution is determined annually using IRS rules including temporary funding relief provided by HATFA (Highway and Transportation Funding Act of 2014) legislation.

In Canada the contributions are determined on a tri-annual base and the funding plan is spread over five years as required under local regulations.

In the UK the contributions are determined based on tri-annual actuarial valuations as required by the Pension Act. In case of deficit the employer must agree a recovery plan with the Trustees. The current Recovery Plan matures in 2027.

In 2014, in addition to the ordinary contributions, it was decided to make a contribution in advance due in January 2015: €13 million in Canada.

In the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly via the relevant administrators.

The estimates of future payments for unfunded plans are based on data included in the calculation of the projected defined benefit obligation based on expected leaving dates each year. The same method is used for the constitutive funds for partially funded plans paid to insurance companies. For funded plans, the estimates of future contributions take into account the changes in regulations that are known to date (Pension Protection Act 2006 in the US and Pension Act 2004 in the UK).

27.1.2 Other Defined Benefit Plans

In many countries, Group employees receive other post-employment benefits and long-term benefits throughout their term of employment. The "other post-employment benefits" mainly include health insurance and end of service benefit. The "Other defined benefit plans" are mainly found in the United States, Canada and France. "Other long-term benefits" include deferred compensation plans that are mandatory in the countries where the Group operates or provided for under local company-specific agreements. Such defined benefit plans generally concern the Group European companies and are based on seniority.

As in the case of the above-described defined benefit plans, "other defined benefit plans" are valued by independent actuaries using actuarial techniques. The obligations under these plans are not covered by assets and are recognized as liabilities.

The main plans provided within the Group are:

USA

The Group offers retiree medical benefits that provide healthcare coverage for Pre-Medicare and Medicare eligible retirees and their dependents.

Eligible retirees are mainly those who were active prior to January 1, 2004 and will have at least 10 years of service at the date of retirement.

For the Medicare retirees, the health care coverage comes as an addition to the Medicare basis.

Medical and prescription drug expenses are covered by the plan. The retirees contribute to the cost of the post-retirement medical plan.

The Group pays a premium for the administrative services. This plan is not pre-funded

Canada

The Group offers retiree medical benefits that provide healthcare coverage for certain retirees and their dependents. Medical and prescription drug expenses are covered by the plan.

This plan was closed to new entrants as from January 1, 2005.

The Group pays a premium for the administrative services. This plan is not pre-funded.

France

The main plan is a mandatory rubber branch end-of-service benefit plan.

The plan provides that a lump sum payment is made upon retirement for employees being present at the retirement date. The normal age of retirement is 65. The calculation of the lump sum corresponds to a number of months of salary based on years of service at the time of retirement.

This plan is not pre-funded.

Changes in the financial position of "other defined benefit plans" are as follows:

	December 31, 2014				December 31, 2013			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	946	1,024	23	**1,993**	1,222	999	31	**2,252**
Translation adjustments	105	-	1	**106**	(66)	-	(4)	**(70)**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Current service cost	12	42	2	**56**	14	42	2	**58**
Interest cost on the defined benefit obligation	47	34	2	**83**	43	32	2	**77**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	-	(7)	1	**(6)**	(1)	23	-	**22**
▶ Past service cost due to curtailments of defined benefit plans	1	(12)	-	**(11)**	-	(16)	-	**(16)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Benefits paid	(55)	(71)	(1)	**(127)**	(57)	(56)	(1)	**(114)**
Other items	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	39	149	4	**192**	(209)	-	(7)	**(216)**
Present value of the obligations at the end of the year	**1,095**	**1,159**	**32**	**2,286**	**946**	**1,024**	**23**	**1,993**
Fair value of plan assets at the beginning of the year	-	-	-	**-**	-	-	-	**-**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Contributions paid to the plans	-	-	-	**-**	-	-	-	**-**
Administration costs	-	-	-	**-**	-	-	-	**-**
Benefits paid by the plans	-	-	-	**-**	-	-	-	**-**
Other items	-	-	-	**-**	-	-	-	**-**
Actual return on plan assets excluding interest income	-	-	-	**-**	-	-	-	**-**
Fair value of plan assets at the end of the year	-	-	-	**-**	**-**	**-**	**-**	**-**
Deficit/(surplus) at the end of the year	**1,095**	**1,159**	**32**	**2,286**	**946**	**1,024**	**23**	**1,993**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**1,095**	**1,159**	**32**	**2,286**	**946**	**1,024**	**23**	**1,993**

The calculation formula of the benefit offered by the jubilee plan in Italy has been changed generating a past service cost amounting to €7 million recognized as an income within the operating income before non-recurring expenses and income.

A curtailment on the whole of the defined benefit plans in France, linked to the restructuring of Joué-les-Tours, has been recognized for an amount of €11 million as an income within the operating income before non-recurring expenses and income. At the same time, a provision for restructuring has been recognized in the expenses within the operating income before non-recurring expenses and income for an equivalent amount.

In 2014 the present value of "other defined benefit plans" increase by € 293 million, due to:

	2014	2013
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(106)	70
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(192)	216
Difference between the costs (service cost and interest cost) and the benefits paid during the year	(12)	(21)
Changes in plan regulations	17	(6)
Changes in the scope of consolidation	-	-
Other items	-	-

The present value of the defined benefit obligation and experience adjustments are as follows for 2014 and the previous four periods:

(in € million)	2014	2013	2012	2011	2010
Defined benefit obligation	(2,286)	(1,993)	(2,252)	(1,920)	(1,662)
Experience adjustments to plan liabilities	65	86	5	3	27
Experience adjustments to plan liabilities *(in % of present value of the obligation (DBO))*	2.84%	4.32%	0.22%	0.16%	1.62%

The main actuarial weighted average assumptions used to measure obligations for "other defined benefit plans" are as follows:

	December 31, 2014			December 31, 2013		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.97%	2.11%	7.19%	4.58%	3.34%	7.72%
Weighted average duration of the defined benefit obligation	13.6	11.9	10.4	13.9	11.3	10.4

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2014		December 31, 2013	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.33%	5.25%	7.50%	5.37%
Minimum long-term rate of annual growth in healthcare costs	5.00%	4.25%	5.00%	4.25%
Year in which the minimum growth rate will be achieved	2021	2023	2019	2023

The discount rate and the assumed health care cost trend rate are the main assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported. All actuaries provide for each plan sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and Cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

A 0.5-point shift in these rates, all else otherwise being equal, compared to those used for 2014 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-5.98%	6.56%
Discount rate on the aggregate of current service cost and interest cost on the obligation	0.67%	-0.88%
Healthcare cost trend on the healthcare defined benefit obligation	5.83%	-5.16%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	6.18%	-5.38%

Net income and expenses recognized in the income statement are as follows:

	Year ended December 31, 2014				Year ended December 31, 2013			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	11	42	4	**57**	15	44	2	**61**
Interest cost on the defined benefit obligation	43	34	2	**79**	44	32	2	**78**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	20	-	**20**	-	(2)	-	**(2)**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	-	(7)	1	**(6)**	(1)	23	-	**22**
▶ Due to curtailments of defined benefit plans	-	(10)	-	**(10)**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	-	-	**-**
Portion of defined benefit expenses recognized within non-recurring restructuring costs	1	(2)	-	**(1)**	-	(16)	-	**(16)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**55**	**77**	**7**	**139**	**58**	**81**	**4**	**143**

Group payments made under "other defined benefit plans" in 2014 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2014	50	72	2	**124**
Estimates of benefit payments to be made				
2015	57	47	4	**108**
2016	59	62	2	**123**
2017	60	70	2	**132**
2018	61	61	2	**124**
2019	62	63	2	**127**
2020-2024	306	461	13	**780**

For unfunded plans, such payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators.

27.2 Defined contribution plans

In some Group companies, employees are covered by defined contribution plans. Such plans mainly provide benefits in addition to those of mandatory post-employment plans.

In 2014, the contributions paid to defined contribution plans and expensed amounted to €139 million (2013: €129 million).

These plans are mainly found in the United States of America, Canada, the United Kingdom and France.

USA

The defined contribution plans in the United States consist of the Michelin Retirement Account Plan (MRAP) and various 401(k) plans. The MRAP plan is fully funded by employer contributions. The contribution levels are based on age and years of service. The 401(k) plans are voluntary and are funded by employee contributions with employer matching contributions. In both the MRAP and 401(k) plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment Committee under the authority of the US Pension Board.

Canada

The defined contribution plans in Canada consist of the Defined Contribution Plan for the Employees of Michelin North America (Canada) Inc. and Participating Employers, and a registered retirement savings plan (RRSP). The defined contribution plan is funded by core employer contributions and optional employee contributions with employer matching. The core contribution levels are based on years of service and/or age. The RRSP plan is voluntary and is funded by employee contributions with employer matching contributions. In both the DC and RRSP plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment Committee under the authority of the US Pension Board.

United Kingdom

The main defined contribution pension plan in UK is the Michelin Pension and Life Assurance plan DC section (for Michelin and ATS employees). It has been implemented as from December 1, 2004 for the new entrants and for January 1, 2009 for all employees who did not opt out.

For Michelin employees, there are employee and employer contributions to this Plan which are based on a percentage of the eligible pay and age of the employee. Employees may also make optional contributions to the plan and the Group will match some of these optional contributions.

For ATS employees, there are employee and employer contributions. The range of contribution is chosen by the employee and matched by the employer. Contributions are a flat rate whatever the age of the employee.

All contributions to the plan are held in a Pension Account in a Trust. The employees choose how to invest these contributions among the different options made available for the Plan. The asset allocation choices are determined and monitored by the Board of Trustees.

France

There are two defined contribution pension schemes in France: the "Article 83" scheme and the "PERCO".

The defined-contributions "Article 83" retirement savings plan has been implemented as from January 1, 2012 in order to replace the defined benefit plan which will be progressively terminated. It is a mandatory retirement plan for all employees of the French companies concerned by the applicable agreement. Contributions are paid by the employee and the employer on the gross annual salary capped. An individual account is opened on the name of each employee. The employee can claim his additional retirement benefit at the date he is entitled to his pension in a compulsory retirement scheme.

The PERCO has been implemented on June 1, 2007 and revised as from January 1, 2012. It is a voluntary pension saving plan. Each employee can contribute to this plan and the Group will match the voluntary contributions made by the employee up to a cap.

NOTE 28 SHARE-BASED PAYMENTS

28.1 Stock option plans

Changes in the number of options granted under stock option plans and their weighted average exercise price are as follows:

	2014		2013	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**63.98**	**3,635,116**	**62.04**	**4,254,190**
Granted	-	-	-	-
Forfeited	60.56	(25,338)	75.52	(45,779)
Exercised	53.25	(866,320)	48.61	(573,295)
AT DECEMBER 31	**67.41**	**2,743,458**	**63.98**	**3,635,116**

2,349,432 of the 2,743,458 options outstanding as at December 31, 2014 are exercisable (2013: 2,980,002 in total and 3,635,116 exercisable).

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2014		December 31, 2013	
Grant dates	Vesting dates	Expiry dates	Exercise prices *(in € per option)*	Number of options outstanding	Exercise prices *(in € per option)*	Number of options outstanding
May 2005	May 2009	May 2014	46.34	-	46.34	33,088
November 2005	November 2009	November 2014	46.34	-	46.34	254,775
May 2006	May 2010	May 2015	55.99	40,718	55.99	84,663
May 2007	May 2011	May 2016	87.85	1,052,978	87.85	1,130,347
May 2008	May 2012	May 2017	59.85	204,672	59.85	243,878
November 2009	November 2013	November 2018	51.16	836,800	51.16	1,233,251
May 2010	May 2014	May 2019	52.13	214,264	52.13	260,138
May 2011	May 2015	May 2020	66.00	252,900	66.00	252,900
June 2012	June 2016	June 2021	51.16	141,126	51.16	142,076
NUMBER OF STOCK OPTIONS OUTSTANDING				**2,743,458**		**3,635,116**

28.2 Performance share plans

Changes in the number of performance share rights are as follows:

	2014	2013
	Number of outstanding performance share rights	Number of outstanding performance share rights
At January 1	**733,712**	**657,784**
Granted	396,718	81,400
Forfeited	(42,061)	(4,184)
Shares delivered	(80,571)	(1,288)
AT DECEMBER 31	**1,007,798**	**733,712**

In November 2014, 396,718 rights to performance shares of the Company have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2018 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (Group net sales growth percentage, increase in operating income, rate of return on capital employed and employee engagement level) are met. The fair value of a right to a performance share is estimated at €63.05. This fair value is based on the share price at the grant date, less the present value of expected dividends that will not be received by grantees during the vesting period. The total cost for the plans issued in 2014 is estimated at €19 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2014 Number of outstanding performance share rights	December 31, 2013 Number of outstanding performance share rights
	France	Other countries	France	Other countries	France	Other countries		
2011	2014	2015	2 years	None	37.49	35.49	163,008	282,632
2012	2015	2016	2 years	None	61.87	59.46	366,672	369,680
2013	2017	2017	None	None	69.43	69.43	81,400	81,400
2014	2018	2018	None	None	63.05	63.05	288,426	-
2014	2018	2018	None	None	63.05	63.05	108,292	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**1,007,798**	**733,712**

The expense recognized in 2014 for the performance share plans amounts to €6 million (2013: €7 million) and is included in "Other operating income and expenses".

28.3 Employee share purchase plans in 2013

In 2013, the Group launched a share offer for all its employees located in countries where the legal and fiscal requirements are met. This share purchase plan (Bib'Action), carried out under the Company savings plan *(Plan d'Épargne Groupe),* is a standard plan which employees invest in Michelin shares at a discount price. The shares acquired by the employees participating in the plan cannot be sold or transferred during a five-year period.

845,934 shares were purchased at a price including a discount to the reference price corresponding to the average over 20 trading days preceding the date the price is set.

The global expense recognized in income statement by the Group in relation with this plan amount to €18 million after deduction of the effect of the five-year restriction.

The main features of the plan and the assumptions used for the valuation of the cost linked to the shares acquired by the Group employees are as follows:

Maturity of the plan	5 years
Number of shares subscribed	845,934
Reference price *(in €)*	80.05
Subscription price *(in €)*	64.05
Five-year risk-free rate (1)	0.74%
Five-year market participant rate (2)	7.21%
Dividend yield	3.00%
Cost of the lock-up period *(in % of the reference price)*	26.75%
Cost recognized *(in € per share)*	**20.48**

(1) The risk-free interest rate is based on the yield on the French government debt with the appropriate maturity.
(2) The five-year market participant rate is an average of non affected 5-year individual loan rates.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions and other long-term liabilities amount to €1,476 million (2013: €1,184 million and include restructuring and litigation provisions as well as other provisions and long-term liabilities.

Movements in provisions during the year:

(in € million)	Restructuring	Litigation	Other provisions	Total
At January 1, 2014	**188**	**193**	**63**	**444**
Additional provisions	97	187	114	**398**
Provisions utilized during the year	(77)	(140)	(30)	**(247)**
Unused provisions reversed during the year	(3)	-	(3)	**(6)**
Translation adjustments	-	2	(7)	**(5)**
Other effects	1	(1)	-	**-**
AT DECEMBER 31, 2014	**206**	**241**	**137**	**584**

29.1 Restructuring

At December 31, 2014, the remaining restructuring provisions were related to restructuring taking place in the following countries:

	December 31, 2014	December 31, 2013
Spain	25	30
France	113	113
Canada	19	3
Hungary	24	-
Italy	6	6
Columbia	5	19
Other countries	14	17
RESTRUCTURING PROVISIONS	**206**	**188**

29.2 Other provisions

These amounts represent the risks arising from a commercial, technical, tax or social origin and have been identified by the Group with regard to its clients, suppliers and other third parties. These risks arise in the course of the Group ordinary activities.

NOTE 30 OTHER CURRENT LIABILITIES

The carrying amount of other current liabilities is presented in the table below:

(in € million)	December 31, 2014	December 31, 2013
Customers – Deferred rebates	935	863
Employee benefits	474	439
Social security liabilities	223	240
Restructuring liabilities	14	18
Current income tax payable	144	87
Other taxes	163	156
Other	255	228
OTHER CURRENT LIABILITIES	**2,208**	**2,031**

NOTE 31 DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flows are presented in the table below:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
(Gains)/losses on disposal of non-financial assets	6	(6)
Other	(1)	(8)
Other non-cash income and expenses	**5**	**(14)**
Change in employee benefit obligations	(117)	(206)
Change in restructuring provisions	(64)	(132)
Change in litigation and other provisions	(10)	16
Change in provisions, including employee benefit obligations	**(191)**	**(322)**
Interest and other financial expenses paid	(203)	(110)
Interest and other financial income received	25	22
Dividends received	34	18
Cost of net debt and other financial income and expenses paid	**(144)**	**(70)**
Change in inventories	(71)	269
Change in trade receivables and advances	234	536
Change in trade payables and advances	87	13
Change in other receivables and payables	(68)	(92)
Change in working capital, net of impairments	**182**	**726**
Purchases of intangible assets (note 13)	(131)	(138)
Purchases of PP&E (note 14)	(1,752)	(1,842)
Government grants received	11	14
Change in capital expenditure payables	33	-
Purchases of intangible assets and PP&E	**(1,839)**	**(1,966)**
Increase in other non-current financial assets	(8)	(8)
Decrease in other non-current financial assets	14	14
Net cash flows from cash management financial assets	172	(193)
Net cash flows from borrowing collaterals	(60)	20
Net cash flows from other current financial assets	3	(9)
Cash flows from other financial assets	**121**	**(176)**
Increase in non-current financial liabilities	122	84
Decrease in non-current financial liabilities	(96)	(163)
Repayment of finance lease liabilities	(13)	(11)
Net cash flows from current financial liabilities	(400)	(762)
Derivatives	107	(69)
Cash flows from financial liabilities	**(280)**	**(921)**
Details of non cash transactions:		
▶ New finance leases (note 14)	24	-
▶ Decrease of liabilities to minority shareholders	(15)	(5)
▶ New emission rights	9	1
▶ Dividends paid in shares (note 24)	-	249

NOTE 32 COMMITMENTS AND CONTINGENCIES

32.1 Commitments

32.1.1 Operating lease commitments

Future minimum payments under non-cancellable operating leases by maturity are as follows (not discounted):

(in € million)	December 31, 2014	December 31, 2013
Within one year	189	202
Between one and five years	347	384
More than five years	88	101
TOTAL FUTURE MINIMUM PAYMENTS	**624**	**687**

Total operating lease rents recognized in the income statement in 2014 amounted to €346 million (2013: €335 million).

32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2014, amounts to €179 million (of which €21 million is likely to be delivered from 2016).

32.1.3 Other commitments

The Group has various purchase commitments for goods and services. These commitments are in line with the level of activity expected in the first half of 2015. They are established under normal market conditions and arise in the course of the Group ordinary activities.

32.2 Contingencies

32.2.1 Michelin Pension Trust Ltd UK

Following the introduction of the "Pension Act 2004" in the United Kingdom, a multi-annual plan of contributions to the UK pension funds, "Recovery Plan", was established between Michelin Pension Trust Ltd U.K. and Michelin U.K. In order to limit the amount of the contributions and to stagger them over more than ten years, the Group a guarantee towards the pension fund to cover the stream of contributions which its subsidiary will have to make.

The calculation of the Recovery Plan is done every three years. The last one was carried out as at March 31, 2014. The actuarial assumptions used to evaluate the liability for the Recovery Plan are globally more conservative than the ones used to evaluate the defined benefit obligations under IAS 19.

The amount of the guarantee given is equal to the difference, if positive, between the present value of future contributions and the amount of the provision booked in the accounts. As of December 31, 2014, the present value of the future contributions is lower than the provision booked in the Group accounts.

32.2.2 URSSAF audit

A French subsidiary of the Group received formal claims, by the administration in charge of the social security contribution collection, to pay €97 million (excluding interests and penalties) relating to several grievances. The Group evaluated these claims in the following way:

- Certain claims were accepted for an amount of €6 million, expensed and paid in 2013;
- Claims which are not accepted and not provided represent an amount of €29 million, for which the Group has submitted for out-of-court and/or legal settlements. Despite the uncertainties inherent to this type of procedures, the Group believes it has good chances to make its point of view prevail;
- All other claims not accepted and for which the Group has submitted for out-of-court and/or legal settlements were fully taken into consideration in the consolidated financial statements.

32.2.3 Other contingencies

In the course of their ordinary activities, the Group companies may be involved in administrative proceedings, litigation and claims. Although provisions have been recognized when the risks are established and the cash outflows probable, there exist uncertainties concerning some of these administrative proceedings, litigation and claims.

In the opinion of the Group management, there is no other governmental, judicial or arbitration proceedings likely to have significant impacts on its net assets or cash flows.

32.3 Assets pledged as collateral

32.3.1 PP&E

PP&E pledged as collateral amounted to €28 million (2013: €38 million).

32.3.2 Financial assets

Loans and deposits amounting to €72 million (2013: €12 million) are pledged as collateral for financial borrowings (note 26 "Financial liabilities").

32.3.3 Trade receivables

The Group runs two separate programs whereby certain European and North American subsidiaries have transferred ownership interests in their eligible trade receivable portfolios. The maximum financing that can be drawn from these programs amounts to €465 million (2013: €446 million). Since the Group has retained substantially all the risks and rewards of ownership, the ownership interests in the trade receivable portfolios sold by the European and North American subsidiaries have not been derecognized and the financing received from the financial institutions, amounting to €15 million as at December 31, 2014 (2013: €15 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 ACQUISITIONS AND DIVESTMENTS OF BUSINESSES

On August 31, 2014, the Group acquired 100% of the shares and voting rights in Sascar, a Brazilian digital fleet management and freight security company. With 14 years of experience, Sascar offers solutions allowing transport managers to monitor vehicles in real time and collect data (fuel consumption, speed, mileage …) essential to keep their costs under control and to increase productivity.

The acquisition of this company will enable Michelin to expand its service offering for truckers and to speed up the growth of its truck tire business in Brazil. It will allow Sascar to get an access to the Group's large customers in Brazil and then in all of South America.

This acquisition, after taking into account the amount of cash acquired, generated a net cash outflow of €400 million included in "Equity investments in consolidated companies, net of cash acquired" in the Group consolidated cash flow statement.

At the acquisition-date, the fair value of the consideration transferred amounts to €479 million and has been fully paid in cash.

The measurement at their fair value of each large category of assets acquired and liabilities assumed are detailed in the following table:

(in € million)	August 31, 2014
Intangible assets (1)	103
Property, plant and equipment (PP&E) (2)	64
Non-current financial assets and other assets	1
Non-current assets	**168**
Inventories	3
Trade receivables and other current assets (3)	68
Cash and cash equivalents	55
Current assets	**126**
Non-current financial liabilities	91
Provisions and other non-current liabilities	47
Deferred tax liabilities	63
Non-current liabilities	**201**
Current financial liabilities	20
Trade payables and other current liabilities	44
Current liabilities	**64**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**29**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for both the trademark and technology and using an income approach for the client portfolio. The Sascar trademark has been valued at €49 million. Its useful life is indefinite. The fair value of the client portfolio has been measured at €19 million. It will be amortized over its remaining useful life of 6 years.

(2) The fair value of property, plant and equipment has been measured with the assistance of an external consultant using a market-based approach. It is comprised essentially of vehicle and cargo monitoring equipment and has been valued at €64 million.

(3) At the acquisition date, the net carrying amount of trade receivables amounted to €9 million, which properly reflected their fair value.

Recognized contingent liabilities amounted to €79 million. They relate to possible differing interpretation by the taxation authorities about the nature of taxes applying to Sascar's business, the tax treatment applied to previously realized business combinations and to potential disputes with the administration in charge of collecting social security contributions. In the previous table, €47 million are included in "Provisions and other non-current liabilities" and €32 million are included in "Deferred tax liabilities".

Of the total €79 million, €55 million are subject to indemnification assets guaranteed by a deposit and are included in "Trade receivables and other current assets (3) " in the previous table.

The allocation of the purchase price, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of a €450 million goodwill, calculated as follows:

(in € million)	August 31, 2014
Fair value of consideration transferred (1)	479
Fair value of net assets acquired (2)	29
GOODWILL (1) – (2)	**450**

The goodwill is attributable mainly to expected operating synergies: Sascar will speed up its growth by accessing the large fleets segment with the support of the Michelin sales force in Brazil. In addition, Michelin will be able to use the communication infrastructure and the customer base of Sascar to gain access to small and medium hauling companies as well as individual truckers. Finally, the range of products offered by Sascar is expected to be enriched by the contribution of complementary services like those offered by Michelin Solutions.

The amount of goodwill recognised expected to be deductible for income tax purposes is estimated at €302 million. However, tax deduction may only start after the completion of Sascar's merger into the Group's Brazilian subsidiary that holds its shares.

In the four months to December 31, 2014, Sascar contributed €39 million to the Group's net sales, €6 million to its operating income and €1 million to its net income. Had the acquisition taken place on January 1, 2014, the net sales in the consolidated income statement would have amounted to €19,659 million and consolidated net income for the year, after adjusting for Sascar's non-recurring elements in the pre-acquisition period, would have amounted to €1,035 million. In determining these amounts, the Group assumed that the fair value of the identifiable assets acquired and liabilities assumed as determined at the acquisition date would have been the same as if the acquisition had occurred on January 1, 2014.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1 Subsidiaries, joint ventures and associates

The list of the major Group subsidiaries is included in note 36 "List of main Group companies". Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated in consolidation.

Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2014	2013
Income statement		
Income for the sale of goods or supply of services	115	128
Expenses for the purchase of products or supply of services	(128)	(120)
Balance sheet		
Financial liabilities	(8)	(29)
Accounts payable	(7)	(6)
Accounts receivable	27	20

34.2 Senior Management and Supervisory Board

In 2014, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2013 net income and amounting to €1.2 million (2013: €1.2 million). Furthermore, he was entitled to a global compensation of €1.5 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin (2013: €1.2 million). A provision of €1.9 million (social charges included) was recognized as at December 31, 2014 (2013: €1.9 million) based on the present value of the vested rights in a long term incentive bonus program and a post-employment benefit plan.

The compensation paid in 2014 to the 11 members of the Group Executive Committee (2013: 11 members) was €14.1 million (2013: €12.9 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Short term benefits	9.8	9.2
Post-employment benefits	2.7	2.5
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	1.6	1.2
COMPENSATION PAID TO MEMBERS OF THE GROUP EXECUTIVE COUNCIL	**14.1**	**12.9**

The attendance fees paid in 2014 to the Supervisory Board members for 2013 meetings were €0.3 million (2013: €0.3 million).

NOTE 35 EVENTS AFTER THE BALANCE SHEET DATE

The reported amounts of assets and liabilities at the balance sheet date were adjusted, if needed, up to the date when the Managing Chairman authorized for issue the 2014 consolidated financial statements.

NOTE 36 LIST OF MAIN GROUP COMPANIES

Countries are presented based on the Michelin geographical regions and within each regions are listed according to the alphabetical order of the French names.

Companies	Registered office	Nature	% Of interest
EUROPE			
Germany			
Laurent Reifen GmbH	Oranienburg	Manufacturing & commercial	100.00
Michelin Reifenwerke AG & Co. KgaA	Karlsruhe	Manufacturing & commercial	100.00
Euromaster GmbH	Kaiserslautern	Commercial	99.98
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Karlsruhe	Financial	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Denmark			
Euromaster Danmark A/S	Viborg	Commercial	99.94
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.80
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	99.94
Finland			
Suomen Euromaster Oy	Pori	Commercial	99.94
France			
Compagnie Générale des Établissements Michelin	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Avallon	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Bassens	Manufacturing	100.00
Euromaster France	Montbonnot-Saint-Martin	Commercial	98.41
Michelin Aircraft Tyre	Clermont-Ferrand	Commercial	100.00
Transityre France	Clermont-Ferrand	Commercial	100.00
Michelin Travel Partner	Boulogne-Billancourt	Commercial	100.00
Spika	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Montbonnot-Saint-Martin	Commercial	96.81
Greece			
Elastika Michelin A.E.	Halandri	Commercial	100.00
Hungary			
Michelin Hungaria Tyre Manufacture Ltd	Nyíregyháza	Manufacturing & commercial	100.00
Ireland			
Miripro Insurance Company Limited	Dublin	Miscellaneous	100.00
Italy			
Società per Azioni Michelin Italiana	Turin	Manufacturing & commercial	100.00
Luxembourg			
Michelin Luxembourg SCS	Luxembourg	Financial	100.00
The Netherlands			
Eurodrive Services and Distribution N.V.	Amsterdam	Commercial	99.94
Euromaster Bandenservice B.V.	Deventer	Commercial	99.94
Michelin Nederland N.V.	Drunen	Commercial	100.00
Transityre B.V.	Breda	Commercial	100.00
Michelin Finance (Pays-Bas) B.V.	Amsterdam	Financial	100.00
Poland			
Michelin Polska S.A.	Olsztyn	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% Of interest
Serbia			
Tigar Tyres d.o.o.	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Bucharest	Commercial	99.85
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Harrow	Commercial	99.94
Sweden			
Euromaster AB	Varberg	Commercial	99.94
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Petit-Lancy	Commercial	99.94
Nitor S.A.	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière du Groupe Michelin, "Senard et Cie"	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Granges-Paccot	Miscellaneous	100.00
Michelin Mexico Properties, Sàrl	Granges-Paccot	Miscellaneous	100.00
Turkey			
Michelin Lastikleri Ticaret A.S.	Istanbul	Commercial	100.00
AFRICA / INDIA / MIDDLE EAST			
South Africa			
Michelin Tyre Company South Africa Proprietary Limited	Johannesburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Commercial	100.00
Nigeria			
Michelin Tyre Services Company Ltd	Lagos	Commercial	60.28
India			
Michelin India TamilNadu Tyres Private Limited	Chennai	Manufacturing	100.00
Michelin India Tyres Private Limited	Faridabad	Commercial	100.00
NORTH AMERICA			
Canada			
Michelin North America (Canada) Inc.	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	New Glasgow	Commercial	100.00
Michelin Alberta ULC	Calgary	Financial	100,00
United States of America			
Michelin North America, Inc.	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Wilmington	Commercial	100.00
Tire Centers, LLC	Wilmington	Commercial	100.00
CR Funding Corporation	Wilmington	Financial	100.00
Michelin Corporation	New York	Financial	100.00
Oliver Rubber Company, LLC	Wilmington	Manufacturing	100.00
Mexico			
Michelin Mexico Holding, S.A. de C.V.	Queretaro	Financial	100,00
Industrias Michelin, S.A. de C.V.	Mexico City	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% Of interest
SOUTH AMERICA			
Argentina			
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Buenos Aires	Commercial	100.00
Brazil			
Sociedade Michelin de Participações, Indústria e Comércio Ltda	Rio de Janeiro	Manufacturing & commercial	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda	Rio de Janeiro	Miscellaneous	100.00
Michelin Monitoramento de Ativos do Brasil Ltda.	Rio de Janeiro	Miscellaneous	100.00
Sascar Participações S.A.	Santana Do Parnaíba	Miscellaneous	100.00
Sascar Tecnologia E Segurança Automotiva S.A.	Santana Do Parnaíba	Miscellaneous	100.00
Chile			
Michelin Chile Ltda	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Cali	Commercial	99.96
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
SOUTHEAST ASIA / AUSTRALIA			
Australia			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00
Malaysia			
Michelin Malaysia Sdn. Bhd.	Petaling Jaya	Commercial	100.00
Singapore			
Michelin Asia (Singapore) Co. Pte. Ltd	Singapore	Commercial	100.00
Michelin Asia-Pacific Pte Ltd	Singapore	Miscellaneous	100.00
Société des Matières Premières Tropicales Pte. Ltd	Singapore	Miscellaneous	100.00
Thailand			
Michelin Siam Company Limited	Bangkok	Manufacturing & commercial	100.00
Michelin Thai Holding Co., Ltd	Bangkok	Financial	100.00
Michelin Siam Group Co., Ltd	Bangkok	Financial	100.00
Vietnam			
Michelin Vietnam Company Limited	Ho Chi Minh City	Commercial	100.00
CHINA			
China			
Michelin Shenyang Tire Co., Ltd	Shenyang	Manufacturing	100.00
Shanghai Michelin Tire Co., Ltd	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd	Shanghai	Commercial	100.00
Taiwan			
Michelin Chun Shin Ltd	Taipei	Commercial	100.00
EASTERN EUROPE			
Russia			
Michelin Russian Tyre Manufacturing Company LLC	Davydovo	Manufacturing & commercial	100.00
Ukraine			
Michelin Ukraine LLC	Kiev	Commercial	100.00
JAPAN / KOREA			
Japan			
Nihon Michelin Tire Co., Ltd	Tokyo	Commercial	100.00
South Korea			
Michelin Korea Co., Ltd	Seoul	Commercial	100.00

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