RESULTS
2016

MICHELIN
A better way forward

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Press release

Clermont-Ferrand – February 14, 2017

Financial information for the year ended December 31, 2016

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

2016: Objectives met

Volumes up 2.1%

€2,692 million in operating income from recurring activities,
up €235 million at constant exchange rates

Over €1 billion in free cash flow

2017: Another year of progress,
in line with the Group's 2020 objectives

- Volumes up 2.1%, outperforming the markets:
  - Passenger car and Light truck tires up 3%, Truck tires up 1% and Specialty businesses down 1%;
  - Volumes up 4.2% for the Group in the fourth quarter, with gains of 5% in Passenger car and Light truck tires and 6% in the Specialty businesses.
- €2,692 million in operating income, or 12.9% of net sales, up €235 million at constant exchange rates.
- €159 million net positive impact from changes in price mix versus raw materials costs, thanks to effective management.
- Competitiveness plan target met with €1.2 billion in gains over the 2012-2016 period.
- Strong free cash flow for the year, at €1,024 million:
  - €128 million improvement in structural free cash flow, to €961 million.
- €750 million share buyback program completed over the 2015-2016 period:
  - 1.8% of outstanding shares canceled in 2016, corresponding to €301 million.
- Proposed dividend of €3.25 per share, reflecting the Group's commitment to shareholders and representing a payout ratio of 36.5%, to be submitted to shareholders at the Annual Meeting on May 19, 2017.

Jean-Dominique Senard, Chief Executive Officer, said: ''2016 represented a successful milestone in our strategic roadmap. Our growth, which once again outpaced the markets, was driven by the strength of the MICHELIN brand, our steady stream of innovations, the improvement in the quality of our customer service and the success of our intermediate lines. Our pricing policy, which is designed to capture the full value of our technological leadership, and our sustained commitment to improving competitiveness enabled us to fulfill the financial guidance announced early in the year. Looking ahead, 2017 is expected to be another year of growth, in line with the Group's 2020 objectives."

Outlook

In 2017, tire markets are expected to track the trends observed in late 2016, in particular with the upturn in mining tire sales. The year will also see an increase in raw materials costs, for an estimated impact of approximately €(900) million, in response to which Michelin will agilely manage prices so as to hold unit margins firm in businesses not subject to indexation clauses.

In this market environment, Michelin's objectives for 2017 are volume growth in line with global market trends, operating income from recurring activities equal to or exceeding the 2016 figure at constant exchange rates, and structural free cash flow of more than €900 million.

(in € millions)	2016	2015
Net sales	20,907	21,199
Operating income from recurring activities	2,692	2,577
Operating margin on recurring activities	12.9%	12.2%
Passenger car/Light truck tires and related distribution	13.1%	11.5%
Truck tires and related distribution	9.7%	10.4%
Specialty businesses	18.6%	18.6%
Operating income/(loss) from non-recurring activities	99	(370)
Operating income	2,791	2,207
Net income	1,667	1,163
EBITDA from recurring activities	4,084	3,934
Capital expenditure	1,811	1,804
Net debt	944	1,008
Gearing	9%	11%
Employee benefit obligations	4,763	4,888
Free cash flow(1)	1,024	653
Structural free cash flow(2)	961	833
ROCE	12.1%	12.2%
Employees on payroll(3)	111,708	111,681
Earnings per share	€9.21	€6.28
Dividend per share(4)	€3.25	€2.85

(1) Free cash flow: net cash from operating activities less net cash from investing activities.
(2) Structural free cash flow: free cash flow before acquisitions, adjusted for the impact of changes in raw materials costs on trade payables, trade receivables and inventories and for the impact of end-of-year volumes on working capital requirement.
(3) At period-end.
(4) 2016 dividend to be submitted to shareholder approval at the Annual Meeting on May 19, 2017.

MARKET REVIEW

PASSENGER CAR AND LIGHT TRUCK TIRES

2016 % change YoY *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	+3%	+4%	+1%	+7%	-12%	+9%	+4%
Replacement	+2%	+4%	+2%	+4%	+0%	+3%	+2%

Fourth quarter % change YoY *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	+2%	+2%	+0%	+10%	+6%	+12%	+6%
Replacement	+4%	+5%	+3%	+4%	+5%	+1%	+3%

* *Including Turkey.*

In 2016, the global original equipment and replacement Passenger car and Light truck tire market expanded by 3% in number of tires sold.

Original equipment

- In Europe, demand rose by 3% overall during the year, reflecting a sustained 4% increase in Western Europe, despite the slowdown in automobile sales in the second half, and a steep 12% drop in Eastern Europe.
- The North American market stabilized at a high level, with a 1% increase, in line with registrations.
- Demand in Asia (excluding India) ended the year up 7% overall. The Chinese market remained buoyant, with a 14% increase led by the government's compact car purchase incentives and the popularity of SUV models. Demand contracted by 2% in Japan, 7% in South Korea and 2% in the ASEAN nations.
- Markets in South America continued their steep decline, losing 12% over the year, with the first signs of improvement emerging in the final quarter in Brazil (up 6%) and Argentina.

Replacement

- The European market saw a 2% overall increase during the year. Demand in Western Europe rose by 4%, reflecting a volatile winter segment (up 4%), the increase in entry-level tire imports and the robust growth in all-season tire sales. In Eastern Europe, demand continued to shrink, by a further 7% over the year.
- In North America, demand rose by 2% overall, fuelled by strong growth in the small tire segment in the fourth quarter and the solid 8% gain in Mexico. The US market edged up by 1%, reflecting buyer hesitation in an election year, but firm growth was reported in the 18-inch and larger segment (up 15%) and in SUV tires.
- Demand in Asia (excluding India) ended the year up 4%, thanks to sustained growth in the Chinese market (up 8%) in a highly competitive environment. The rest of the region was relatively flat, with just a 1% increase, reflecting the 1% market declines in Japan and Thailand.
- In South America, demand was unchanged overall, as the 2% decline in Brazil (despite an upturn at year-end) was offset by more positive trends in the rest of Latin America.

TRUCK TIRES (RADIAL AND BIAS)

2016 % change YoY *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	+1%	+1%	-19%	+6%	-17%	+5%	+0%
Replacement	+5%	+6%	+0%	-3%	-1%	-3%	-1%

Fourth quarter % change YoY *(in number of tires)*	**Europe including Russia & CIS***	**Europe excluding Russia & CIS***	**North America**	**Asia (excluding India)**	**South America**	**Africa/India/ Middle East**	**Total**
Original equipment	-6%	-7%	-23%	+9%	-8%	+3%	-0%
Replacement	+7%	+9%	-4%	+1%	+3%	-6%	+0%

* *Including Turkey.*

In 2016, global demand for new original equipment and replacement Truck tires retreated by 1% in number of tires sold. Retread markets were also in decline, with an especially steep fall-off in Europe.

Original equipment

- In Europe, the market ended the year up 1% despite a slowdown in the second half. The 1% gain in Western Europe reflected both a downward trend in the semi-truck segment and growth in trailer tires, while the 3% increase in Eastern Europe revealed the first positive signs in a market that remained historically low.
- The North American market fell 19% in 2016, as expected, given the renewal of the local truck fleet observed in recent years.
- Demand for radial and bias tires in Asia (excluding India) increased by 6% in 2016, as growth in China (up 9%) offset declines in Japan (down 7%) and Thailand (down 3%). Chinese demand has been rebounding since the autumn due to the arrival of new market entrants and the application of new axle load and truck size rules. The latter are expected to spur a surge in truck replacements.
- The South American market, which started to level off in the second half, still ended the year down 17%. Demand in Brazil, also down 17% for the year, began to show some signs of improvement in the last two months.

Replacement

- In Europe, the market rose by 5% overall, with a slower decline in Russia in the second half. The sharp 6% rebound in Western Europe was led by the increase in freight tonnes carried per km and the rise in sales of low-cost tires from Asia, which are depressing retread demand. In Eastern Europe, robust demand in the intermediate segments helped to drive a 4% gain for the year.
- Demand in North America ended the year flat, reflecting a first-half buying spree ahead of the new tariffs announced on Chinese tire imports, dampened by the subsequent fall-off in sales in the second half, as well as by pre-election buyer hesitation and the slowdown in the region's economic indicators.
- Demand for replacement radial and bias tires in Asia (excluding India) was down 3% for the year. In China, it contracted by 4% overall, but showed a 2% improvement in the fourth quarter thanks to booming online sales and an economic stimulus plan that is particularly favorable to the construction industry and infrastructure investment. In the rest of the region, markets slipped 1% overall in a challenging economic environment, with a significant 12% drop in Thailand and a 2% gain in Japan.
- The South American radial and bias market continued to drift downwards, by 1% in 2016, but signs of an upturn emerged in the final quarter (up 4%) led by Brazil (up 2% for the year and 11% in the fourth quarter) and Argentina.

SPECIALTY TIRES

- **Earthmover tires:** the mining tire market retreated for the third year in a row, dragged down by the steep reduction in mine inventory. The trend turned upward in the fourth quarter, however, as mining companies resumed purchases, in line with their level of tire use.
- Original equipment markets declined sharply in the mature geographies at a time of weak demand. The Chinese market also continued to cool in 2016 after dropping precipitously in 2015.
- Dealer hesitation is weighing on demand for infrastructure and quarry tires, which declined over the year.
- **Agricultural tires:** after falling off sharply in 2015, OE demand continued to slide in the mature geographies, with the first-half rebound wiped out by a collapse in the second part of the year.
- Replacement markets retreated significantly in the mature regions, penalized by low farm commodity prices.
- **Two-wheel tires:** demand for motorcycle tires climbed for the fourth straight year in Europe, lifted by an increase in dealer buying, but fell back sharply in North America. The emerging markets are continuing to expand overall.
- **Aircraft tires:** demand in the commercial aircraft segment continued to grow, led by the increase in passenger traffic.

2016 NET SALES AND RESULTS

NET SALES

Consolidated net sales stood at €20,907 million for the year, down 1.4% on 2015 due to the combined impact of the following factors:

- A €440 million increase from the 2.1% growth in volumes.
- A €386 million decrease from the 1.9% unfavorable price-mix effect, reflecting i) a €438 million decrease from price adjustments, of which nearly half corresponded to the application of indexation clauses based on raw materials prices; and ii) a €52 million increase from the mix, as the still highly positive product mix and the favorable impact of the rebound in Earthmover tire sales in the fourth quarter offset the dampening impacts of the geographic mix and the relative growth rates of intermediate and OE tire sales.
- A €370 million decrease from the currency effect.
- A €24 million increase from the consolidation of BookaTable, Europe's leading online restaurant booking service.

RESULTS

Consolidated operating income from recurring activities amounted to €2,692 million or 12.9% of net sales, compared with the €2,577 million and 12.2% reported in 2015. The €99 million in operating income from non-recurring activities corresponds to the gain from a change in the retiree health coverage plan in the United States, which was partially offset by restructuring costs related to the Group's competitiveness improvement projects.

Operating income from recurring activities reflected the €176 million increase from volume growth and the net €159 million positive impact of efficiently managing the price mix (whose effect was negative at €386 million) at a time of lower raw materials costs (which had a €545 million favorable impact). Although the production cutbacks implemented in certain plants to reduce inventory adversely impacted the ongoing deployment of the competitiveness plan, the plan's €233 million in gains nevertheless offset most of the €264 million increase in production costs and overheads over the year. Lastly, operating income from recurring activities also reflected the predicted €89 million increase in depreciation and amortization expense, the €122 million favorable currency effect and the €31 million reduction in start-up costs.

Net income came in at €1,667 million.

NET FINANCIAL POSITION

Free cash flow improved by €370 million to end the year at **€1,024 million** after capital expenditure of €1,811 million.

Based primarily on this free cash flow, less the payment of €538 million in dividends and the €301 million in share buybacks, consolidated **gearing stood at 9%** at December 31, 2016, corresponding to net debt of €944 million, compared with gearing of 11% and net debt of €1,008 million at December 31, 2015.

When compared with the weighted average cost of capital for the year, the 12.1% after-tax return on capital employed attests that Michelin created value in 2016.

SEGMENT INFORMATION

	Net sales		Operating income from recurring activities		Operating margin on recurring activities	
(in € millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Passenger car/Light truck tires & related distribution	12,105	12,028	1,585	1,384	13.1%	11.5%
Truck tires & related distribution	5,966	6,229	580	645	9.7%	10.4%
Specialty businesses	2,836	2,942	527	548	18.6%	18.6%
GROUP	**20,907**	**21,199**	**2,692**	**2,577**	**12.9%**	**12.2%**

Passenger car/Light truck tires & related distribution

Net sales in the Passenger car/Light truck tires & related distribution segment rose by 0.6% in 2016, to €12,105 million from €12,028 million the year before.

Operating income on recurring activities came to €1,585 million or 13.1% of net sales versus the €1,384 million and 11.5% reported in 2015.

This 1.6-point gain in operating margin on recurring activities was led by the 3% increase in volumes, which slightly outpaced the market's 3%. The mix effect remained favorable, supported by the success of the new MICHELIN CrossClimate and MICHELIN Pilot Sport 4S lines, which helped to drive strong growth in sales of MICHELIN brand tires (up 4%), 17-inch and larger tires (up 13%) and 18-inch and larger tires (up 17%). At the same time, sales of other Group brands rose by 3% over the year. The decline in raw materials costs was only partially attenuated by price adjustments, of which a little less than half reflected the application of indexation clauses in original equipment contracts. Industrial competitiveness continued to improve, albeit at a slower pace in the second half due to production scalebacks at a small number of plants.

Truck tires & related distribution

Net sales in the Truck tires & related distribution segment stood at €5,966 million, versus the €6,229 million reported in 2015.

Operating income from recurring activities amounted to €580 million or 9.7% of net sales, compared with €645 million and 10.4% the year before.

The change in margin reflected resilient volumes, up 1% over the year, in Truck tire markets down an aggregate 1%. At a time of aggressive competition in every geography, the favorable trend in raw materials costs was not enough to offset the full impact of price repositionings and strong growth in sales of intermediate tires. On the other hand, despite the production cutbacks at certain plants in the second half, industrial optimization projects and cost discipline continued to deliver benefits over the year.

Specialty businesses

In all, net sales by the Specialty businesses came to €2,836 million for the year, compared with €2,942 million in 2015.

Operating income from recurring activities amounted to €527 million, versus a reported €548 million in 2015, for a margin unchanged at 18.6% of net sales.

The stability in operating margin reflected the fact that volumes declined less than the market (by 1% compared with 4%), thanks in particular to the rebound in mining tire sales in the fourth quarter, robust sales in new markets and the firm resistance of the Agricultural tire business even as demand softened. At the same time, the favorable impact of lower raw materials costs only partially offset the delayed effect of price adjustments under raw materials indexation clauses.

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Compagnie Générale des Établissements Michelin ended the year with net income of €1,416 million, compared with €590 million in 2015.

The financial statements were presented to the Supervisory Board at its meeting on February 9, 2017. An audit was performed and the auditors' report was issued on February 13, 2017.

The Chief Executive Officer will call an Annual Shareholders Meeting on Friday, May 19, 2017 at 9:00 am in Clermont-Ferrand.

Shareholders will be asked to approve the payment of a dividend of €3.25 per share, compared with €2.85 in respect to the previous year.

2016 HIGHLIGHTS

- With the acquisition of BookaTable, Michelin becomes the European online restaurant booking leader (January 11, 2016).
- Michelin recognized as one of the ten best corporate brands in Europe in the Best Brands study (February 19, 2016).
- Latest version of the MICHELIN X LINE ENERGY Z Truck tire range launched in North America (February 28, 2016).
- Michelin adapts the organization of its activities in Clermont-Ferrand (March 1, 2016).
- PSA presents its first Corporate Social Responsibility Award to Michelin (June 2, 2016).
- At an Investor Day event held at its Technology Center in Ladoux, France, Michelin presents its strategic vision, growth objectives and competitiveness plan, designed to drive €1.2 billion in cost savings by 2020 (June 6, 2016).
- A new premium passenger car tire plant to be built in Mexico (July 4, 2016).
- Strategic collaboration agreement signed with Boeing subsidiary Aviall (July 12, 2016).
- Acquisition of bicycle and motorcycle tire manufacturer Levorin strengthens Michelin's presence in Brazil (August 26, 2016).
- The MICHELIN X GUARD Truck tire takes to the road in China (August 31, 2016).
- Formula-E 2016/2017 - The latest MICHELIN Pilot Sport EV2 tires successfully pass preseason litmus test (September 12, 2016).
- A new employee stock ownership plan (September 15, 2016).
- Inauguration of the new R&D campus, the heart of Michelin innovation (September 16, 2016).
- Meeting the needs of mine operators with the innovative MICHELIN XDR3 dump truck tire (September 16, 2016).
- Engie joins Michelin in investing in European fuel cell manufacturer Symbio FCell (September 19, 2016).
- The Shanghai Michelin Guide is launched (September 21, 2016).
- The new MICHELIN CrossClimate+, built for safety in all conditions, from the first to the last mile (October 1, 2016).
- MICHELIN Pilot Sport4 S wins across the board (October 1, 2016).
- At the Hanover Fair, Michelin presents its MICHELIN X® LINE™ Energy™ range, the first Truck tires on the market to have received AAA rating for rolling resistance (November 2016).
- Buyback and cancellation of Michelin shares (December 15, 2016).
- Acquisition of Restaurantes.com, Spain's leading online restaurant booking site (December 20, 2016).
- Successful issue of convertible non-dilutive cash-settled bonds (January 5, 2017).
- Michelin North America announces broad price increase (January 31, 2017).
- Michelin raises tire prices in Europe in response to rising raw materials costs (February 3, 2017).

A full description of 2016 highlights may be found on the Michelin website: http://www.michelin.com/eng

PRESENTATION AND CONFERENCE CALL

Full-year 2016 results will be reviewed with analysts and investors during a presentation today, Tuesday February 14, at 11:00 am CET. The event will be in English, with simultaneous interpreting in French.

Webcast

The presentation will be webcast live on www.michelin.com/eng

Conference call

Please dial-in on one of the following numbers from 10:50 a.m. CET:

▶ In France	01 70 77 09 21	(French)
▶ In France	01 70 77 09 37	(English)
▶ In the United Kingdom	0207 107 1613	(English)
▶ In North America	(866) 907 5928	(English)
▶ From anywhere else	+44 (0)207 107 1613	(English)

The presentation of financial information for 2016 (press release, presentation, annual report, financial highlights and consolidated financial statements for the year) 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 ending March 31, 2017:** Thursday, April 20, 2017 after close of trading
- **First-half 2017 net sales and results:** Tuesday, July 25, 2017 after close of trading

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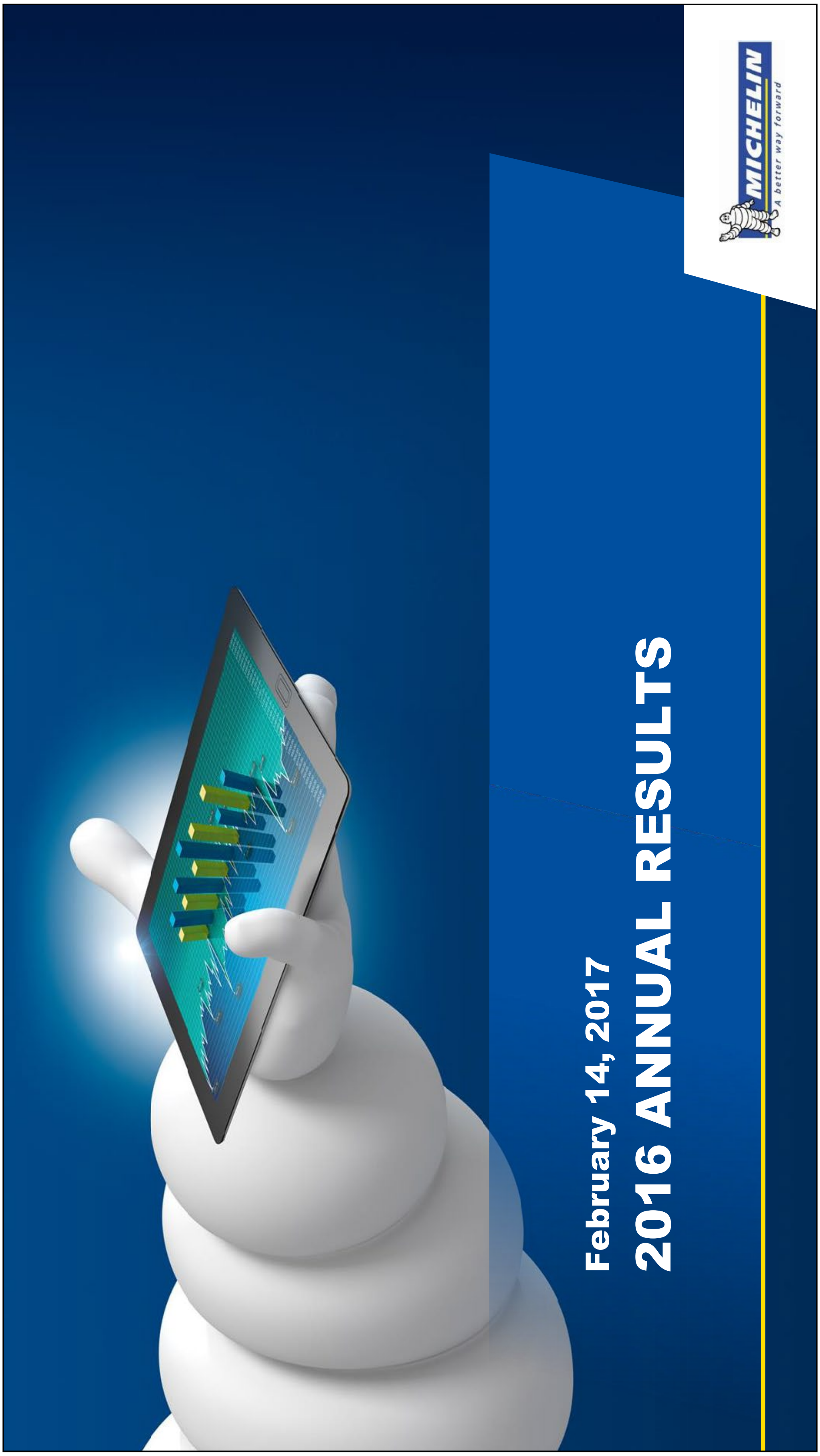
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February 14, 2017
2016 ANNUAL RESULTS

2016: a year of progress, in line with our 2020 roadmap

	2016 guidance	2016 actual
Volumes	Above-market growth	+2.1%
Operating income from recurring activities at constant exchange rates	> 2015	€2,692m up €235m
Structural FCF	> €800m	€961m

MICHELIN A better way forward

2 2016 ANNUAL RESULTS – February 14, 2017

Objectives met: €2,692m in operating income from recurring activities **(up €235m** at constant exchange rates**), above €1bn in FCF**

- Volumes up 2.1%, outpacing the markets
- €159m positive impact from changes in price mix and raw materials costs, thanks to effective management
- Competitiveness plan: €1.2bn target met over the 2012-2016 period
- Strong free cash flow for the year, at €1,024m
  - With €961m in structural free cash flow, up €128m
- Two-year, €750m share buyback program completed and 4.5% of outstanding shares canceled, of which 1.8% (for €301m) in 2016
- Proposed dividend of €3.25* per share, for a payout of 36.5% of consolidated net income before non-recurring items
- 2017 guidance in line with 2020 objectives

** Subject to shareholder approval at the Annual Meeting on May 19, 2017*

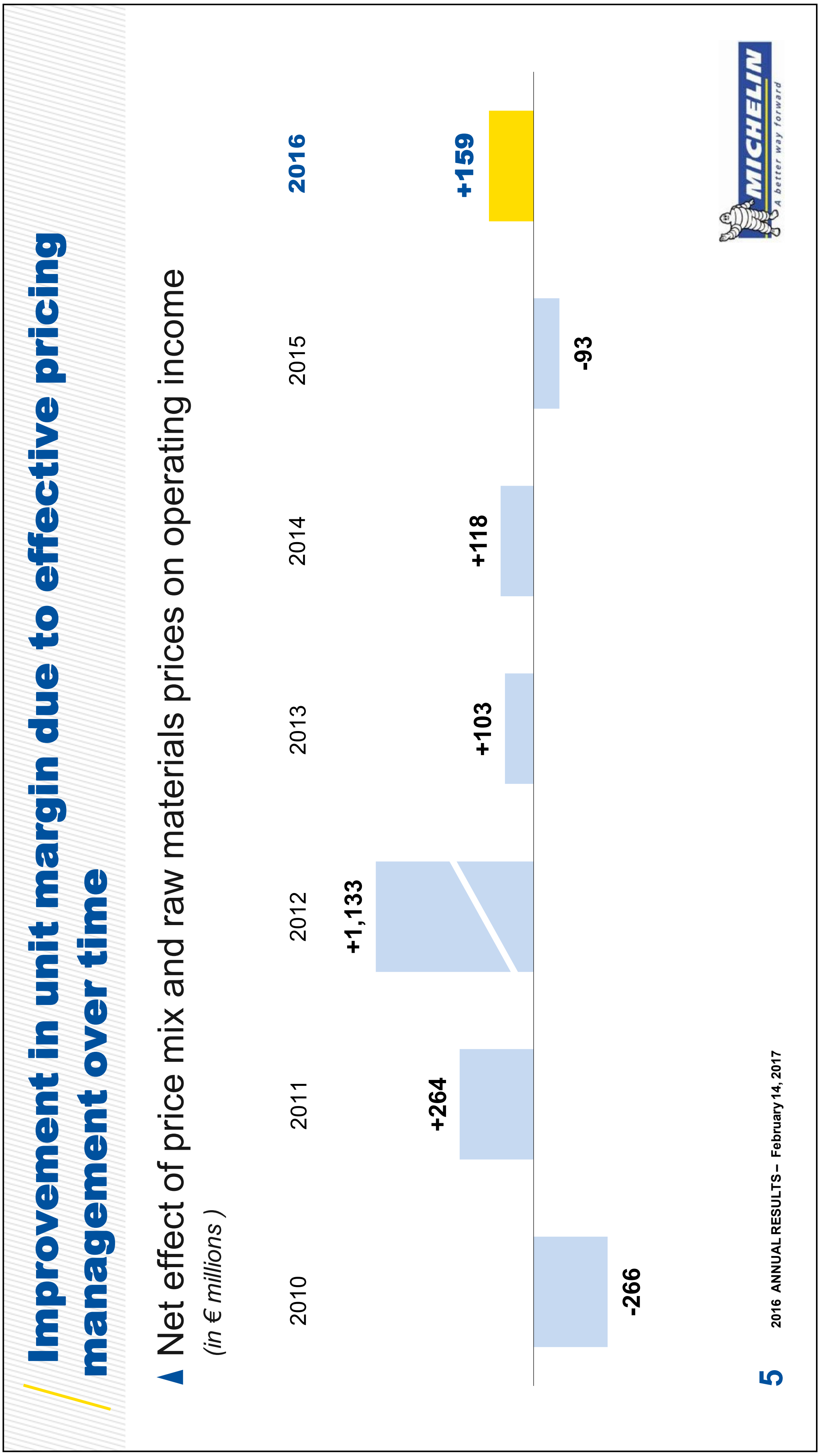
3 2016 ANNUAL RESULTS – February 14, 2017

Volumes up 2.1%, outpacing the markets

% change in volumes YoY	2016
Passenger car and Light truck tires*	***+3%***
Markets	+3%
Truck tires*	***+1%***
Markets	-1%
Specialty tires	***-1%***
Markets	-4 %

* And related distribution

Source: Michelin


Improvement in unit margin due to effective pricing management over time
Net effect of price mix and raw materials prices on operating income
(in € millions)
2010
2011
2012
2013
2014
2015
2016
-266
+264
+1,133
+103
+118
-93
+159
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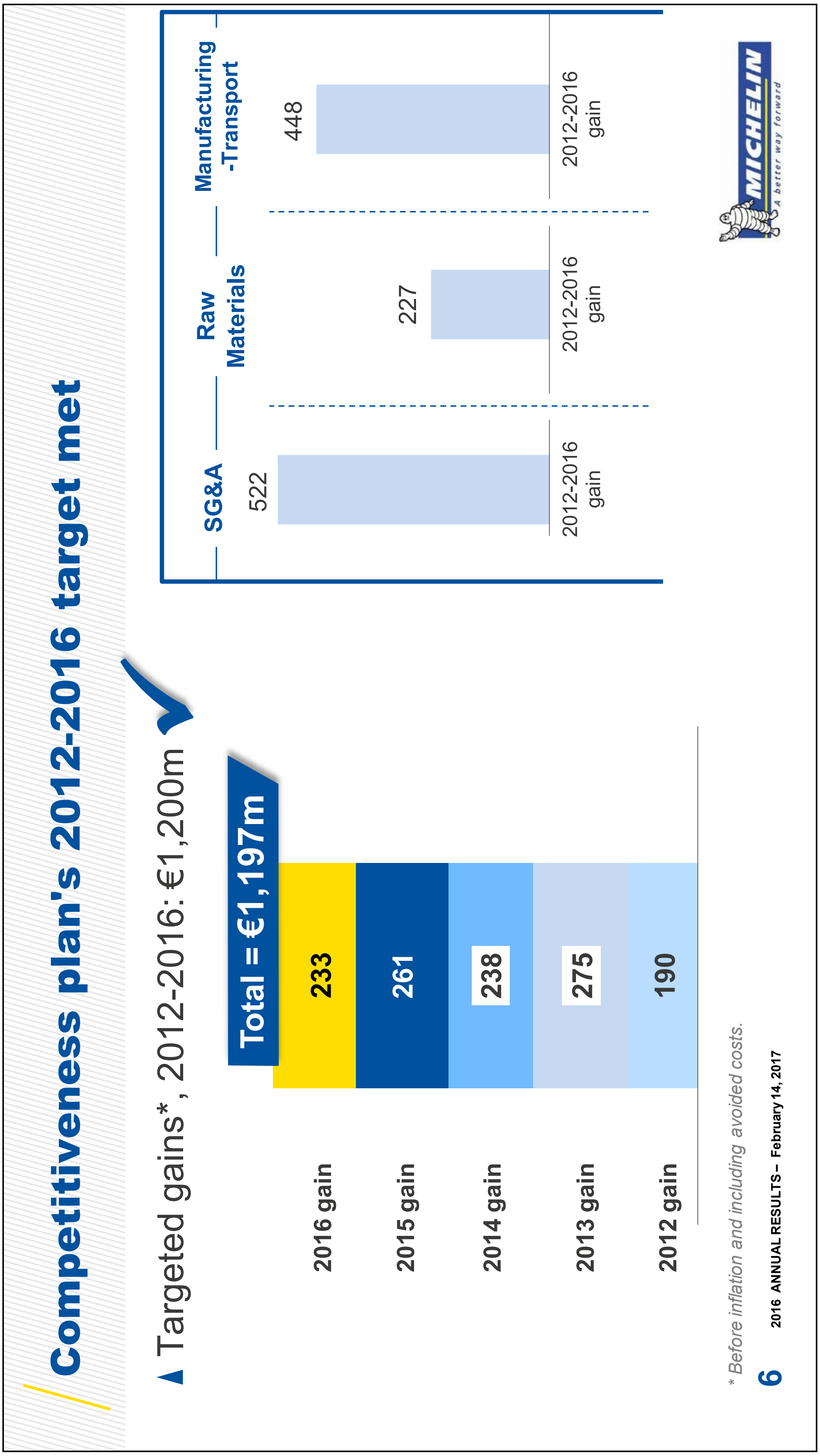
2016 ANNUAL RESULTS – February 14, 2017


Competitiveness plan's 2012-2016 target met
Targeted gains*, 2012-2016: €1,200m
Total = €1,197m
2016 gain
233
2015 gain
261
2014 gain
238
2013 gain
275
2012 gain
190
SG&A
522
2012-2016 gain
Raw Materials
227
2012-2016 gain
Manufacturing -Transport
448
2012-2016 gain
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* Before inflation and including avoided costs.
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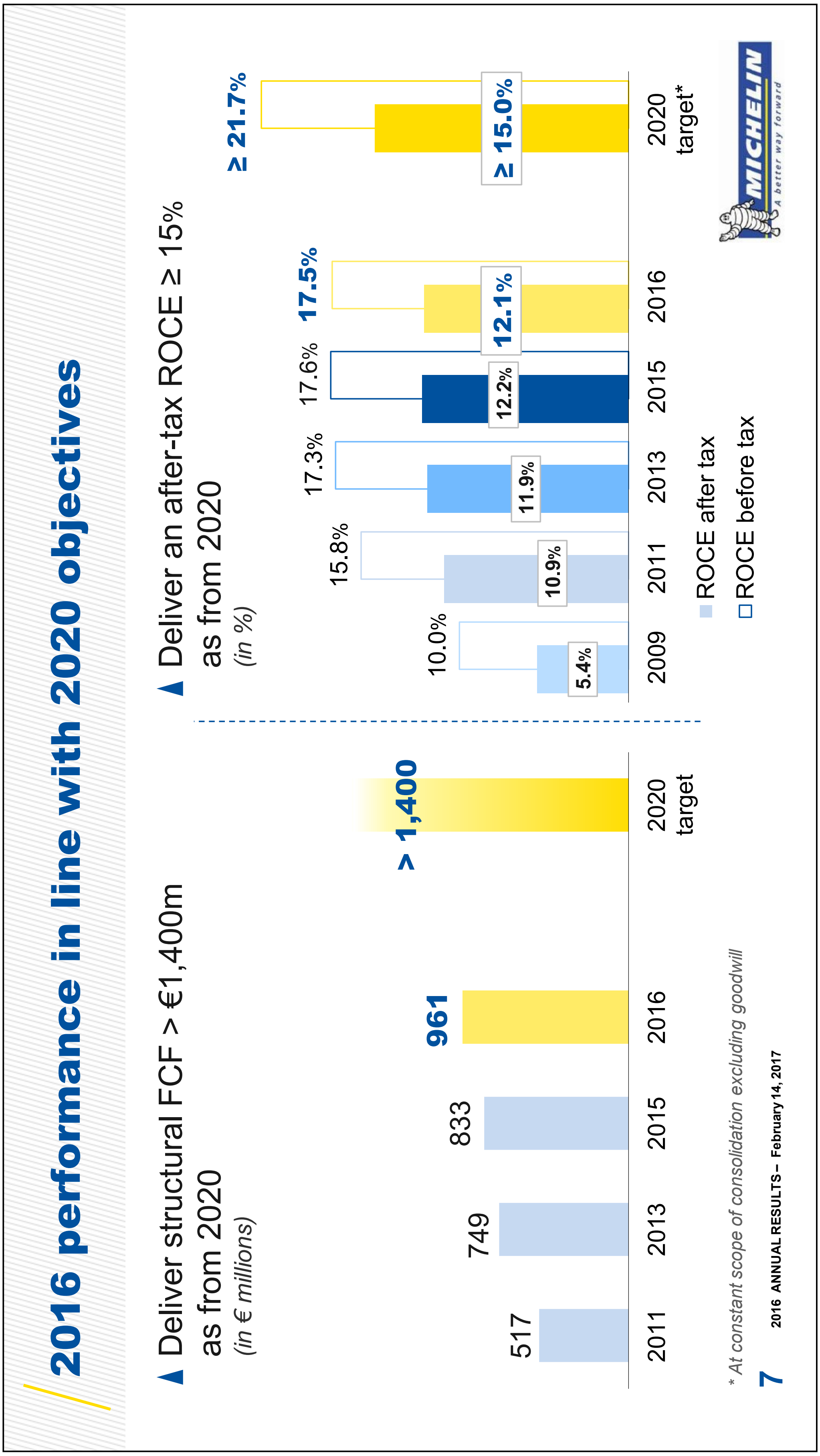
2016 ANNUAL RESULTS – February 14, 2017


2016 performance in line with 2020 objectives
Deliver structural FCF > €1,400m as from 2020
(in € millions)
517
749
833
961
> 1,400
2011
2013
2015
2016
2020 target
Deliver an after-tax ROCE ≥ 15% as from 2020
(in %)
10.0%
5.4%
15.8%
10.9%
17.3%
11.9%
17.6%
12.2%
17.5%
12.1%
≥ 21.7%
≥ 15.0%
2009
2011
2013
2015
2016
2020 target*
ROCE after tax
ROCE before tax
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* At constant scope of consolidation excluding goodwill
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2016 ANNUAL RESULTS – February 14, 2017


Dividend increase in line with Group gains
Per share data (in €)
1.78
2.10
2.40
2.50
2.50
2.85
3.25*
2010
2011
2012
2013
2014
2015
2016
2013-2020 payout ratio: ≥ 35% of consolidated net income
(before non-recurring items)
* Subject to shareholder approval at the Annual Meeting on May 19, 2017
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2017 guidance: on the road to our 2020 objectives

	2017
Volumes	**Growth in line with the markets**
Operating income from recurring activities at constant exchange rates	**≥ 2016**
Net price-mix effect vs. raw materials	Non-indexed businesses: neutral
Structural FCF*	**> €900m**

** Adjusted for the payment in January 2017 of the €193m in interest on the zero-coupon Océanes 2017 convertible bonds*

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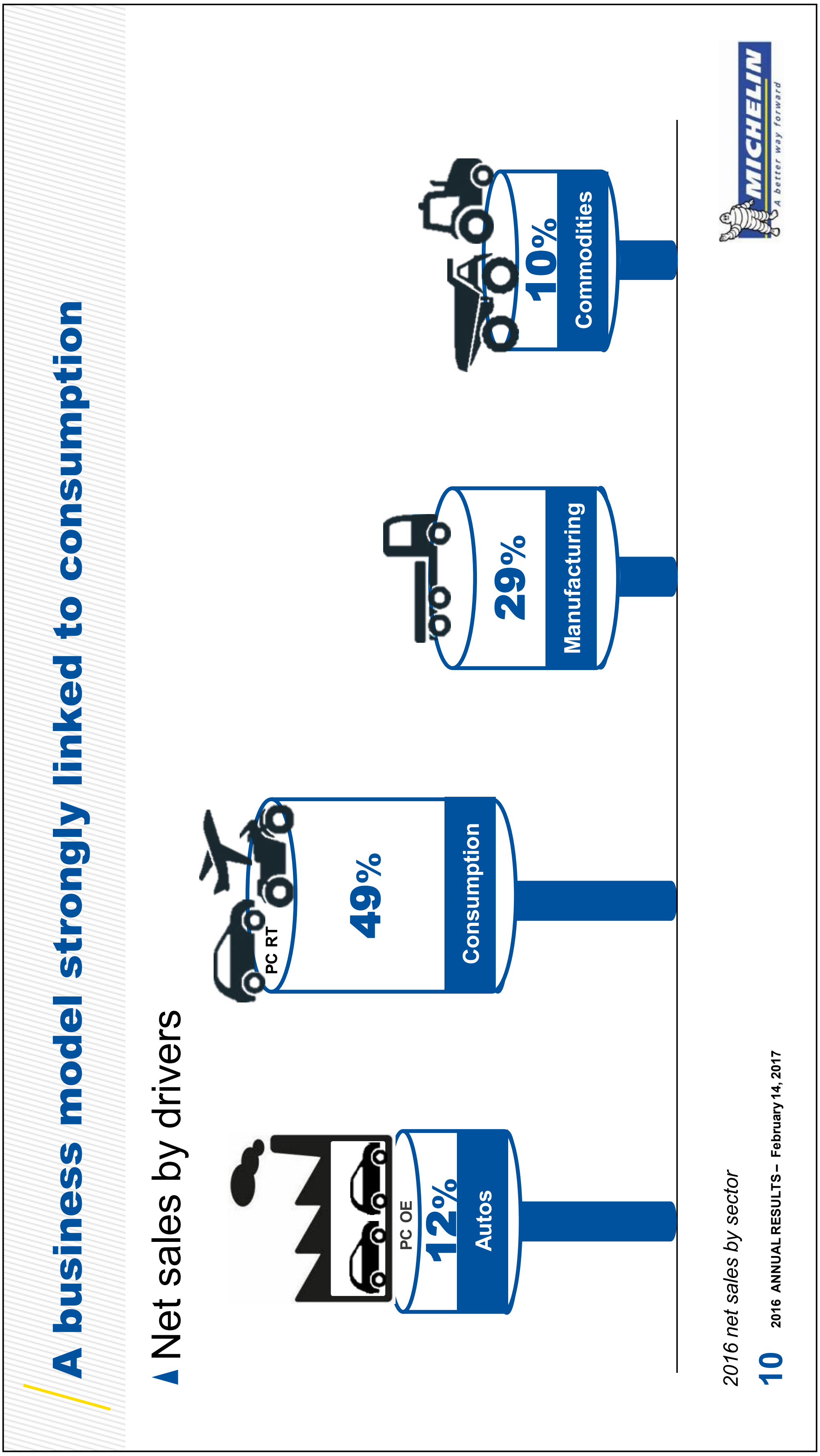
A business model strongly linked to consumption
Net sales by drivers
PC OE
12%
Autos
PC RT
49%
Consumption
29%
Manufacturing
10%
Commodities
2016 net sales by sector
10
2016 ANNUAL RESULTS – February 14, 2017
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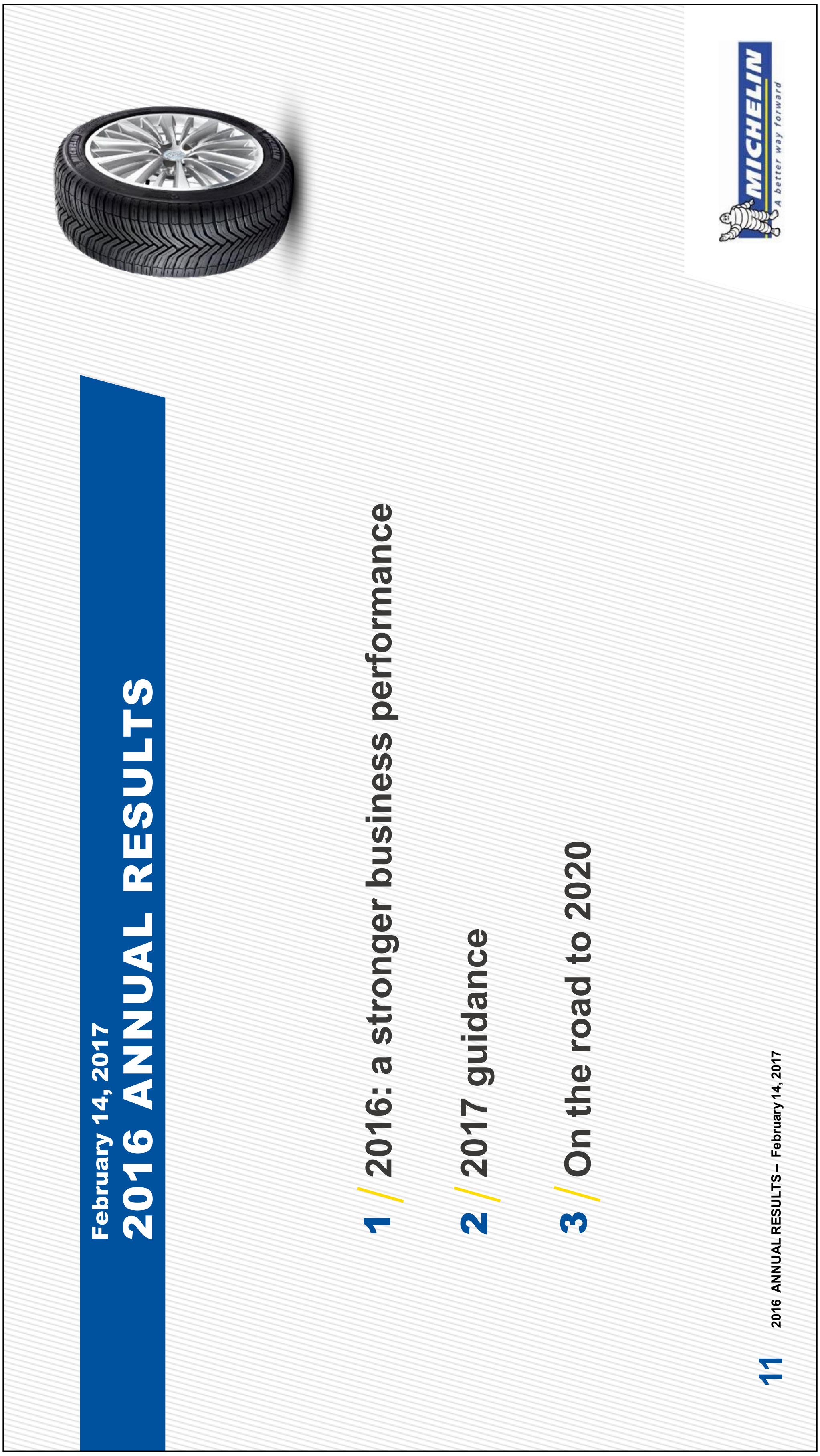
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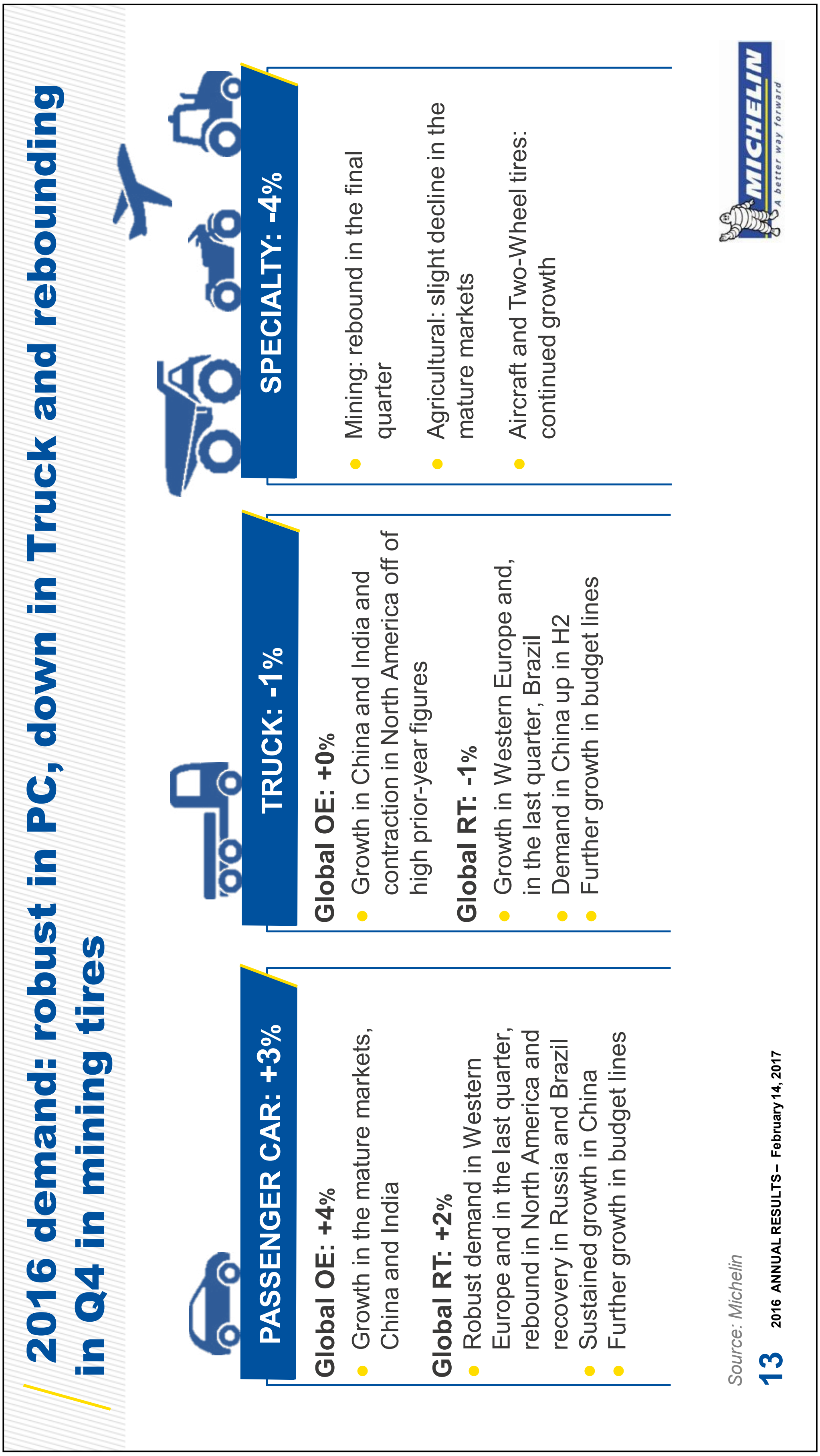
2016 demand: robust in PC, down in Truck and rebounding in Q4 in mining tires
PASSENGER CAR: +3%
Global OE: +4%
Growth in the mature markets, China and India
Global RT: +2%
Robust demand in Western Europe and in the last quarter, rebound in North America and recovery in Russia and Brazil
Sustained growth in China
Further growth in budget lines
TRUCK: -1%
Global OE: +0%
Growth in China and India and contraction in North America off of high prior-year figures
Global RT: -1%
Growth in Western Europe and, in the last quarter, Brazil
Demand in China up in H2
Further growth in budget lines
SPECIALTY: -4%
Mining: rebound in the final quarter
Agricultural: slight decline in the mature markets
Aircraft and Two-Wheel tires: continued growth
Source: Michelin
MICHELIN
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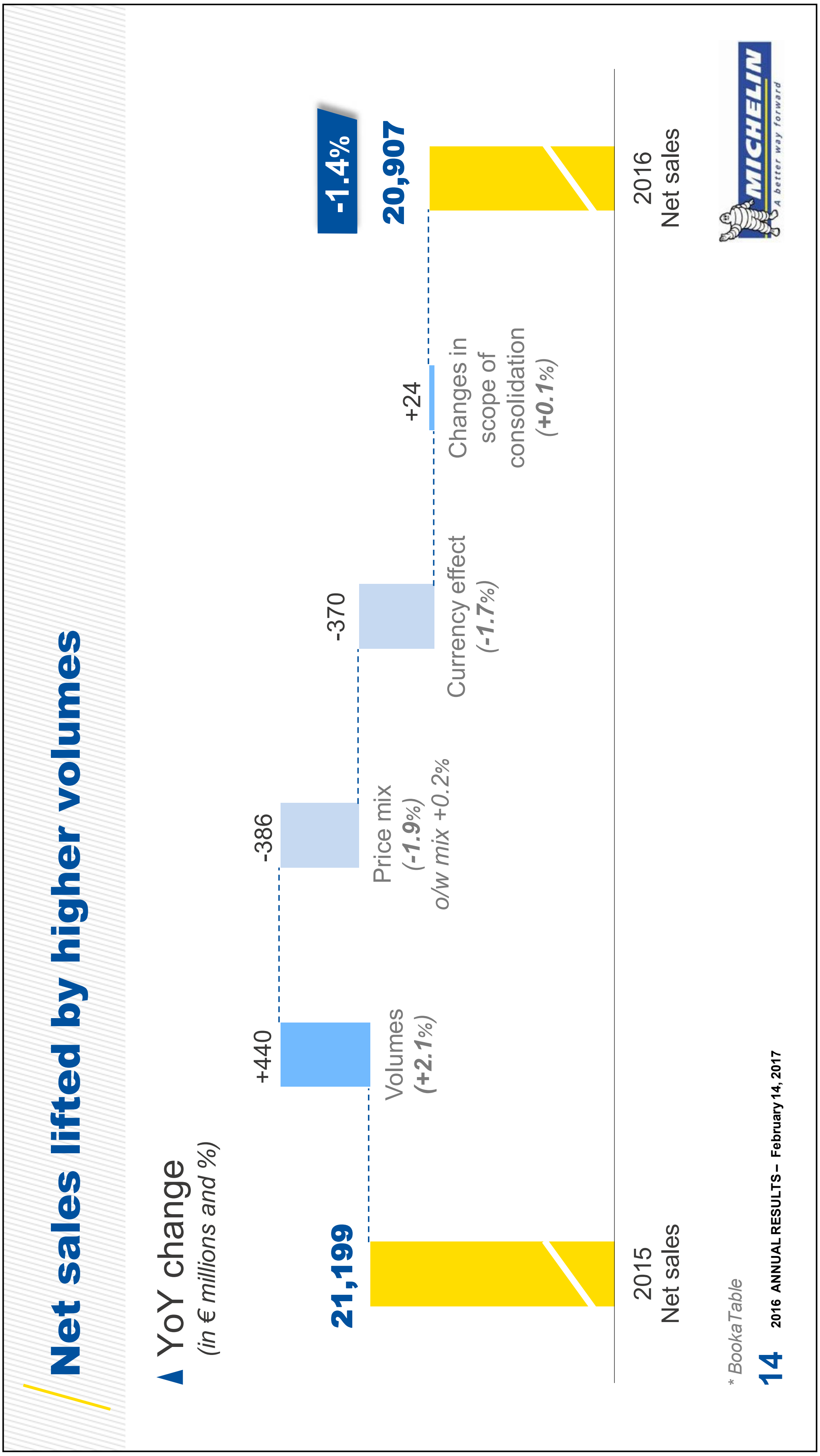
2016 ANNUAL RESULTS – February 14, 2017


Net sales lifted by higher volumes
YoY change
(in € millions and %)
21,199
2015
Net sales
+440
Volumes
(+2.1%)
-386
Price mix
(-1.9%)
o/w mix +0.2%
-370
Currency effect
(-1.7%)
+24
Changes in scope of consolidation
(+0.1%)
-1.4%
20,907
2016
Net sales
* BookaTable
14
2016 ANNUAL RESULTS – February 14, 2017
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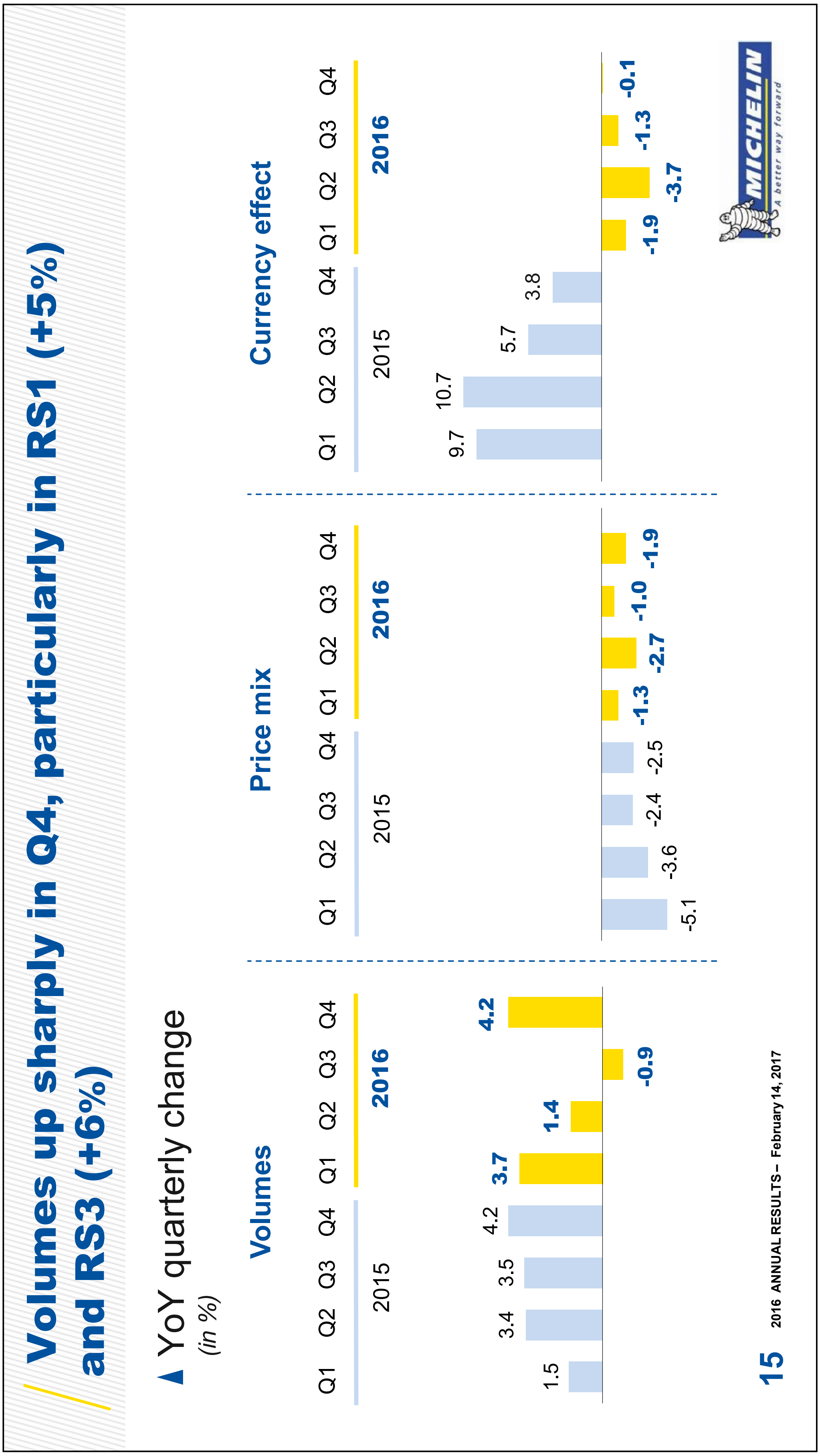
Volumes up sharply in Q4, particularly in RS1 (+5%) and RS3 (+6%)
YoY quarterly change
(in %)
Volumes
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2015
2016
1.5
3.4
3.5
4.2
3.7
1.4
-0.9
4.2
Price mix
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2015
2016
-5.1
-3.6
-2.4
-2.5
-1.3
-2.7
-1.0
-1.9
Currency effect
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2015
2016
9.7
10.7
5.7
3.8
-1.9
-3.7
-1.3
-0.1
15
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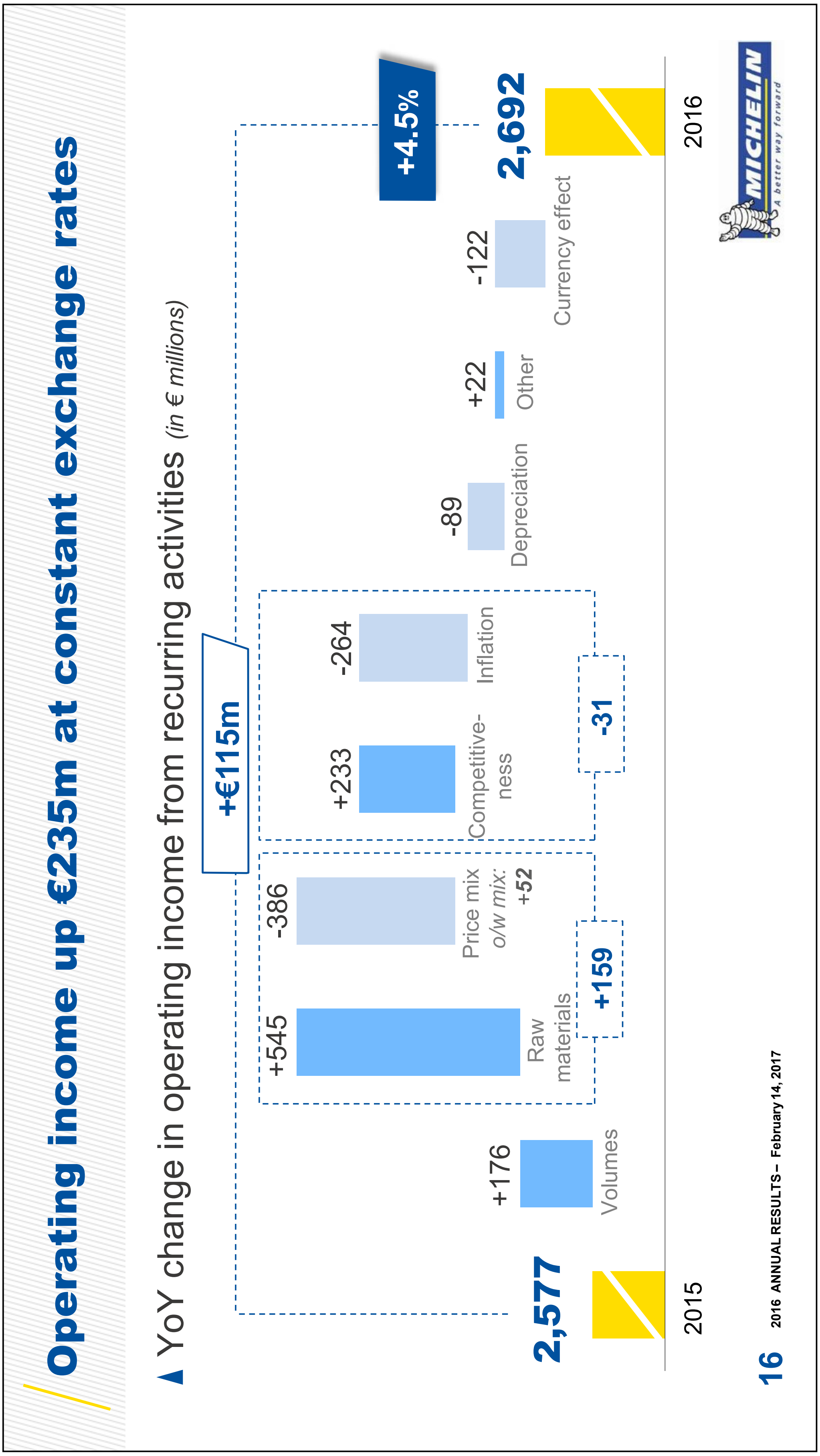
Operating income up €235m at constant exchange rates
YoY change in operating income from recurring activities (in € millions)
+€115m
+4.5%
2,577
2015
+176
Volumes
+545
Raw materials
-386
Price mix
o/w mix:
+52
+159
+233
Competitive-ness
-264
Inflation
-31
-89
Depreciation
+22
Other
-122
Currency effect
2,692
2016
16
2016 ANNUAL RESULTS – February 14, 2017
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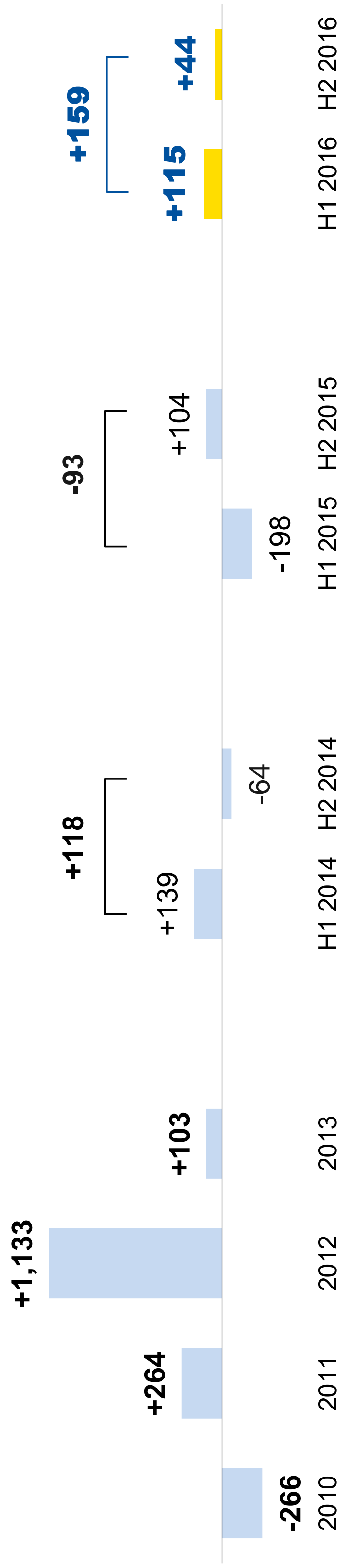
Improvement in unit margin due to effective pricing management over time

▲ Net effect of price mix and raw materials prices on operating income
(in € millions)



- 2016: net impact of changes in price mix and raw materials costs was a negative €28m for indexed businesses and a positive €187m for the other businesses

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Sustained margin improvement in RS1, consolidation in RS2 and firm resistance in RS3

(in € millions)	2016	2015	% change
RS1 net sales	**12,105**	12,028	+1%
Operating income*	***1,585***	*1,384*	+15%
Operating margin*	13.1%	11.5%	+1.6 pts
RS2 net sales	**5,966**	6,229	-4%
Operating income*	***580***	*645*	-10%
Operating margin*	9.7%	10.4%	-0.7 pts
RS3 net sales	**2,836**	2,942	-4%
Operating income*	***527***	*548*	-4%
Operating margin*	18.6%	18.6%	+0 pt

* On recurring activities

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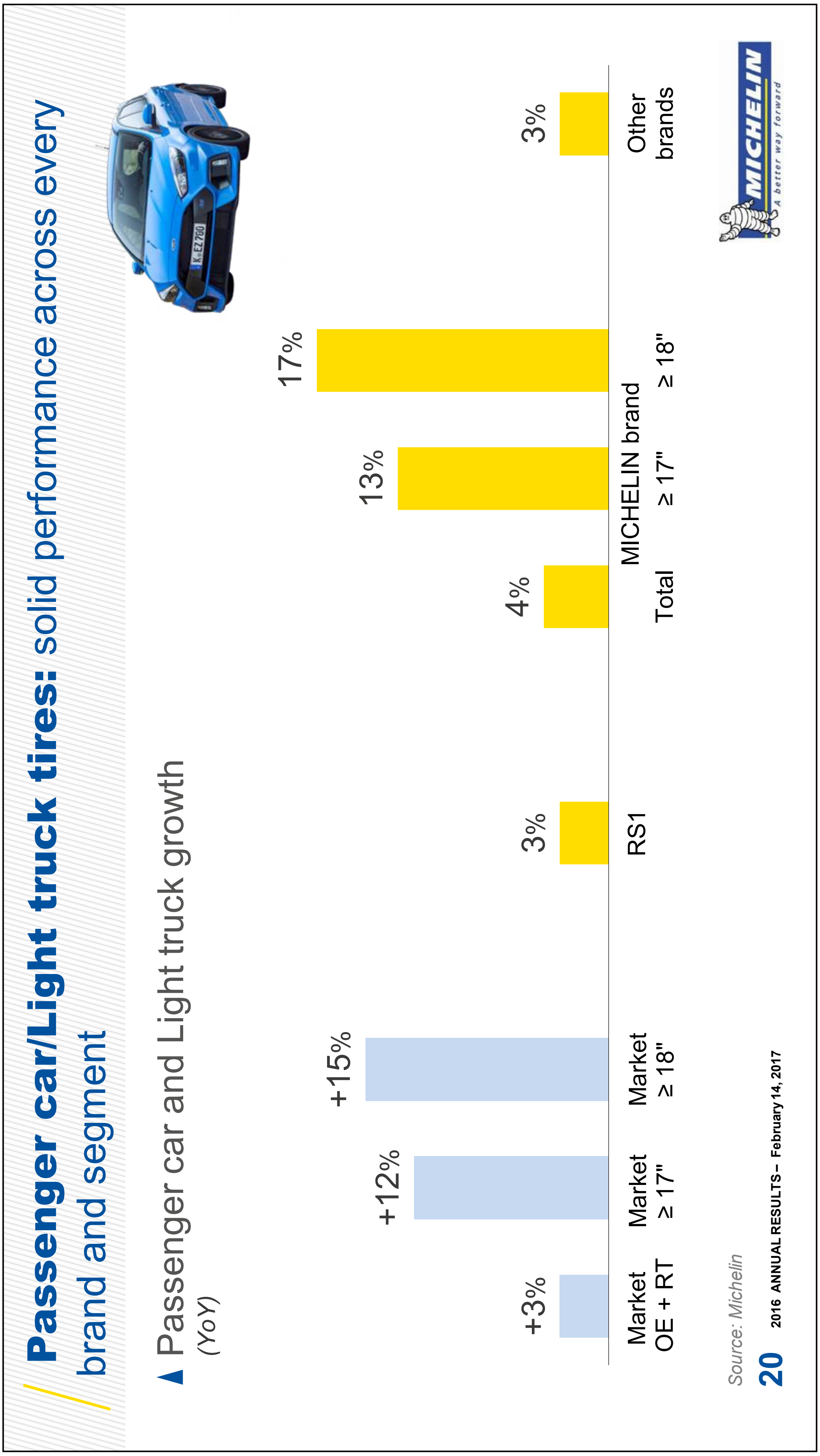
Product launches driving volume and market share gains
Passenger Car
MICHELIN CrossClimate +
MICHELIN Pilot Sport 4 S
MICHELIN Alpin 5
MICHELIN Premier LTX
BFGoodrich All Terrain T/A K02
Truck
MICHELIN X-One Urban Bus
MICHELIN X®Guard
MICHELIN XWorks
Convoy TripleA
MICHELIN X Line Energy Z
Specialty
MICHELIN Power RS
MICHELIN XDR3
2 tires in 1 technology
2017 SIMA INNOVATION AWARDS
19
2016 ANNUAL RESULTS – February 14, 2017


Passenger car/Light truck tires: solid performance across every brand and segment
Passenger car and Light truck growth
(YoY)
+3%
+12%
+15%
3%
4%
13%
17%
3%
Market OE + RT
Market ≥ 17"
Market ≥ 18"
RS1
Total
MICHELIN brand
≥ 17"
≥ 18"
Other brands
Source: Michelin
20
2016 ANNUAL RESULTS – February 14, 2017
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MICHELIN CrossClimate: volumes up nearly 30%
"There is only one candidate that meets all the requirements of an ideal, uncompromising 'all-season' tire," says Auto Bild magazine, "and that's the MICHELIN CrossClimate."
• MICHELIN summer tire with winter certification
• Best All Seasons tire ranked by ADAC Auto Bild
MICHELIN A better way forward
21 2016 ANNUAL RESULTS – February 14, 2017

A sustained cost reduction dynamic, in line with our objectives

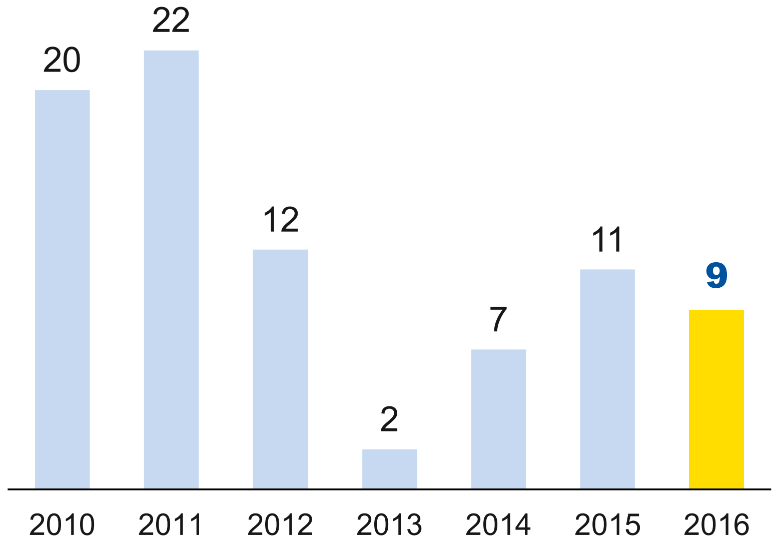
Objectives met

In € millions	2007-2010 plan Target: €1,000m	**2016**	**2012-2016 plan Target: €1,200m**
SG&A	251	78	522
Manufacturing -Transport	406	101	448
Raw materials	365	54	227
Total	**1,022**	**233**	**1,197**

22 2016 ANNUAL RESULTS – February 14, 2017

A robust balance sheet after the share buybacks, confirmed by the rating agencies

Gearing
Net debt/equity, in %



Solid long-term ratings

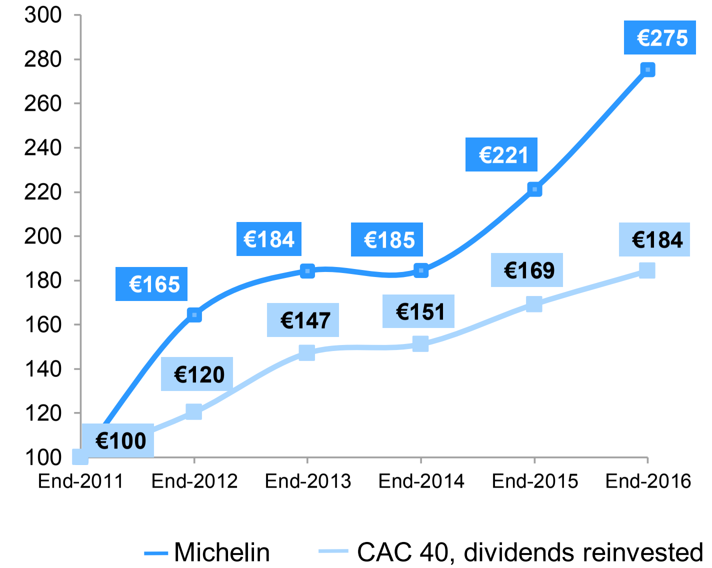
Short term	S&P Moody's	A-2 P-2
Long term	S&P Moody's	A- A3
Outlook	S&P Moody's	Stable Stable

23 2016 ANNUAL RESULTS – February 14, 2017

2015-2016 shareholder return: €978m in dividends paid and €750m in share buybacks

- Share buyback program
  - €450m committed in 2015
  - €301m committed in 2016
    - 3.3 million shares bought back at an average price of €89.60
  - Share cancellations reduced issued capital by 4.5%
- Payout commitment
  - At least 35% of net income before non-recurring items
  - 2016: €3.25* per share, representing a payout ratio of 36.5%

- Total Shareholder Return



* Subject to shareholder approval at the Annual Meeting on May 19, 2017

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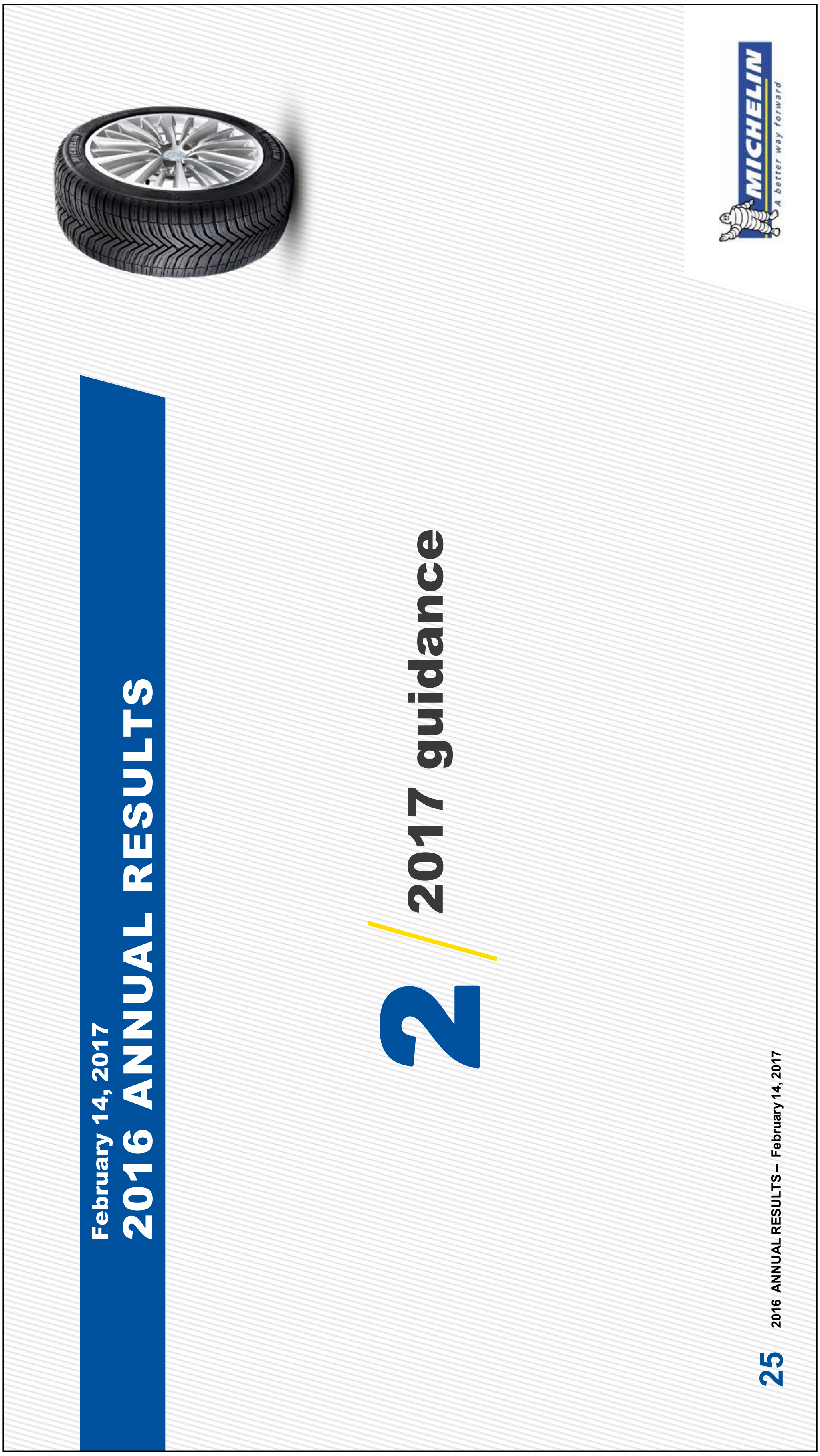
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2
2017 guidance
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2016 ANNUAL RESULTS – February 14, 2017

2017 market outlook: announced price increases should drive H1 growth

PASSENGER CAR: +2%/+3%

Growth in line with long-term trends

- Slower markets in the North America and Europe
- Still buoyant demand in China
- Recoveries in other regions

TRUCK: +0%/+2%

Growth in line with long-term trends

- China: return to growth in the world's largest market
- Europe: modest growth in RT and slight decline in OE
- North America: another year of decline in OE and leveling off but still strong in RT

SPECIALTY: +2%/+3%

- O/w mining tires: +5%/+10%
- O/w agricultural tires: ~ -2%

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2017 guidance: on the road to our 2020 objectives

	2017
Volumes	**Growth in line with the markets**
Operating income from recurring activities at constant exchange rates	**≥ 2016**
Net price-mix effect vs. raw materials	Non-indexed businesses: neutral
Structural FCF*	**> €900m**

** Adjusted for the payment in January 2017 of the €193m in interest on the zero-coupon Oceanes 2017 convertible bonds*

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2017 scenario based on average January 2017 prices*

	H1 2017	2017
Impact from raw materials cost		Around €900m headwind
Currency effect		Around a positive €100m
Net price-mix effect vs. raw materials	€100-200m headwind	Indexed businesses: negative Non-indexed businesses: neutral
Competitiveness plan gains vs. inflation		Slightly positive

** Natural rubber: \$2.2/kg; butadiene (US and Europe): \$1,200/T; Brent: \$55/bbl; EUR/USD: \$1.06*

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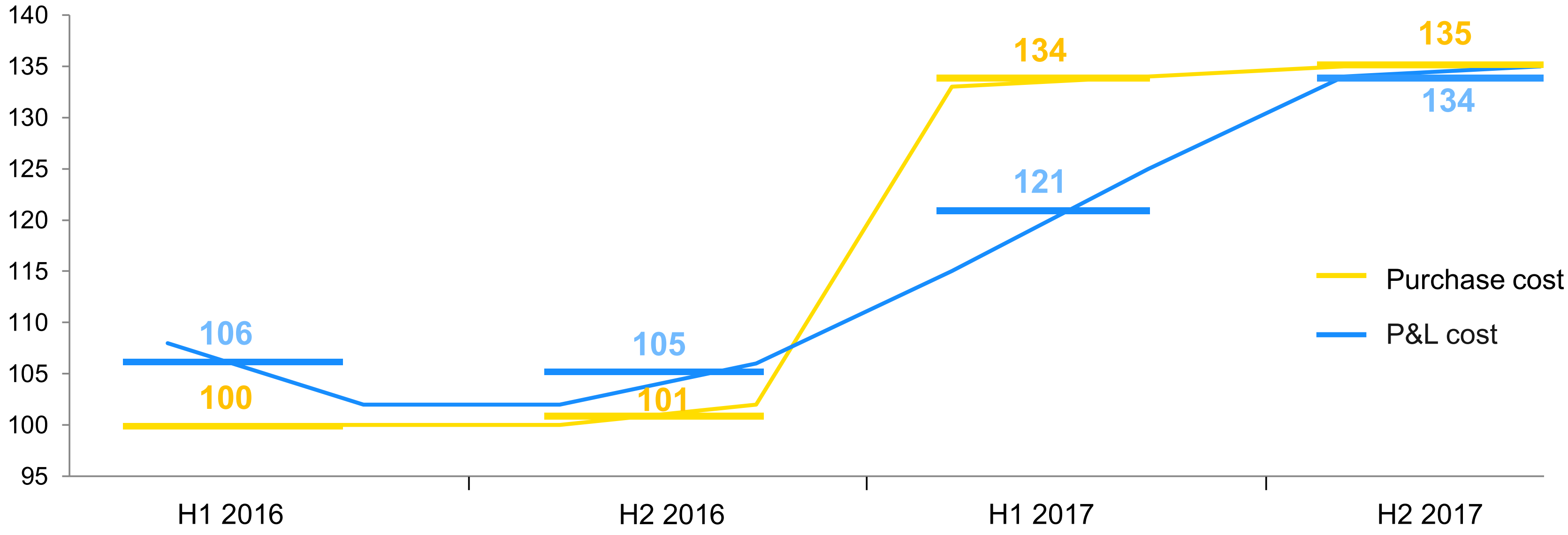
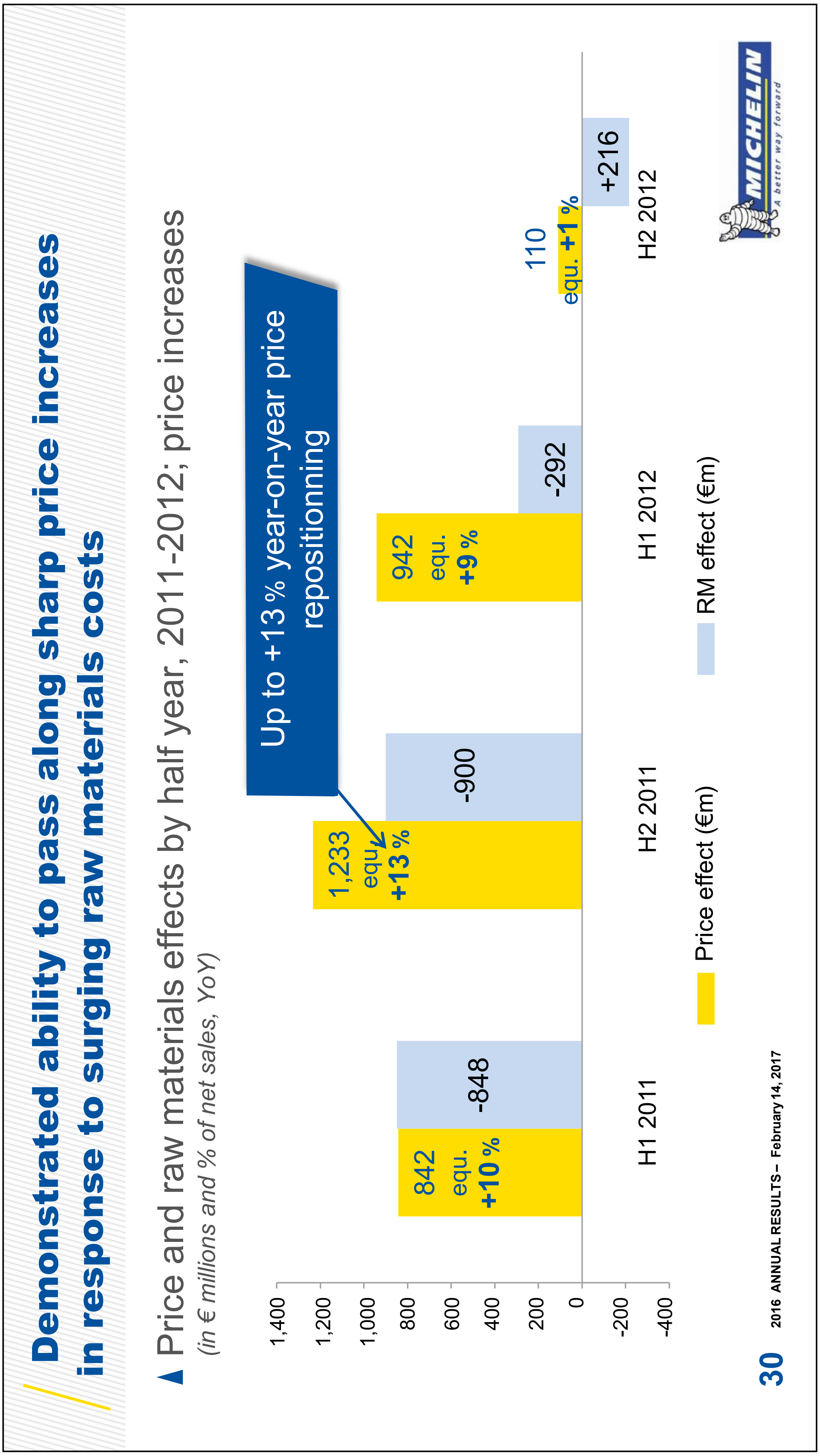
Raw materials: a negative impact mainly in H2

▲ 2017 assumptions per half



29 2016 ANNUAL RESULTS – February 14, 2017


Demonstrated ability to pass along sharp price increases in response to surging raw materials costs
Price and raw materials effects by half year, 2011-2012; price increases
(in € millions and % of net sales, YoY)
Up to +13 % year-on-year price repositionning
1,400
1,200
1,000
800
600
400
200
0
-200
-400
842
equ.
+10 %
-848
1,233
equ.
+13 %
-900
942
equ.
+9 %
-292
110
equ. +1 %
+216
H1 2011
H2 2011
H1 2012
H2 2012
Price effect (€m)
RM effect (€m)
30
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Worldwide price increases for Michelin

Europe	North America	South America	China	ASEAN
Up to 8% over the first four months	Up to 8% from Feb. to April	Up to 3% in January	Up to 8% in February	Up to 8% in March-April

- Depending on the changes in raw material costs, the Group may adjust the price positioning of its products.

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On the road to 2020
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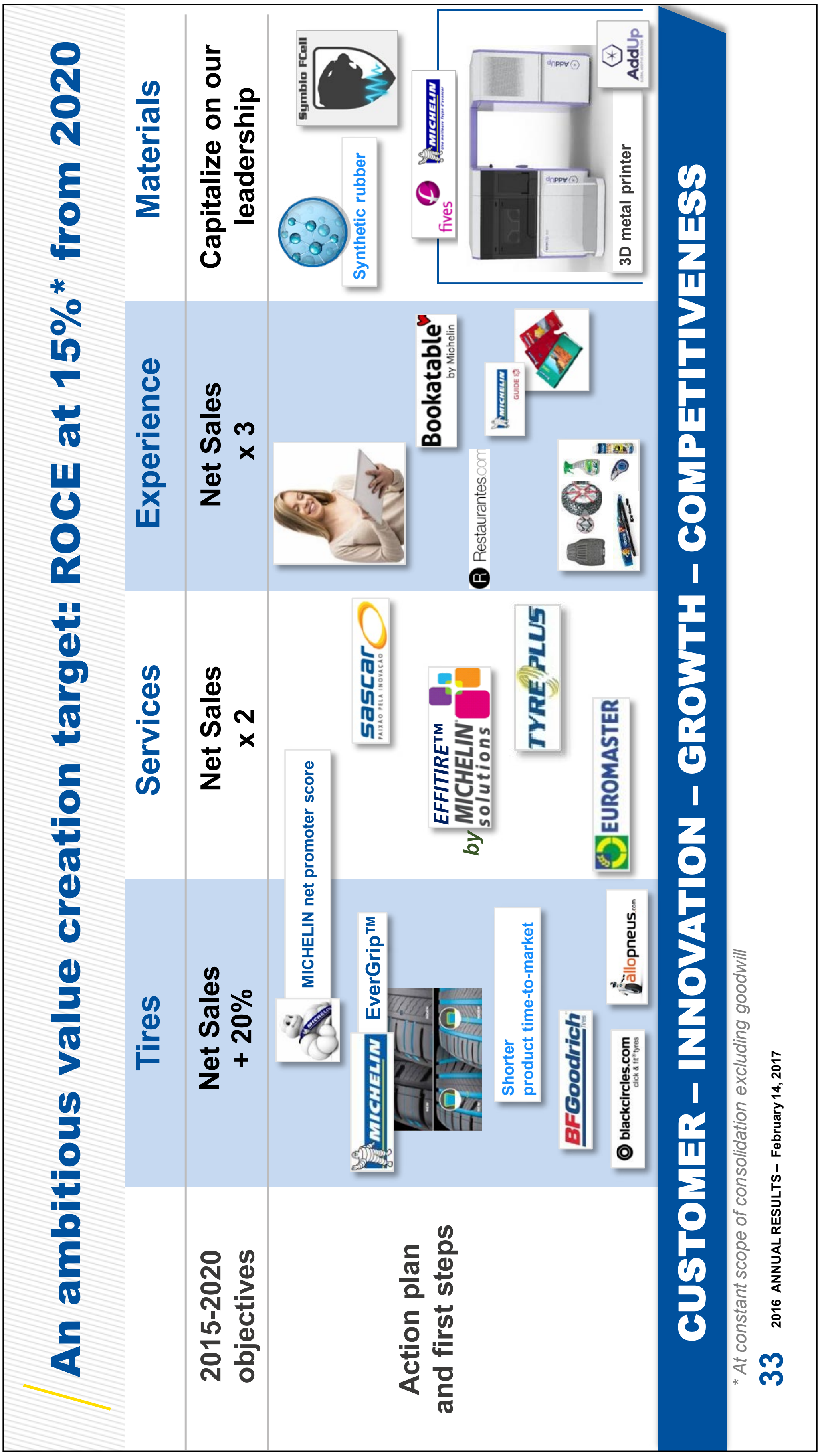
An ambitious value creation target: ROCE at 15%* from 2020
Tires
Services
Experience
Materials
2015-2020 objectives
Net Sales + 20%
Net Sales x 2
Net Sales x 3
Capitalize on our leadership
Action plan and first steps
MICHELIN net promoter score
EverGrip™
Shorter product time-to-market
BFGoodrich
allopneus.com
blackcircles.com
sascar
EFFITIRE™ by MICHELIN solutions
TYREPLUS
EUROMASTER
Bookatable by Michelin
Restaurantes.com
Synthetic rubber
Symbio FCell
fives
3D metal printer
AddUp
CUSTOMER – INNOVATION – GROWTH – COMPETITIVENESS
* At constant scope of consolidation excluding goodwill
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MICHELIN PILOT SPORT 4 S,
GENUINE PASSION -
EXCEPTIONAL DRIVES.
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Ranked N°1 for braking on dry surfaces and excellent on wet surfaces, the new Michelin Pilot Sport4 S is engineered for superior safety and performance. Thanks to its Dynamic Response technology and ultra reactive tread pattern, it delivers revolutionary steering control and instantaneous responsiveness. Acclaimed by most performance car makers, it's for those who love driving.
Find out how good a sports tyre can be at michelin.country/tyre/michelin-pilot-sport-4s
PILOT SPORT 4 S
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Investor calendar

- **Coming events:**
  - **April 20, 2017**: First-quarter 2017 net sales
  - **May 19, 2017**: Annual Shareholders Meeting
  - **July 25, 2017 after close of trading**: First-half 2017 results
  - **October 19, 2016**: Third-quarter 2017 net sales
- **Dividend dates:**
  - **May 24, 2017**: Ex-dividend date
  - **May 25, 2017**: Record date
  - **May 26, 2017**: Payment date

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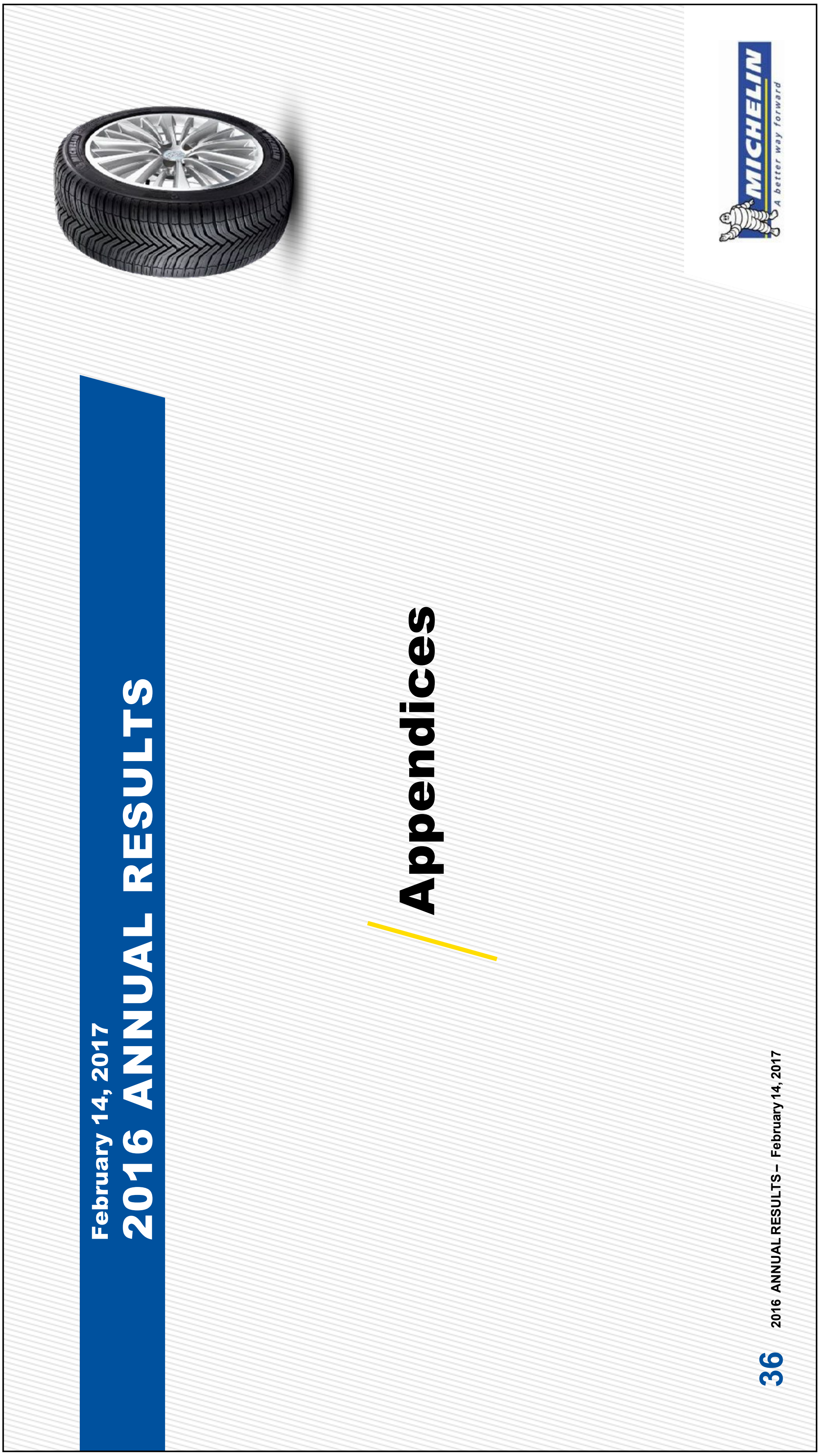
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2016 ANNUAL RESULTS – February 14, 2017

Reported 2016 and 2015 financial highlights

(in € millions)	2016	2015
Net sales	**20,907**	21,199
EBITDA from recurring activities	**4,084**	3,934
EBITDA margin on recurring activities	**19.5%**	18.6%
Operating income from recurring activities*	**2,692**	2,577
Operating margin on recurring activities	**12.9%**	12.2%
Operating income/(loss) from non-recurring activities	**99**	(370)
Net income	**1,667**	1,163
Basic earnings per share (in €)	**9.21**	6.28
Capital expenditure	**1,811**	1,804
Free cash flow**	**1,024**	653
Gearing	**9%**	11%

** To make its operating performance easier to understand and analyze, Michelin now presents "Operating income before non-recurring income and expenses" as "Operating income from recurring activities" and has refined its definition.*
*** Net cash from operating activities less net cash from investing activities less net cash from other current financial assets, before distributions.*

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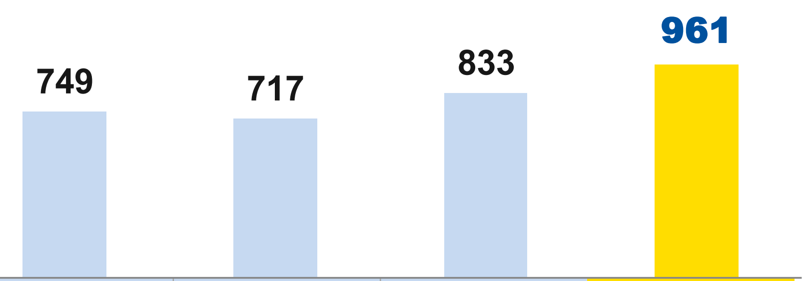
A business that structurally generates free cash flow

- Structural free cash flow
  (in € millions)



	2013	2014	2015	2016
Free cash flow (1)	**1,154**	**322**	**653**	**1,024**
Acquisitions (2)	0	(400)	(312)	(16)
WCR impact of raw materials costs (3)	405	177	132	79
WCR impact of year-end volumes (4)	nm	(172)	nm	nm
Structural free cash flow (1) – (2) – (3) – (4)	**749**	**717**	**833**	**961**

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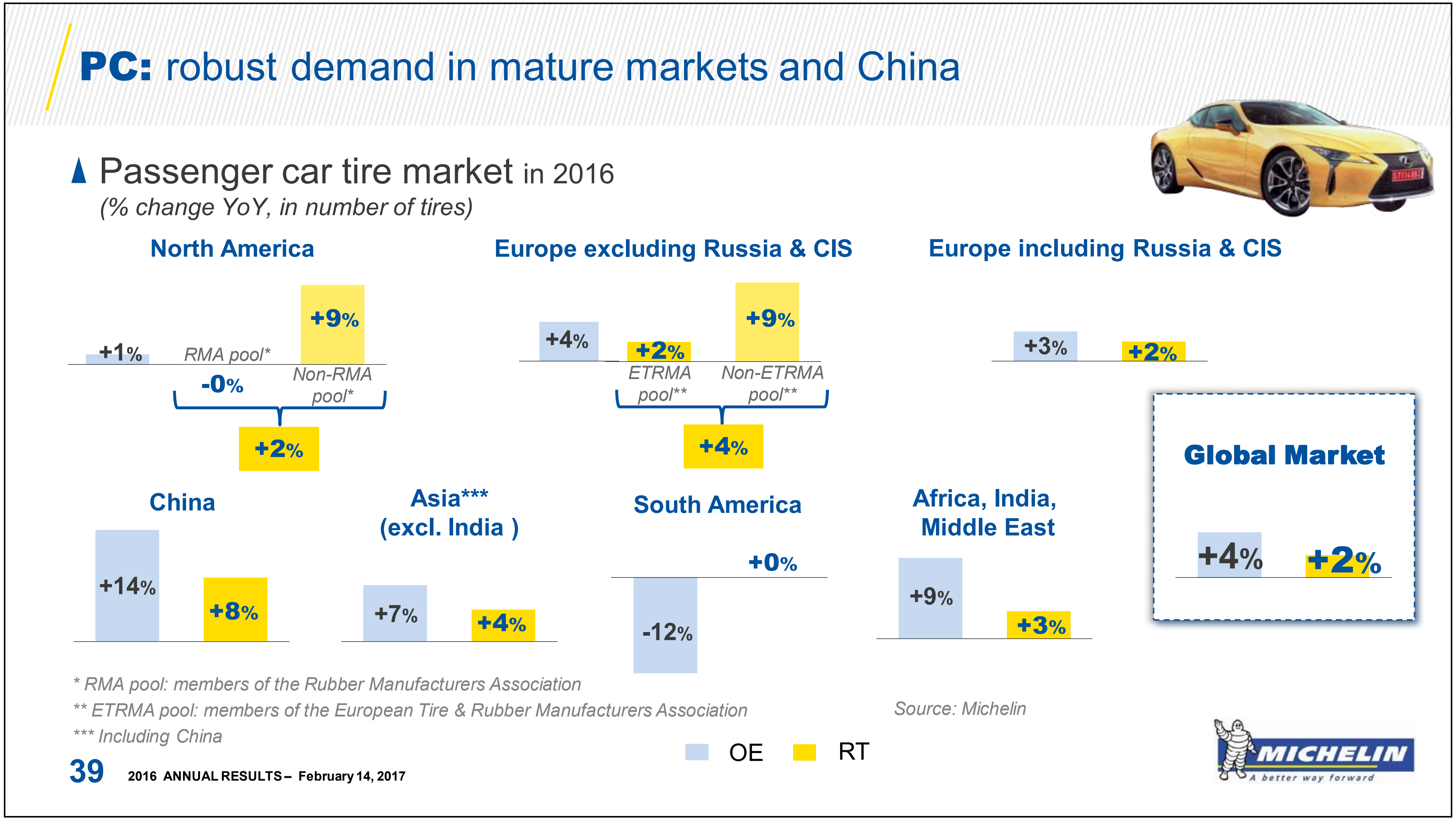
PC: robust demand in mature markets and China
Passenger car tire market in 2016
(% change YoY, in number of tires)
North America
+1%
RMA pool*
-0%
+9%
Non-RMA pool*
+2%
Europe excluding Russia & CIS
+4%
+2%
ETRMA pool**
+9%
Non-ETRMA pool**
+4%
Europe including Russia & CIS
+3%
+2%
Global Market
+4%
+2%
China
+14%
+8%
Asia***
(excl. India)
+7%
+4%
South America
-12%
+0%
Africa, India, Middle East
+9%
+3%
* RMA pool: members of the Rubber Manufacturers Association
** ETRMA pool: members of the European Tire & Rubber Manufacturers Association
*** Including China
Source: Michelin
OE
RT
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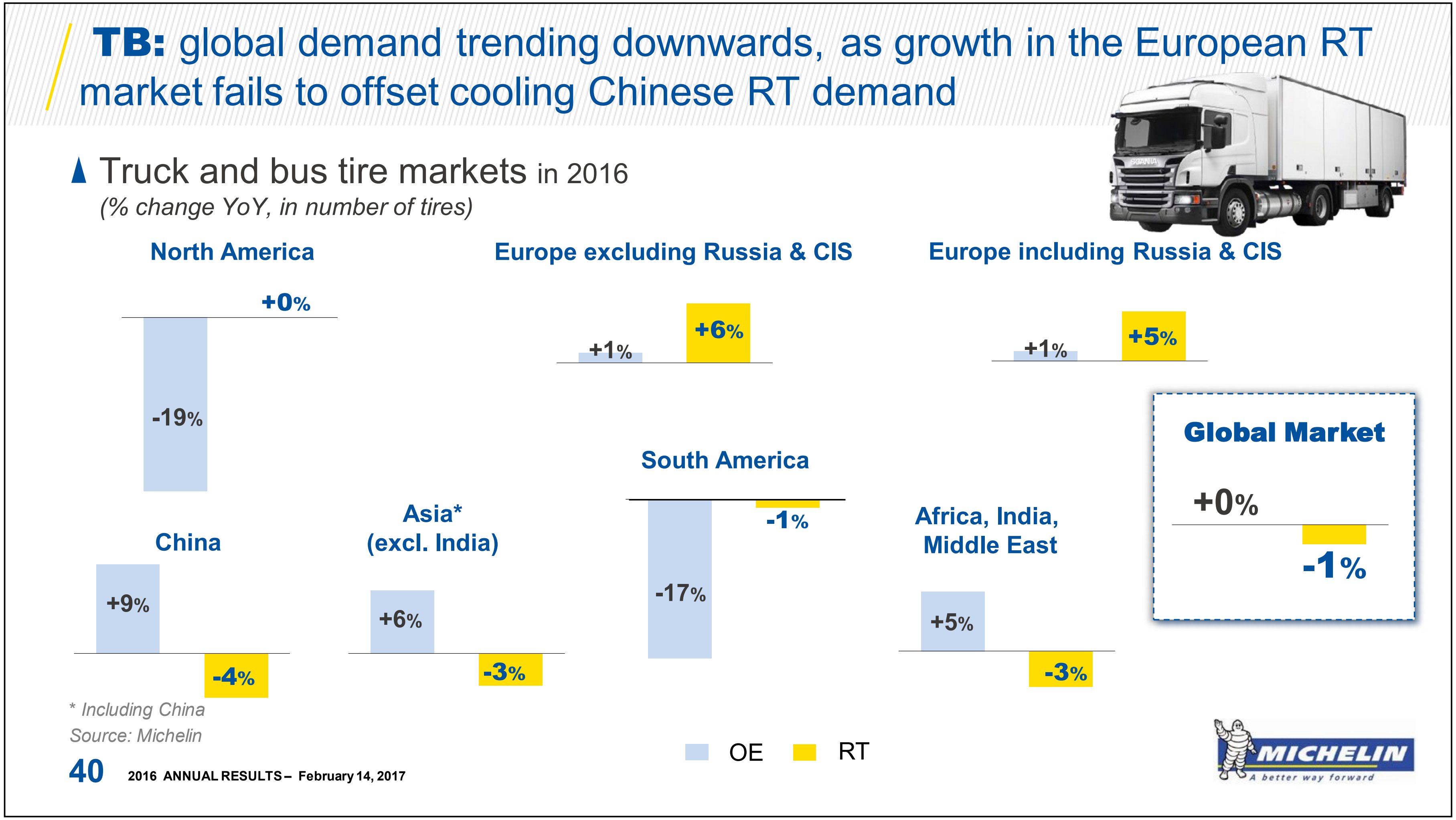
TB: global demand trending downwards, as growth in the European RT market fails to offset cooling Chinese RT demand
Truck and bus tire markets in 2016
(% change YoY, in number of tires)
North America
+0%
-19%
Europe excluding Russia & CIS
+1%
+6%
Europe including Russia & CIS
+1%
+5%
Global Market
+0%
-1%
South America
-17%
-1%
China
+9%
-4%
Asia*
(excl. India)
+6%
-3%
Africa, India,
Middle East
+5%
-3%
OE
RT
* Including China
Source: Michelin
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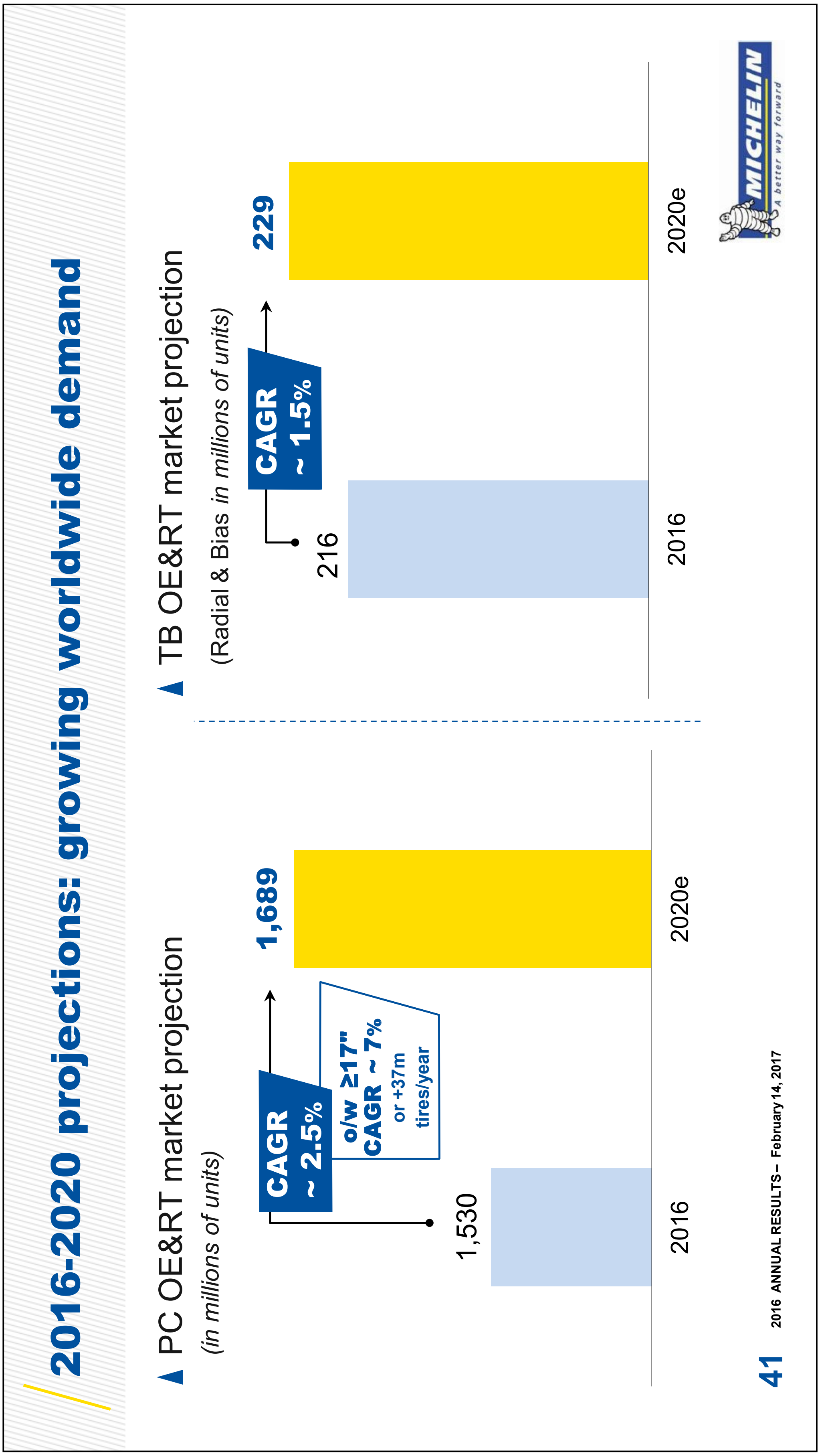
2016-2020 projections: growing worldwide demand
PC OE&RT market projection
(in millions of units)
1,530
1,689
CAGR
~ 2.5%
o/w ≥17"
CAGR ~ 7%
or +37m
tires/year
2016
2020e
TB OE&RT market projection
(Radial & Bias in millions of units)
216
229
CAGR
~ 1.5%
2016
2020e
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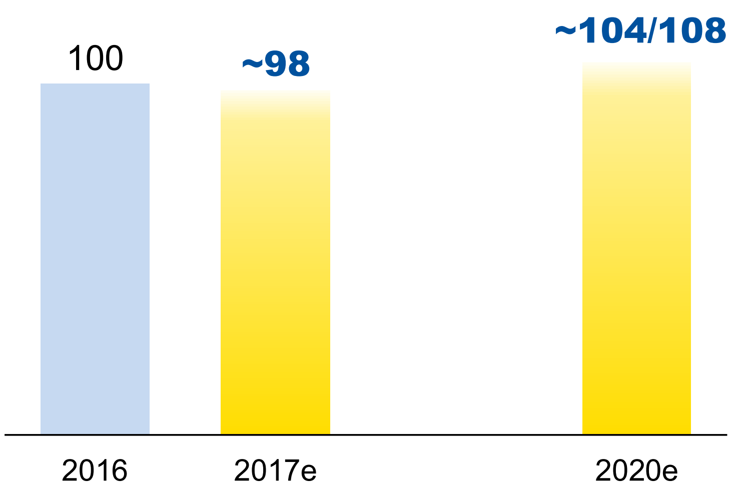
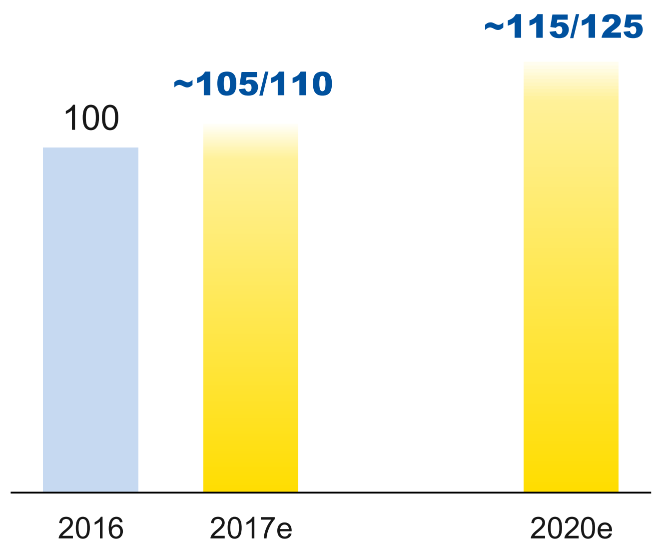
2017: Mining tires, return to growth – Agricultural tires, another year of slight decline before returning to growth

Agricultural tires* *(base 100 in 2016, in tonnes)*



Mining tires *(base 100 in 2016, in tonnes)*



* OE & RT in Europe and North America

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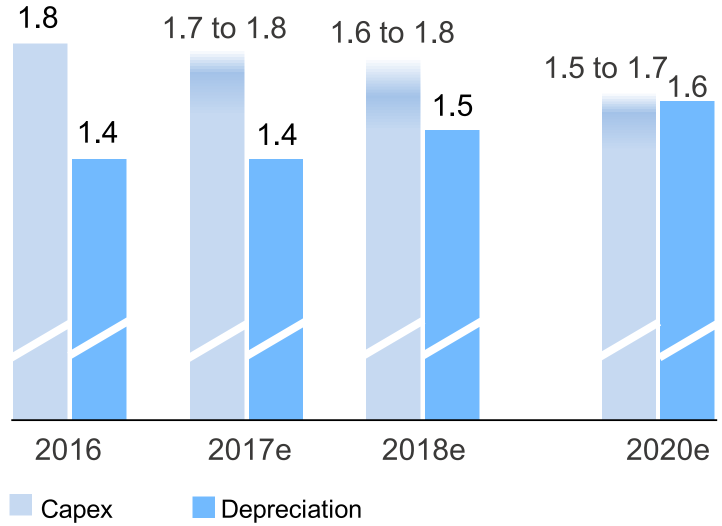
Investing to create value

- Successfully carry out our priority Capex and M&A projects to drive expansion:
  - In growing markets: Premium PC, North America and Asia
  - In the supply chain to improve customer service (information systems, logistics)
  - In digital services
  - In raw materials and semi-finished products

- Closing the gap between Capex and depreciation:

(in € billions, at current exchange rates)



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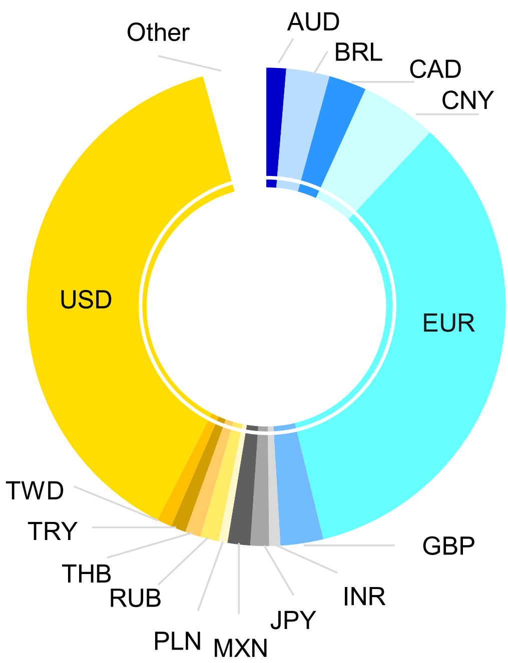
2016 net sales by currency

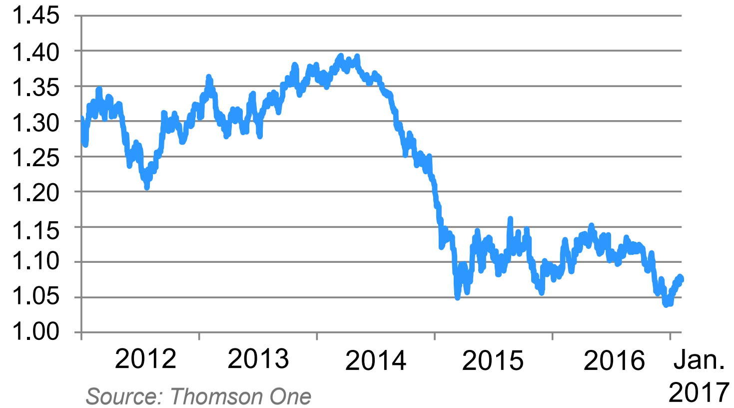


	% of net sales	
	AUD	1%
	BRL	3%
	CAD	3%
	CNY	5%
	EUR	34%
	GBP	3%
	INR	1%
	JPY	1%
	MXN	2%
	PLN	1%
	RUB	1%
	THB	1%
	TRY	1%
	TWD	1%
	USD	38%
	Other	4%

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 – 2012- Jan. 2017



Source: Thomson One

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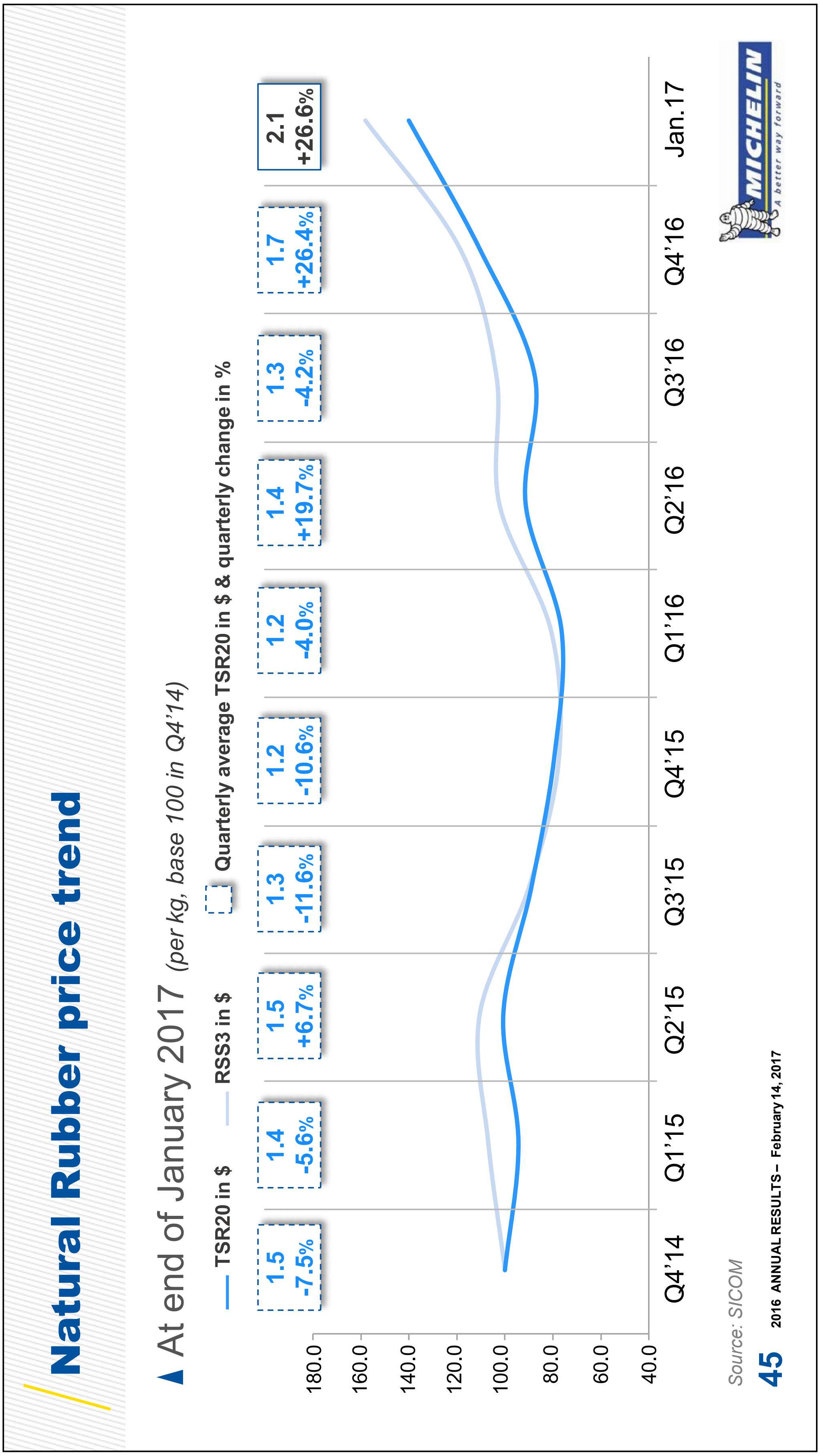
Natural Rubber price trend
At end of January 2017 (per kg, base 100 in Q4'14)
TSR20 in $
RSS3 in $
Quarterly average TSR20 in $ & quarterly change in %
1.5 -7.5%
1.4 -5.6%
1.5 +6.7%
1.3 -11.6%
1.2 -10.6%
1.2 -4.0%
1.4 +19.7%
1.3 -4.2%
1.7 +26.4%
2.1 +26.6%
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
Q4'14
Q1'15
Q2'15
Q3'15
Q4'15
Q1'16
Q2'16
Q3'16
Q4'16
Jan.17
Source: SICOM
45
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Brent price trend
At end of January 2017 (per barrel, base 100 in Q4'14)
Brent in $
Quarterly average Brent in $ & quarterly change in %
77 -25.1%
55 -28.5%
63 +15.0%
51 -19.3%
45 -12.4%
35 -21.7%
47 +33.2%
47 +0.3%
51 +8.8%
56 +8.8%
120
100
80
60
40
20
0
Q4'14
Q1'15
Q2'15
Q3'15
Q4'15
Q1'16
Q2'16
Q3'16
Q4'16
Jan.17
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Butadiene price trend
At end of January 2017 (per ton, base 100 in Q4'14)
Butadiene US Gulf
Butadiene Europe
Quarterly average Butadiene in $ & quarterly change in %
1,065 -20%
704 -34%
694 -2%
875 +26%
735 -16%
578 -21%
732 +27%
853 +17%
1,105 +29%
1,411 +28%
140
130
120
110
100
90
80
70
60
50
40
Q4'14
Q1'15
Q2'15
Q3'15
Q4'15
Q1'16
Q2'16
Q3'16
Q4'16
Jan. 17
Source: IHS
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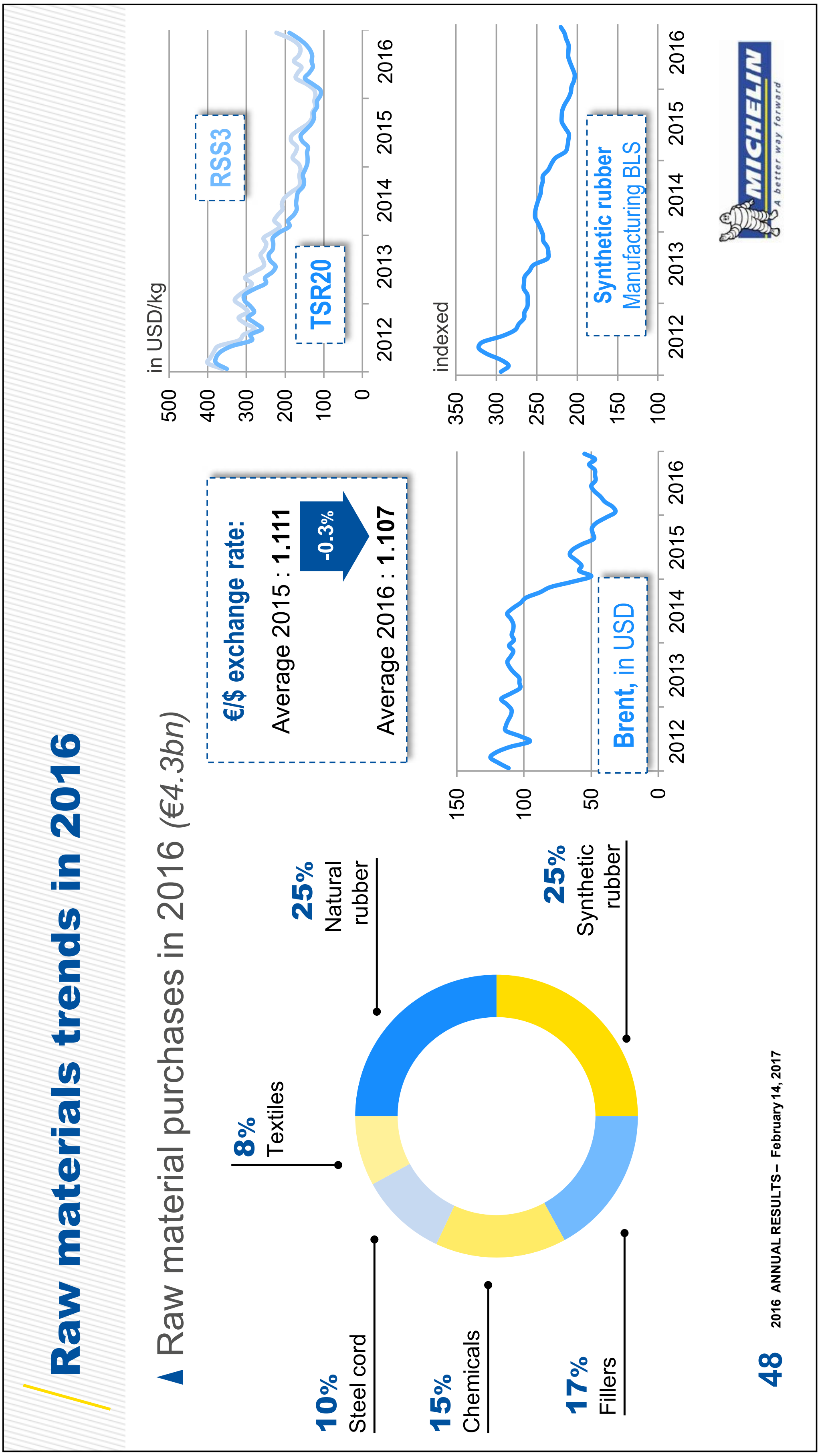
Raw materials trends in 2016
Raw material purchases in 2016 (€4.3bn)
25% Natural rubber
25% Synthetic rubber
17% Fillers
15% Chemicals
10% Steel cord
8% Textiles
€/$ exchange rate:
Average 2015 : 1.111
-0.3%
Average 2016 : 1.107
Brent, in USD
150
100
50
0
2012
2013
2014
2015
2016
in USD/kg
500
400
300
200
100
0
RSS3
TSR20
indexed
350
300
250
200
150
100
Synthetic rubber
Manufacturing BLS
MICHELIN
A better way forward
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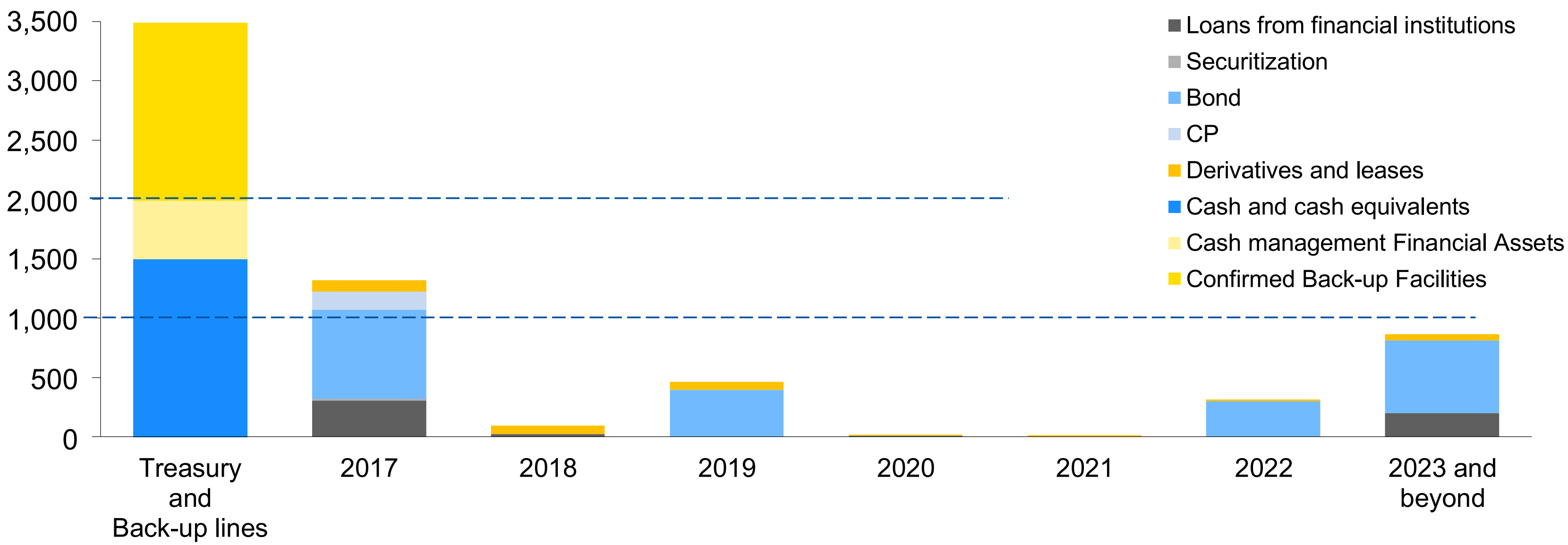
A comfortable cash position

Debt* maturities at Dec. 31, 2016 *(book value, in millions €)*



* *Including accrued interests*

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Outstanding bond issues (as of February 14, 2017)

Issuer	MICHELIN Luxembourg	Compagnie Générale des Etablissements MICHELIN	MICHELIN Luxembourg	MICHELIN Luxembourg	MICHELIN Luxembourg
Issue	Senior Note	Senior Note	Senior Note	Senior Note	Senior Note
Type	Bond	Convertible	Bond	Bond	Bond
Principal amount	€ 400 mn	$ 500 mn	€ 300 mn	€ 300 mn	€ 302 mn
Offering price	99.912%	100%	99.967%	99.081%	98.926%
Rating corporation at Issuance date	BBB+ (S&P) Baa1 (Moody's) BBB+ (Fitch)	A- (S&P) A3 (Moody's) A- (Fitch)	A- (S&P) A3 (Moody's) A- (Fitch)	A- (S&P) A3 (Moody's) A- (Fitch)	A- (S&P) A3 (Moody's) A- (Fitch)
Current corporation rating	A- (S&P) ; A3 (Moody's) ; A- (Fitch)				
Coupon	2.75% p.a	ZERO Conv premium 128%	1.125% p.a	1.75% p.a	3.25% p.a
Issue Date	11-juin-12	5-janv.-17	19-mai-15	19-mai-15	21/09/2015 & 27/09/2016
Maturity	20-juin-19	10-janv.-22	28-mai-22	28-mai-27	09/30/2045
Interest payment	Annual June 20	N/A	Annual May 28	Annual May 28	Annual Sept 30
ISIN	XS0794392588	FR0013230745	XS1233732194	XS1233734562	XS1298728707
Denomination	€ 1'000 with min. tradable amount € 1'000	$ 200'000 with min. tradable amount $ 200'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000	€ 1'000 with min. tradable amount € 1'000

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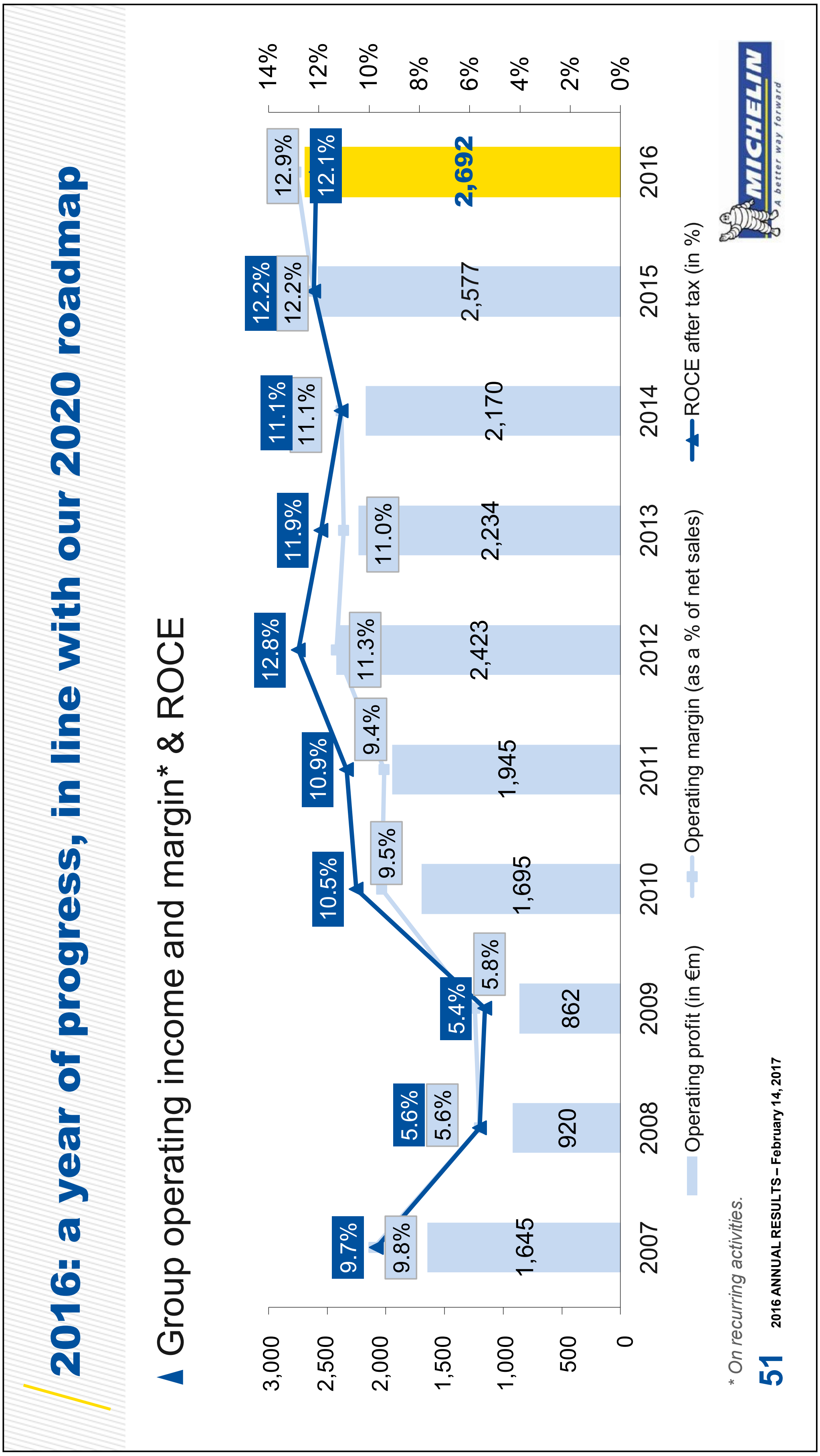
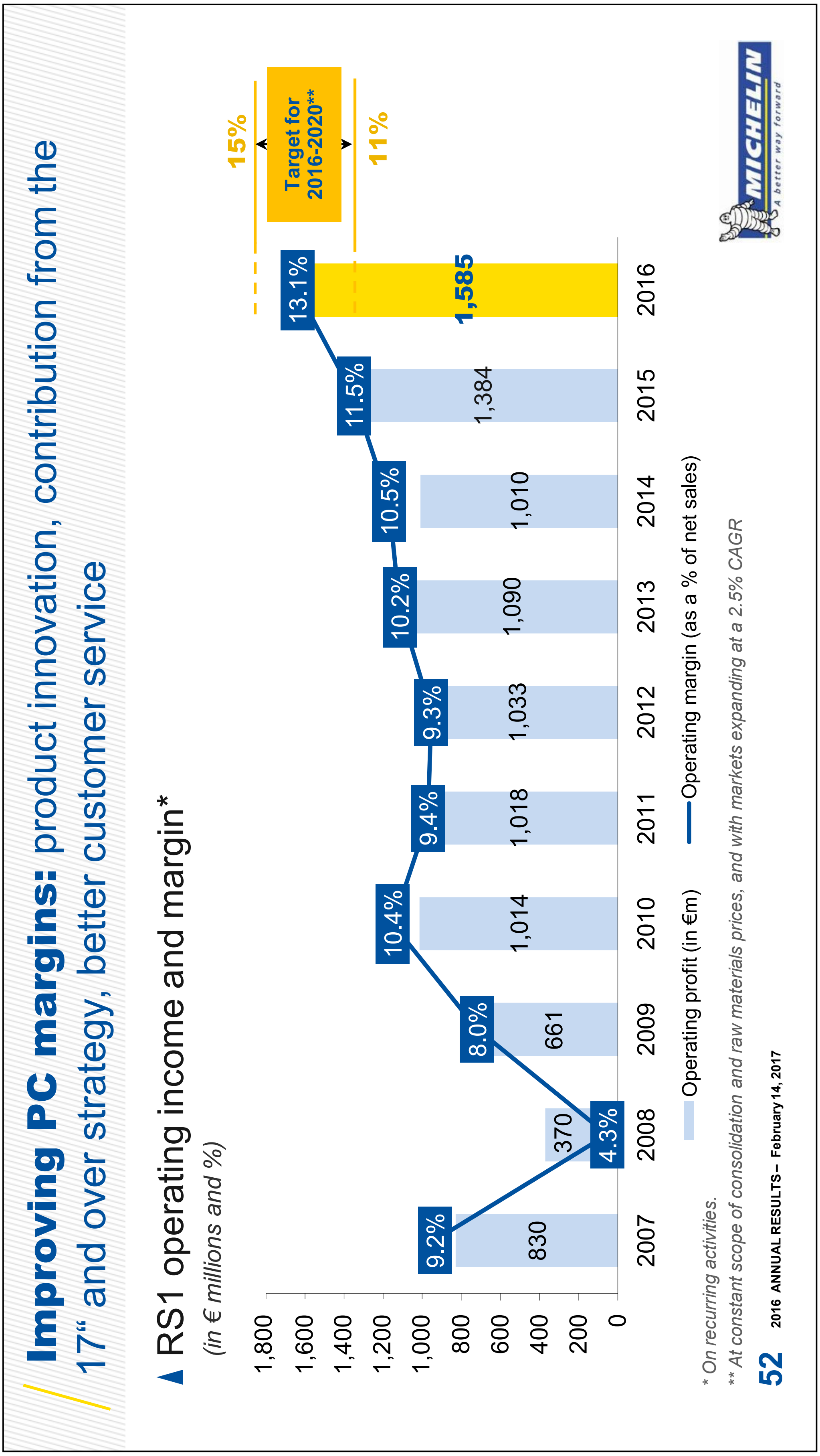
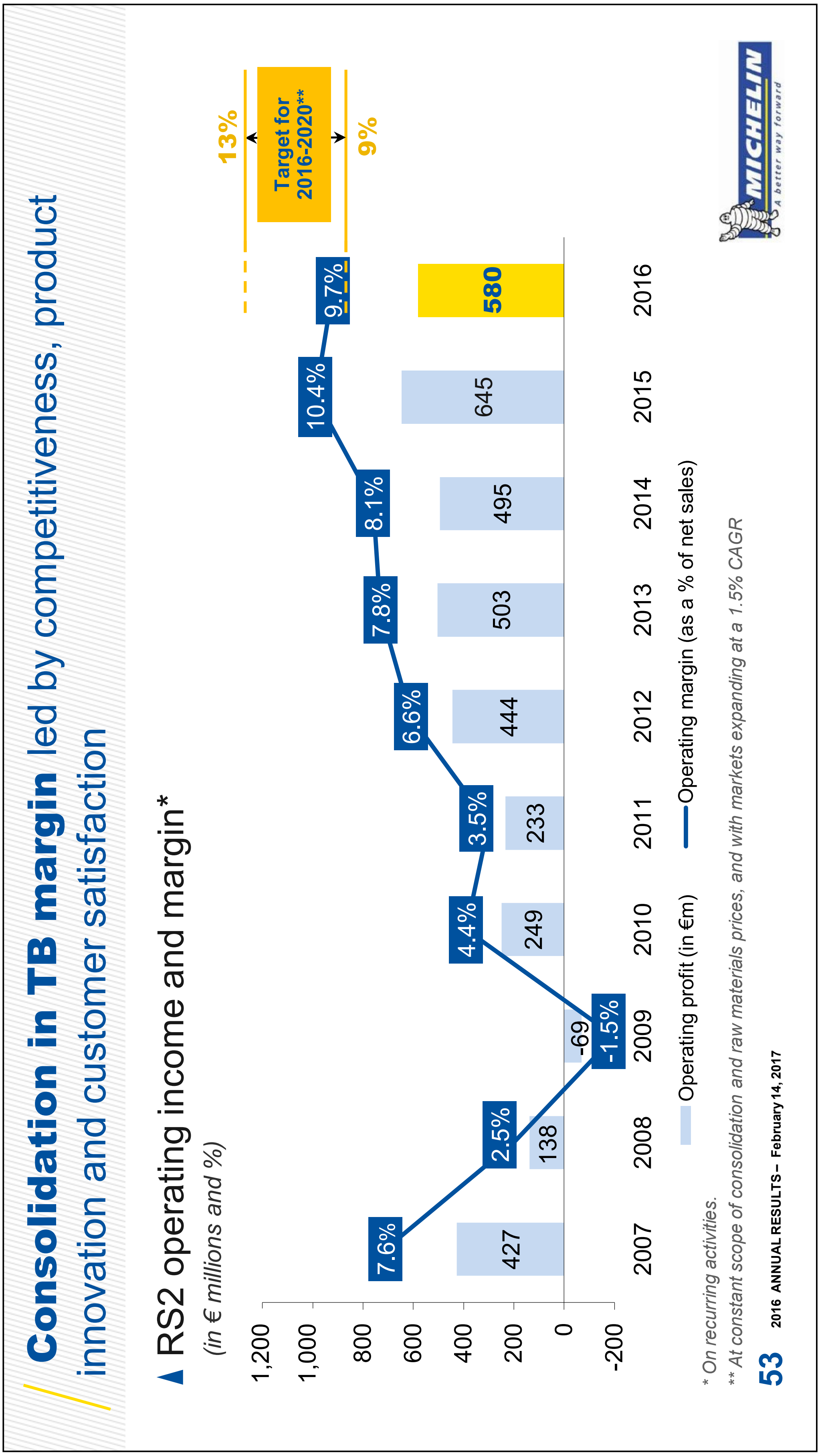

2016: a year of progress, in line with our 2020 roadmap
Group operating income and margin* & ROCE
3,000
2,500
2,000
1,500
1,000
500
0
14%
12%
10%
8%
6%
4%
2%
0%
1,645
920
862
1,695
1,945
2,423
2,234
2,170
2,577
2,692
9.7%
9.8%
5.6%
5.6%
5.4%
5.8%
10.5%
9.5%
10.9%
9.4%
12.8%
11.3%
11.9%
11.0%
11.1%
11.1%
12.2%
12.2%
12.9%
12.1%
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Operating profit (in €m)
Operating margin (as a % of net sales)
ROCE after tax (in %)
* On recurring activities.
51
2016 ANNUAL RESULTS – February 14, 2017
MICHELIN
A better way forward


Improving PC margins: product innovation, contribution from the 17" and over strategy, better customer service
RS1 operating income and margin*
(in € millions and %)
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
830
370
661
1,014
1,018
1,033
1,090
1,010
1,384
1,585
9.2%
4.3%
8.0%
10.4%
9.4%
9.3%
10.2%
10.5%
11.5%
13.1%
15%
Target for 2016-2020**
11%
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Operating profit (in €m)
Operating margin (as a % of net sales)
* On recurring activities.
** At constant scope of consolidation and raw materials prices, and with markets expanding at a 2.5% CAGR
52
2016 ANNUAL RESULTS – February 14, 2017
MICHELIN
A better way forward


Consolidation in TB margin led by competitiveness, product innovation and customer satisfaction
RS2 operating income and margin*
(in € millions and %)
1,200
1,000
800
600
400
200
0
-200
7.6%
427
2007
2.5%
138
2008
-69
-1.5%
2009
4.4%
249
2010
3.5%
233
2011
6.6%
444
2012
7.8%
503
2013
8.1%
495
2014
10.4%
645
2015
9.7%
580
2016
13%
Target for 2016-2020**
9%
Operating profit (in €m)
Operating margin (as a % of net sales)
* On recurring activities.
** At constant scope of consolidation and raw materials prices, and with markets expanding at a 1.5% CAGR
53
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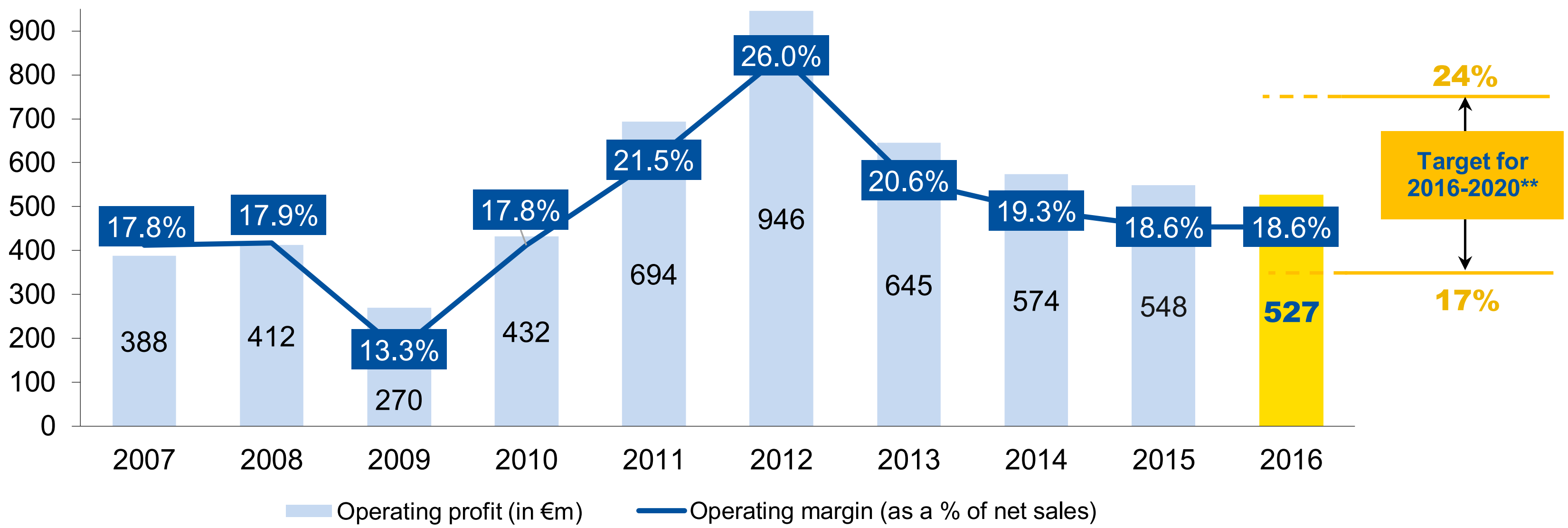
Specialty businesses: solid margin resistance in challenging markets

RS3 operating income and margin*

(in € millions and %)



** On recurring activities.*

*** At constant scope of consolidation and raw materials prices, and with markets expanding*

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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 / 2016 BUSINESS REVIEW

3.1 TIRE MARKETS

3.1.1 A GLOBAL MARKET WORTH SOME $160 BILLION (1) IN 2015

The global tire market totaled $160 billion in 2015 (1), with light-vehicle tires accounting for around 60% of sales and truck tires 30% (2). By volume, it represented nearly 1.5 billion car and light truck tires and a little more than 215 million truck and bus tires (2). In all, three out of four tires were sold in the replacement market.

Over the 2015-2020 period, Michelin expects new tire demand to grow by an average of 2.5% a year in the Passenger car and Light truck segment and by an average 1.5% a year in the new Truck tire segment.

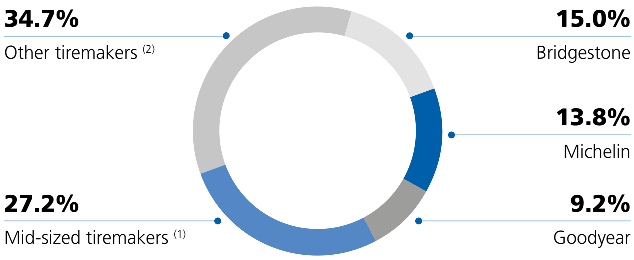
Longer term, tire demand is likely to expand by 1-2% a year in mature markets and by 5-10% a year in the new markets.

New standards

Tire performance ratings displayed on standardized labels have been mandatory across the European Union since November 2012, with stricter standards introduced in November 2016. Similar legislation has been in effect in South Korea since 2012 (labeling) and 2013 (thresholds) for Passenger car tires and since 2014 for Light truck tires, while the standardized labeling introduced in Japan in 2010 is being extended to other parameters, such as rolling noise. Legislation introducing minimum performance standards for rolling resistance and wet traction was passed in the United States in December 2015 and will probably be implemented in early 2018, and a new labeling system to help consumers is scheduled for launch in 2018. Regulated tire labeling systems are also under consideration in China and Brazil.

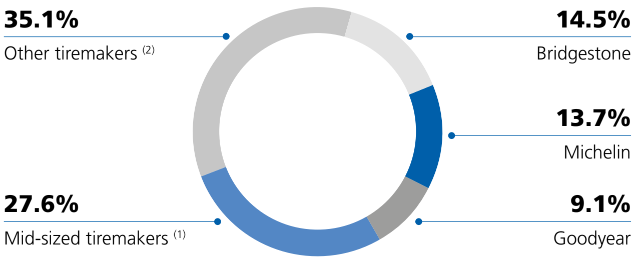
These trends are favorable to low rolling resistance tires, where Michelin sets the market standard. Original equipment sales of these tires are expected to increase by around 200 million units between 2010 and 2020 to a total of nearly 500 million units a year (2).

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2015



Source: 2015 sales in US dollars, published in Tire Business, September 2016.
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with less than a 2% market share according to the Tire Business ranking.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2014



Source: 2014 sales in US dollars, published in Tire Business, September 2015.
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with less than a 2% market share according to the Tire Business ranking.

3.1.2 TIRE MARKETS IN 2016

In 2016, tire demand in the mature markets continued to rise in the Passenger car and Light truck segment, with a temporary slowdown in the second and third quarters, but was more mixed in the Truck segment, with a contraction in North America. Demand was also more mixed in the new markets, with sustained sales of Passenger car and Light truck tires in China throughout the year and a rebound in the Truck market at year-end, robust growth in India despite the government's demonetization campaign in the final quarter, and a sharp decline in South America despite the first glimmers of improvement in the last months of the year. The Specialty markets continued to suffer as mining companies completed their inventory drawdowns.

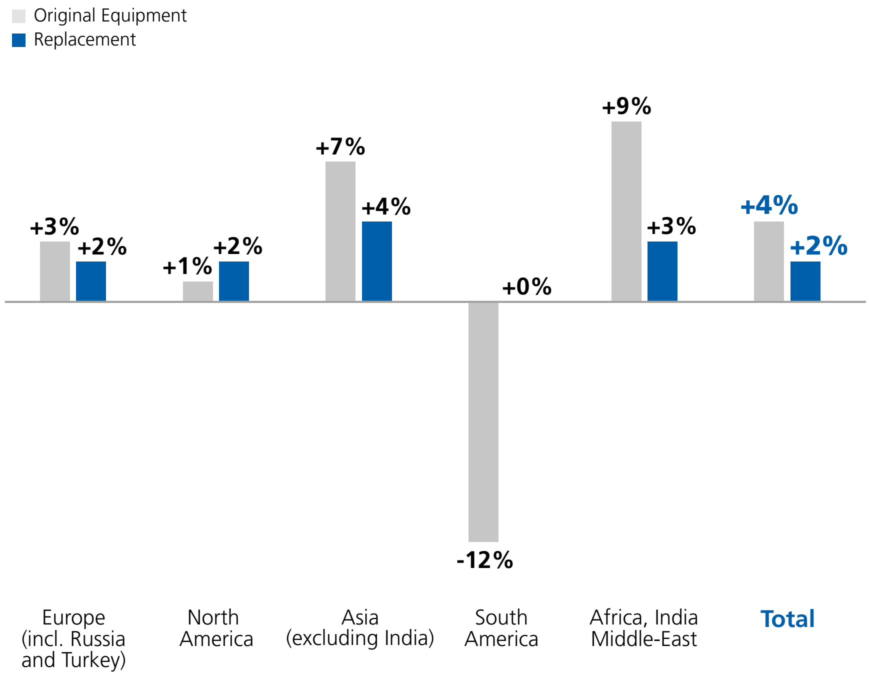
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number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

(1) Source: Tire Business – September 2016.
(2) Michelin estimates.

3.1.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2016

The global original equipment and replacement **Passenger car and Light truck** tire market rose by 3% overall in number of tires sold in 2016, with gains in Western Europe, North America, China and India, and declines to record lows in Eastern Europe and South America.

THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2016 *VS.* 2015



Michelin estimates.

3.1.3 a) Original equipment

Worldwide demand for original equipment tires rose by 4% in number of tires sold in 2016. Demand was robust in Western Europe, China and India, stable but high in North America and still depressed in the other geographies.

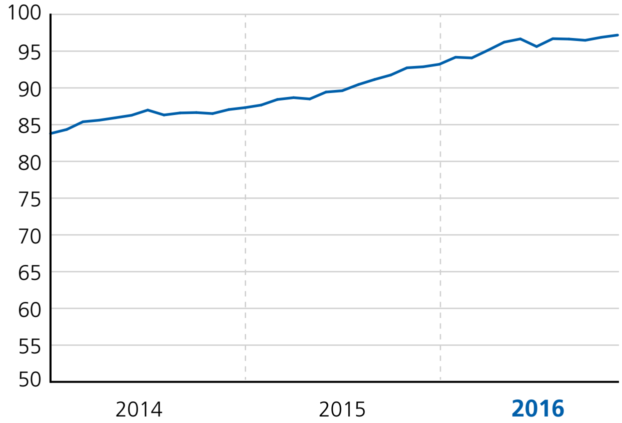
Passenger car and Light truck tire markets Original equipment *(in millions of tires)*	**2016**	**2015**	**2016/2015**	**Second-Half 2016/2015**	**Fourth-Quarter 2016/2015**	**Third-Quarter 2016/2015**	**First-Half 2016/2015**	**Second-Quarter 2016/2015**	**First-Quarter 2016/2015**
Europe (1)	102.2	98.8	+3%	+1%	+2%	+1%	+5%	+8%	+2%
North America (2)	87.4	86.5	+1%	+0%	+0%	+1%	+3%	+2%	+4%
Asia (excluding India)	211.5	197.6	+7%	+12%	+10%	+12%	+2%	+3%	-0%
South America	13.4	15.2	-12%	-3%	+6%	-10%	-19%	-16%	-23%
Africa/India/Middle East	31.1	28.6	+9%	+11%	+12%	+9%	+7%	+6%	+7%
TOTAL	**445.6**	**426.8**	**+4%**	**+7%**	**+6%**	**+6%**	**+2%**	**+3%**	**+1%**

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

Demand in **Europe** rose by 3% overall during the year, reflecting a sustained 4% increase in Western Europe, despite the slowdown in automobile sales in the second half, and a steep 12% drop in Eastern Europe.

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN EUROPE

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

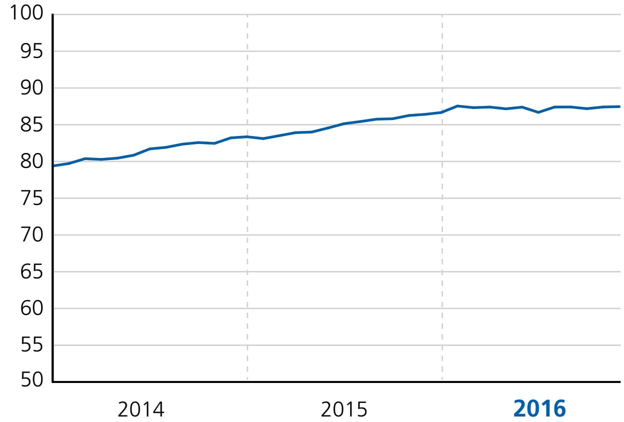


Michelin estimates.

The **North American** market leveled off with a 1% increase, in line with registrations.

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN NORTH AMERICA

(in millions of tires – moving 12 months)



Michelin estimates.

Demand in **Asia (excluding India)** ended the year up 7% overall. The Chinese market remained buoyant, with a 14% increase led by the government's compact car purchase incentives and the popularity of SUV models. Demand contracted by 2% in Japan, 7% in South Korea and 2% in the ASEAN nations.

Markets in **South America** continued their steep decline, losing 12% over the year, with the first signs of improvement emerging in the final quarter in Brazil (up 6%) and Argentina.

In the **Africa/India/Middle East** region, demand climbed 9% on the back of expansion in the Indian market, where vehicle sales surged despite the economic impact in the fourth quarter of the government's demonetization drive. In Africa and the Middle East, carmakers are suffering from the commodity market environment and geopolitical conditions.

3.1.3 b) Replacement

The worldwide replacement market ended the year up 2%, with demand on the rise in every geography and a general improvement in the fourth quarter.

Passenger car and Light truck tire markets Replacement *(in millions of tires)*	2016	2015	2016/2015	Second-Half 2016/2015	Fourth-Quarter 2016/2015	Third-Quarter 2016/2015	First-Half 2016/2015	Second-Quarter 2016/2015	First-Quarter 2016/2015
Europe (1)	349.0	342.2	+2%	+2%	+4%	-0%	+2%	-0%	+3%
North America (2)	284.7	280.5	+2%	+2%	+3%	+1%	+2%	-2%	+6%
Asia (excluding India)	269.8	259.2	+4%	+4%	+4%	+3%	+5%	+4%	+5%
South America	75.2	75.0	+0%	+2%	+5%	-2%	-1%	-1%	-2%
Africa/India/Middle East	105.7	102.7	+3%	+2%	+1%	+4%	+4%	+4%	+4%
TOTAL	**1,084.4**	**1,059.5**	**+2%**	**+3%**	**+3%**	**+1%**	**+3%**	**+0%**	**+4%**

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

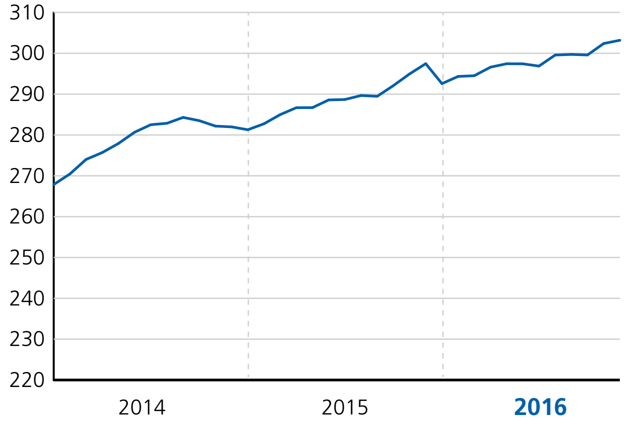
The European market saw a 2% overall increase during the year. Demand in Western Europe rose by 4%, reflecting a volatile winter segment (up 4% due to the combined net impact of favorable weather in the first quarter and dealer hesitation in the last quarter), the increase in entry-level imports and the robust growth in all-season tire sales. In Eastern Europe, demand continued to shrink, by a further 7% over the year.

The following table shows the change in demand by major country, with growth varying in the non-euro geographies depending on export sales.

Passenger car and Light truck tires – Replacement	Year-on-year change
WESTERN EUROPE	**4%**
▶ France	0%
▶ Spain	1%
▶ Italy	3%
▶ United Kingdom	12%
▶ Germany	4%
▶ Poland	12%
▶ Turkey	-2%
EASTERN EUROPE	**-7%**
▶ Russia	-11%

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

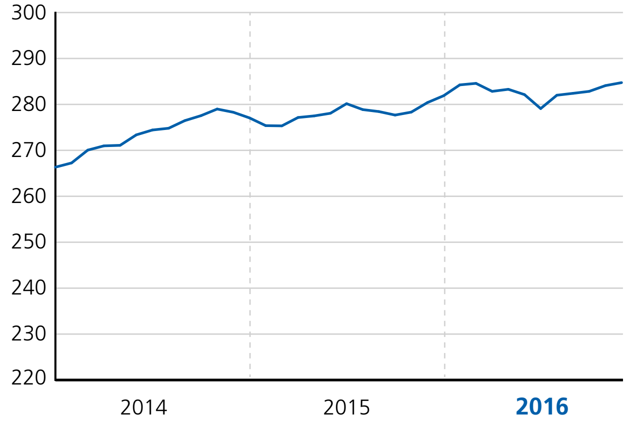
(in millions of tires – moving 12 months – excluding Russia)



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**, demand rose by 2% overall, fuelled by strong growth in the small tire segment in the fourth quarter and the solid 8% gain in Mexico. The US market edged up by 1%, reflecting buyer hesitation in an election year, but firm growth was reported in the 18-inch and larger segment (up 15%) and in SUV tires.

Demand in **Asia (excluding India)** ended the year up 4%, thanks to sustained growth in the Chinese market (up 8%) in a highly competitive environment. The rest of the region was relatively flat, with just a 1% increase, reflecting the 1% market declines in Japan and Thailand.

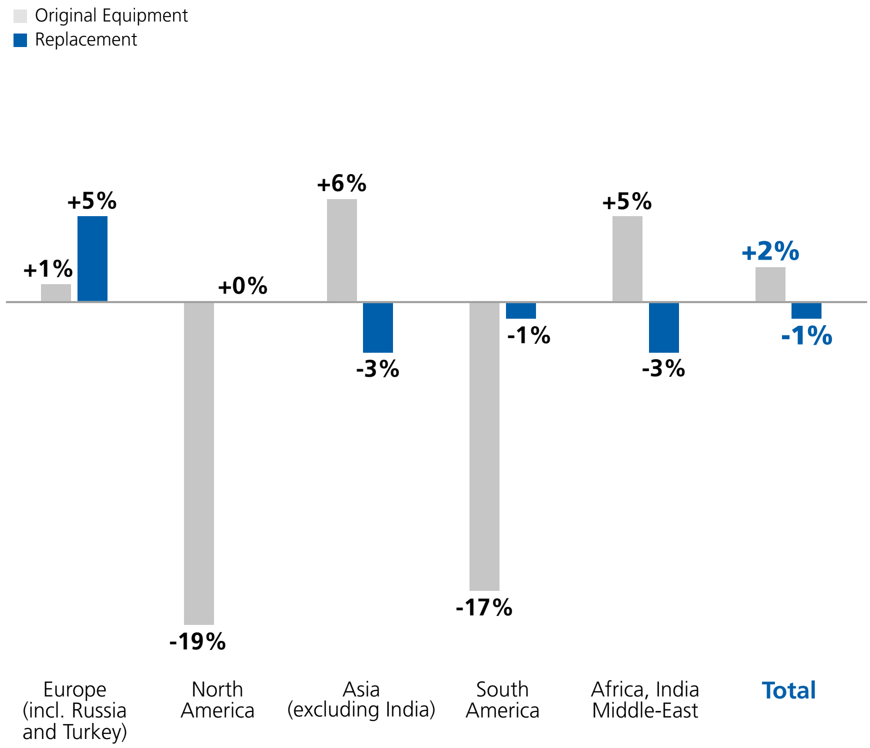
In **South America**, demand was unchanged overall, as the 2% decline in Brazil (despite an upturn at year-end) was offset by more positive trends in the rest of Latin America.

The **Africa/India/Middle East** market rose by 3%, with a strong 8% increase in India (despite the demonetization campaign) and more modest gains in Africa and the Middle East.

3.1.4 TRUCK TIRE MARKETS IN 2016

Demand for new radial and bias **Truck tires** softened somewhat in 2016, with unit sales down a slight 1% over the year. Retread markets were also in decline, with an especially steep fall-off in Europe.

THE GLOBAL TRUCK TIRE MARKET, 2016 *VS.* 2015



Michelin estimates – new tire market only.

3.1.4 a) Original equipment

The **worldwide original equipment market** was stable in 2016, with a contrast between the steep market declines in North America, the ASEAN nations, South America and India in the second half, and the rebounds that were sustained in China but modest in Russia, even as demand held firm in Western Europe.

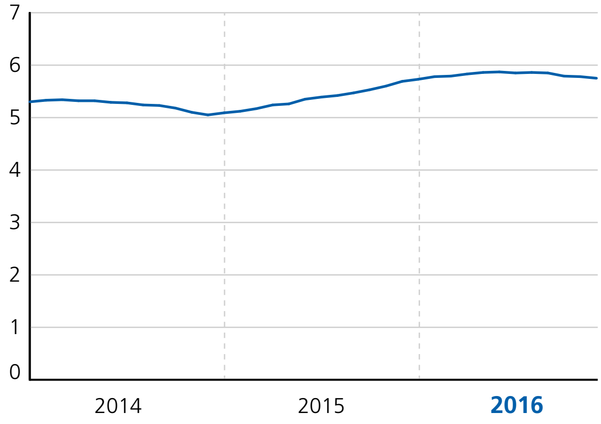
Truck tire markets Original equipment *(in millions of tires)*	**2016**	**2015**	**2016/2015**	**Second-Half 2016/2015**	**Fourth-Quarter 2016/2015**	**Third-Quarter 2016/2015**	**First-Half 2016/2015**	**Second-Quarter 2016/2015**	**First-Quarter 2016/2015**
Europe (1)	6.3	6.3	+1%	-3%	-6%	-0%	+5%	+5%	+6%
North America (2)	5.3	6.5	-19%	-24%	-23%	-21%	-12%	-12%	-12%
Asia (excluding India)	22.6	21.4	+6%	+10%	+9%	+11%	+1%	+3%	-3%
South America	0.9	1.1	-17%	-6%	-8%	-6%	-25%	-12%	-39%
Africa/India/Middle East	5.3	5.1	+5%	-5%	+3%	-12%	+13%	+11%	+17%
TOTAL	**40.5**	**40.4**	**+0%**	**-0%**	**-0%**	**+0%**	**+0%**	**+1%**	**-3%**

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

In **Europe**, the market ended the year up 1% despite a slowdown in the second half. The 1% gain in Western Europe reflected both a downward trend in the semi-truck segment and growth in trailer tires, while the 3% rise in Eastern Europe revealed the first positive signs in a market that remained historically low.

THE OE TRUCK TIRE MARKET IN EUROPE

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

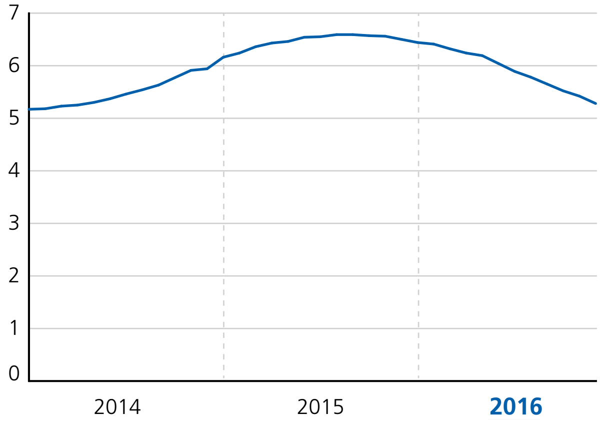


Michelin estimates.

The **North American** market fell 19% in 2016, as expected, following the renewal of the local truck fleet observed in recent years.

THE OE TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Demand for radial and bias tires in **Asia (excluding India)** increased by 6% in 2016, as growth in China (up 9%) offset declines in Japan (down 7%) and Thailand (down 3%). Chinese demand has been rebounding since the autumn due to the arrival of new market entrants and the application of new axle load and truck size rules. The latter are expected to spur a surge in truck replacements.

The **South American** market, which started to level off in the second half, still ended the year down 17%. Demand in Brazil, also down 17% for the year, began to show some signs of improvement in the last two months.

In the **Africa/India/Middle East** region, the radial and bias tire market continued to expand, climbing 5% for the year. This was mainly attributable to demand in India, which ended the year up 8% despite the strong headwinds created in the second half by the demonetization campaign and the slowdown in freight transport.

3.1.4 b) Replacement

The **global replacement market** contracted by 1%, shaped by aggressive competition and rising sales of mid-tier brands.

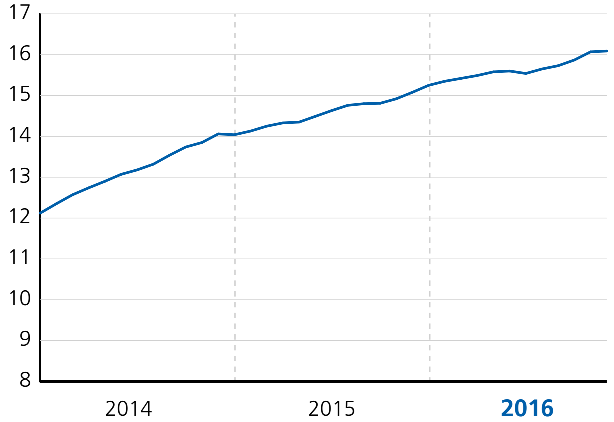
Truck tire markets Replacement *(in millions of tires)*	**2016**	**2015**	**2016/2015**	**Second-Half 2016/2015**	**Fourth-Quarter 2016/2015**	**Third-Quarter 2016/2015**	**First-Half 2016/2015**	**Second-Quarter 2016/2015**	**First-Quarter 2016/2015**
Europe (1)	23.8	22.6	+5%	+5%	+7%	+3%	+5%	+5%	+4%
North America (2)	24.0	24.0	+0%	-6%	-4%	-7%	+6%	+8%	+5%
Asia (excluding India)	84.6	87.1	-3%	-1%	+1%	-4%	-5%	-5%	-6%
South America	12.9	13.0	-1%	+1%	+3%	+0%	-3%	+1%	-6%
Africa/India/Middle East	30.2	31.0	-3%	-4%	-6%	-1%	+0%	+0%	+0%
TOTAL	**175.5**	**177.8**	**-1%**	**-1%**	**+0%**	**-3%**	**-2%**	**-1%**	**-2%**

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

In **Europe**, the market rose by 5% overall, with a slower decline in Russia in the second half. The sharp 6% rebound in Western Europe was led by the increase in freight tonnes carried per km and the rise in sales of low-cost tires from Asia, which are depressing retread demand. In Eastern Europe, robust demand in the intermediate segments helped to drive a 4% gain for the year.

THE REPLACEMENT TRUCK TIRE MARKET IN EUROPE

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

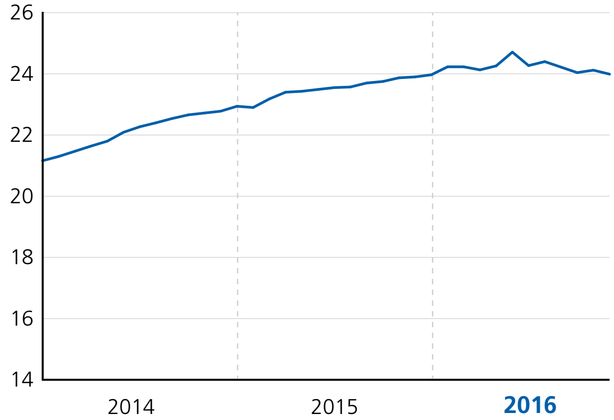


Michelin estimates.

Demand in **North America** ended the year flat, reflecting a first-half buying spree ahead of the new tariffs announced on Chinese tire imports, dampened by the subsequent fall-off sales in the second half, as well as by pre-election buyer hesitation and the slowdown in the region's economic indicators.

THE REPLACEMENT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Demand for replacement radial and bias tires in **Asia (excluding India)** was down 3% for the year. In China, it contracted by 4% overall, but showed a 2% improvement in the fourth quarter thanks to booming online sales and an economic stimulus plan that is particularly favorable to the construction industry and infrastructure investment. In the rest of the region, markets slipped 1% overall in a challenging economic environment, with a significant 12% drop in Thailand and a 2% gain in Japan.

The **South American** radial and bias market continued to drift downward, by 1% in 2016, but signs of an upturn emerged in the final quarter (up 4%) led by Brazil (up 2% for the year and 11% in the fourth quarter) and Argentina.

In the **Africa/India/Middle East** region, demand for radial and bias tires contracted by 3% over the year, with the second half suffering from the demonetization drive in India and the geopolitical environment in Africa and the Middle East.

3.1.5 SPECIALTY TIRE MARKETS IN 2016

Earthmover tires: the mining tire market retreated for the third year in a row, dragged down by the steep reduction in mine inventory. The trend turned upward in the fourth quarter, however, as mining companies resumed purchases as their stocks dwindled.

Original equipment markets declined sharply in the mature geographies at a time of weak demand. The Chinese market also cooled in 2016 after dropping precipitously in 2015.

Dealer hesitation is weighing on demand for infrastructure and quarry tires, which declined over the period.

Agricultural tires: after falling off sharply in 2015, OE demand continued to slide in the mature geographies, with the first-half rebound wiped out by a collapse in the second part of the year.

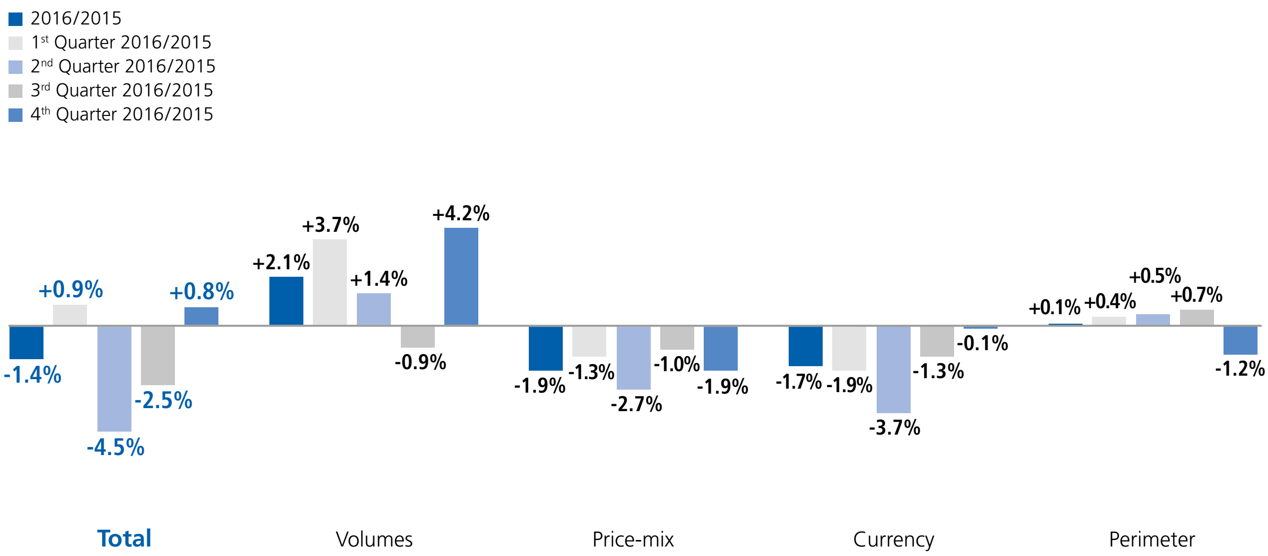
Replacement markets retreated significantly in the mature regions, penalized by low farm commodity prices.

Two-Wheel tires: demand for motorcycle tires climbed for the fourth straight year in Europe, lifted by an increase in dealer buying, but fell back sharply in North America. The emerging markets are continuing to expand overall.

Aircraft tires: demand in the commercial aircraft segment continued to grow, led by the increase in passenger traffic.

3.2 NET SALES

3.2.1 ANALYSIS OF NET SALES



Net sales stood at €20,907 million for the year, down 1.4% from the €21,199 million reported in 2015.

The decrease reflected the net impact of the following factors:

- a €440 million increase from the 2.1% growth in volumes, which outpaced the markets thanks to the performance of the MICHELIN brand and the robust growth in the other brands;
- a €386 million decrease from the 1.9% unfavorable price-mix effect, reflecting i) a €438 million decrease from price adjustments, of which nearly half corresponded to the application of indexation clauses based on raw materials prices; and ii) a €52 million increase from the mix, as the favorable impact of the continued success of the MICHELIN brand's premium strategy and the rebound in Earthmover tire sales in the fourth quarter offset the dampening impacts of the geographic mix and the relative growth rates of budget and OE tire sales;
- a €24 million increase mainly from the consolidation of BookaTable, Europe's leading online restaurant reservation service;
- a €370 million decrease from the 1.7% negative currency effect, resulting primarily from the euro's unfavorable moves against the Argentine peso, the Mexican peso, the South African rand, the British pound, the Turkish lira, the Russian ruble, the Brazilian real, the Chinese yuan and the Canadian dollar, with the moves against the US dollar having only a marginally favorable impact.

Note that net sales of tire-related services and solutions totaled €1,059 million in 2016.

(in € millions and %)	2016	Second-Half 16	Fourth-Quarter 16	Third-Quarter 16	First-Half 16	Second-Quarter 16	First-Quarter 16
NET SALES	**20,907**	**10,615**	**5,436**	**5,179**	**10,292**	**5,227**	**5,065**
Year-on-year change	**-292**	**-87**	**+43**	**-130**	**-205**	**-248**	**+43**
Volumes	+440	+173	+222	-49	+267	+77	+188
Price mix	-386	-162	-109	-53	-224	-154	-68
Currency effect	-370	-74	-8	-66	-296	-200	-96
Scope of consolidation	+24	-24	-62	+38	+48	+29	+19
Year-on-year change	**-1.4%**	**-0.8%**	**+0.8%**	**-2.5%**	**-2.0%**	**-4.5%**	**+0.9%**
Volumes	+2.1%	+1.6%	+4.2%	-0.9%	+2.5%	+1.4%	+3.7%
Price mix	-1.9%	-1.5%	-1.9%	-1.0%	-2.1%	-2.7%	-1.3%
Currency effect	-1.7%	-0.7%	-0.1%	-1.3%	-2.8%	-3.7%	-1.9%
Scope of consolidation	0.1%	-0.2%	-1.2%	0.7%	0.5%	+0.5%	+0.4%

3.2.2 NET SALES BY REPORTING SEGMENT

(in € millions)	2016	Second-Half 16	Fourth-Quarter 16	Third-Quarter 16	First-Half 16	Second-Quarter 16	First-Quarter 16
GROUP	**20,907**	**10,615**	**5,436**	**5,179**	**10,292**	**5,227**	**5,065**
Passenger car/Light truck tires & related distribution	12,105	6,189	3,225	2,964	5,916	3,019	2,897
Truck tires & related distribution	5,966	3,059	1,526	1,533	2,907	1,477	1,430
Specialty businesses (1)	2,836	1,367	685	682	1,469	731	738
% change year-on-year	**-1.4%**	**-0.8%**	**+0.8%**	**-2.5%**	**-2.0%**	**-4.5%**	**+0.9%**
Passenger car/Light truck tires & related distribution	0.6%	+0.3%	+1.1%	-0.5%	+1.0%	-2.1%	+4.3%
Truck tires & related distribution	-4.2%	-3.2%	-1.8%	-4.6%	-5.2%	-7.3%	-3.0%
Specialty businesses (1)	-3.6%	-0.4%	+5.7%	-5.9%	-6.4%	-8.4%	-4.3%

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

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

Volumes in the Passenger car and Light truck segment rose by 3% over the year, very slightly outpacing the market's 3% gain, with most of the growth stemming from original equipment sales, the entry-level and replacement sales in the new markets.

In Europe, the Group maintained its OE positions in the Western countries but lost ground in the replacement segment due to a competitive price environment, inter-continental gray market imports in the first half and the faster reorganization of its dealership network and supply chain. In the premium segment, the MICHELIN brand benefited from a number of recent product launches and, in particular, successful sales of the extended CrossClimate line-up, which advanced by nearly 30%. Sales in Eastern Europe were lifted by the first signs of a rebound at year-end.

In **North America**, where demand was strong in Mexico and the small tire segment, consolidated net sales held the Group's market positions firm. They reflected growth in sales of the leading recently introduced lines, such as the MICHELIN Premier LTX, and of the BFGoodrich Off-Road lines, which enjoyed a second straight year of robust gains. The BFGoodrich On-Road lines, however, ran into aggressive price competition.

Positions in the **South American** market were strengthened over the year, with an improvement in the mix, particularly in Brazil, where the business turned in a solid performance in both the OE and replacement segments.

In Asia (excluding India), net sales rose sharply in China, lifted by fast growing demand in the replacement segment and, in the OE segment, by the Group's business development plan open to a broad array of customers including Chinese carmakers. Positions in Southeast Asia were strengthened by optimizing the Group's product positioning, supply chain and dealership network.

In the **Africa/India/Middle East** region, net sales rose in India and Africa thanks to the strength of the MICHELIN brand, a dynamic pricing policy, the broader product offering and the stronger dealership network.

In all, net sales in the Passenger car/Light truck tires & related distribution segment rose by 0.6% in 2016, to €12,105 million from €12,028 million the year before. Volumes rose by 3% over the period, very slightly exceeding the market's 3% increase. Against the backdrop of declining average raw materials costs, price adjustments reflected the application of indexation clauses in original equipment contracts, for a little less than half, and repositionings in the replacement segment for the rest. The sales mix continued its rapid ascent upmarket, in particular in the SUV and 18-inch segments.

3.2.2 b) Truck tires & related distribution – Analysis of net sales

In Western **Europe** sales of new MICHELIN-brand tires tracked the premium markets, which slowed somewhat over the year while demand for intermediate tires gained momentum. The Group enjoyed a solid performance in the OE segment, led by the popularity among carmakers of its low-rolling resistance tires, and resilient retread sales in a sharply contracting market. In Russia and the CIS, Group sales outpaced the local replacement markets, thanks to the rebound in demand off of very low prior-year comparatives and the introduction of customs duties on Chinese imports.

In **North America**, OE sales followed the market drop-off after several half-year periods of strong growth, while MICHELIN-brand replacement sales tracked the weak growth in the pool market and replacements sales of other brands increased sharply. The development of fleet services continued apace.

In the steeply declining **South American** market, the Group's replacement tire sales held up well, supported in particular by the intermediate brands.

In **Asia (excluding India)**, sales in China advanced in the OE segment, lifted by the emergence of large fleets that are more sensitive to tire performance criteria. They also held firm in a replacement market shaped by i) three quarters of sharp decline before a rebound in the last three months of the year; and ii) aggressive price competition, exacerbated by rising customs barriers for exports to the United States, Russia and India. In Southeast Asia, MICHELIN-brand tires demonstrated strong resistance in the face of softening replacement demand, while the success of the BFGoodrich brand helped to drive higher sales in the intermediate segment.

In the **Africa/India/Middle East** region, where the market environment was unfavorable, sales were down at a time when currency volatility prompted the Group to raise prices, unlike most of the competition. In India, the Group nonetheless benefited from the upturn in the OE market thanks to a partnership with one of the local leaders. As in Southeast Asia, BFGoodrich will replace Kormoran, as part of a global strategy to position it as an intermediate brand.

In all, net sales in the Truck tires & related distribution segment amounted to €5,966 million for the year, a decline of 4.2% from 2015 that was primarily attributable to the unfavorable currency impact and price cuts introduced in accordance with raw materials indexation clauses. On the other hand, volumes were up by 1%, outperforming the contraction in the global market over the year.

3.2.2 c) Specialty businesses – Analysis of net sales

Earthmover tires: net sales contracted over the year due to the fall-off in volumes (although they did not decline as much as demand) and the unfavorable impact of applying raw materials indexation clauses.

Agricultural tires: net sales were dragged down by price cuts, primarily in application of raw-materials indexation clauses, and by the currency effect. Increased business in the emerging markets helped to hold volumes steady for the year.

Two-Wheel tires: Net sales were unchanged for the year, with volume gains offsetting the unfavorable impact of the geographic mix, segment mix and currency movements.

Aircraft tires: net sales increased, driven by growth in volumes.

Michelin Travel Partner net sales, which rose sharply over the year, were primarily shaped by (i) a leveling off of share in the more challenging Print markets this year; (ii) very fast revenue growth following the launch of print and electronic Michelin Guides; (iii) an increase in Digital revenue, where business was mixed; and (iv) the gradual amalgamation of the Michelin Restaurants business and BookaTable. In addition, Michelin Travel Partner has launched a wide array of projects to develop new solutions and acquire companies as part of "Michelin Experiences", which brings together all of the activities that offer customers an outstanding mobility experience.

In all, net sales by the Specialty businesses stood at €2,836 million for the year, compared with €2,942 million in 2015. Apart from the currency impact, the decrease reflected the impact of price adjustments in accordance with raw materials indexation clauses and the 1% decline in volumes over the year, in a market that lost 4%.

3.2.3 CHANGES IN EXCHANGE RATES FOR THE MAIN OPERATING CURRENCIES

At current exchange rates, consolidated net sales declined by 1.4% in 2016, reflecting a €370 million negative currency effect that was primarily due to the euro's unfavorable moves against a number of currencies, including mainly the Argentine peso, the Mexican peso, the South African rand, the British pound, the Turkish lira, the Russian ruble, the Brazilian real, the Chinese yuan and the Canadian dollar, with the moves against the US dollar having only a marginally favorable impact.

Average exchange rate	2016	2015	% change
Euro/USD	1.107	1.111	-0.3%
Euro/CAD	1.466	1.416	+3.5%
Euro/MXN	20.615	17.575	+17.3%
Euro/BRL	3.841	3.631	+5.8%
Euro/GBP	0.816	0.726	+12.3%
Euro/JPY	120.077	134.424	-10.7%
Euro/CNY	7.351	6.980	+5.3%
Euro/THB	39.070	37.979	+2.9%
Euro/AUD	1.488	1.475	+0.9%
Euro/ZAR	16.237	14.071	+15.4%
Euro/ARS	16.290	10.189	+59.9%
Euro/TRY	3.333	3.008	+10.8%
Euro/RUB	73.887	67.151	+10.0%

Net sales break down as follows by currency:

Currency	%	Currency	%
AUD	1%	MXN	2%
BRL	3%	PLN	1%
CAD	3%	RUB	1%
CNY	5%	THB	1%
EUR	34%	TRY	1%
GBP	3%	TWD	1%
INR	1%	USD	38%
JPY	1%	Other	4%
TOTAL			**100%**

3.2.4 NET SALES BY REGION

(in € millions)	2016	2016/2015	Second-Half 2016	First-Half 2016
GROUP	**20,907**	**-1.4%**	**10,615**	**10,292**
Europe	8,101	-1.2%	4,074	4,027
of which France	*1,917*	*-2.9%*	*963*	*954*
North America (including Mexico)	7,792	-3.6%	3,963	3,829
Other	5,015	+2.1%	2,579	2,435

(in € millions)	2016	% of total	2015	% of total
GROUP	**20,907**		**21,199**	
Europe	8,101	38.7%	8,203	38.7%
of which France	*1,917*	*9.2%*	*1,974*	*9.3%*
North America (including Mexico)	7,792	37.3%	8,084	38.1%
Other	5,015	24.0%	4,913	23.2%

At a time of unfavorable exchange rates and falling raw materials costs, consolidated net sales edged back slightly in most geographies. More than 60% of consolidated net sales were generated outside Europe and more than 90% outside France.

3.3 CONSOLIDATED INCOME STATEMENT REVIEW

To make its operating performance easier to understand and analyze, Michelin now presents "Operating income before non-recurring income and expenses" as "Operating income from recurring activities".

Similarly, "Other operating income and expenses" is now "Other operating income and expenses from recurring activities" and "Non-recurring income and expenses" has been replaced by "Operating income/(loss) from non-recurring activities".

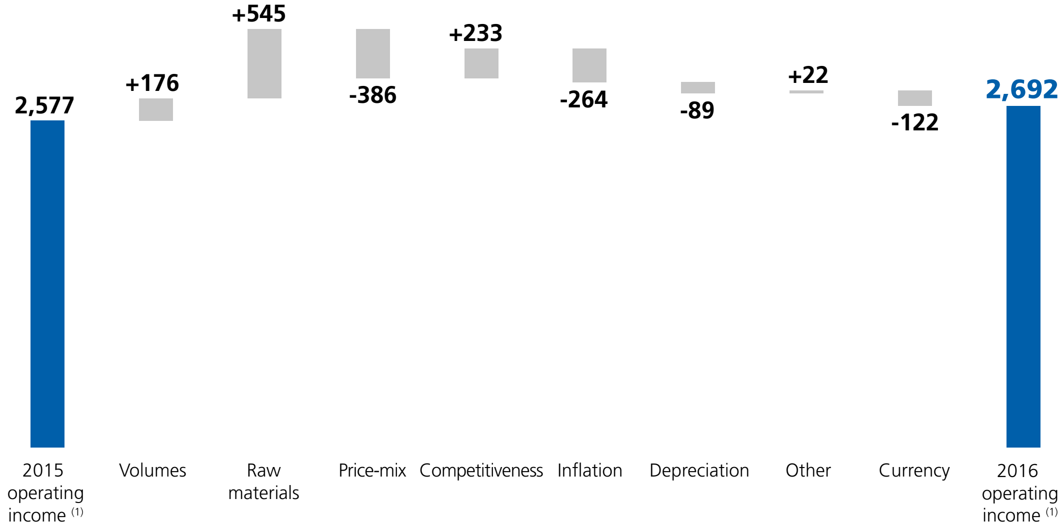
In addition, sale proceeds and impairment losses on intangible assets and property, plant and equipment as well as the cost of benefits for retired personnel are now included in "Operating income/(loss) from non-recurring activities" in the consolidated income statement instead of in "Other operating income and expenses from recurring activities".

This change had no material impact on the presentation of the consolidated financial statements for the year ended December 31, 2015 ("Operating income from recurring activities" would have been €2,609 million).

(in € millions, except per-share data)	2016	2015	2016/2015	2016 *(as a % of net sales)*	2015 *(as a % of net sales)*
Net sales	**20,907**	**21,199**	**-1.4%**		
Cost of sales	(13,810)	(14,238)	-3.0%	66.1%	67.2%
Gross income	**7,097**	**6,961**	**+1.9%**	**33.9%**	**32.8%**
Sales and marketing expenses	(1,907)	(1,929)	-1.1%	9.1%	9.1%
Research and development expenses	(718)	(689)	+4.2%	3.4%	3.3%
General and administrative expenses	(1,759)	(1,707)	+3.0%	8.4%	8.1%
Other operating income and expenses from recuring activities	(21)	(59)	-64.1%	-0.1%	-0.3%
Operating income from recurring activities	**2,692**	**2,577**	**+4.5%**	**12.9%**	**12.2%**
Operating income/(loss) from non-recurring activities	99	(370)	-126.7%	-0.5%	1.7%
Operating income	**2,791**	**2,207**	**+26.5%**	**13.3%**	**10.4%**
Cost of net debt	(203)	(184)	+10.4%	1.0%	0.9%
Other financial income and expenses	20	(30)	-165.7%	-0.1%	0.1%
Net interest on employee benefit obligations	(139)	(141)	-1.6%	0.7%	0.7%
Share of profits and losses from associates	(5)	17	NM	0.0%	-0.1%
Income before taxes	**2,464**	**1,869**	**+31.8%**	**11.8%**	**8.8%**
Income tax	(797)	(706)	+12.9%	3.8%	3.3%
Net income	**1,667**	**1,163**	**+43.3%**	**8.0%**	**5.5%**
▶ Attributable to shareholders of the Company	1,676	1,168	+43.5%	8.0%	5.5%
▶ Attributable to non-controlling interests	(9)	(5)			
Earnings per share *(in €)*					
▶ Basic	9.21	6.28	+46.7%		
▶ Diluted	9.03	6.19	+45.9%		

3.3.1 OPERATING INCOME FROM RECURRING ACTIVITIES

(in € millions)



(1) From recurring activities.

Operating income from recurring activities amounted to €2,692 million or 12.9% of net sales in the year ended December 31, 2016, *versus* a reported €2,577 million and 12.2% in 2015. Operating income from non-recurring activities came to €99 million, primarily from a gain on a change in the retiree health coverage plan in the United States, which was partially offset by costs related to the reorganization and adaptation of the Group's activities.

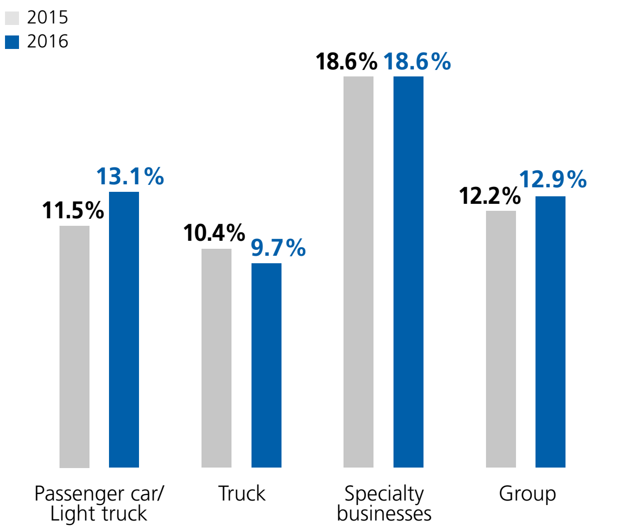
Growth for the year may be analyzed as follows:

- a €176 million increase from the 2.1% growth in volumes;
- a €159 million net increase corresponding to the €386 million negative impact of changes in the price mix (of which a €438 million decrease due to price reductions), offset by the €545 million positive impact of lower raw materials costs. The net increase included a €28 million net decrease for businesses whose prices are indexed to raw materials costs, and a €187 million net increase for non-indexed businesses, in particular thanks to an effective pricing policy;
- meeting the objective of the €1.2 billion 2012-2016 competitiveness plan generated savings of €233 million during the year (€155 million in production costs and €78 million in overheads), which were amply offset by the unfavorable €264 million impact from inflation;
- an €89 million rise in depreciation and amortization expense;
- a €22 million increase from other factors, of which a €31 million reduction in start-up costs;
- a €122 million decrease from the currency effect.

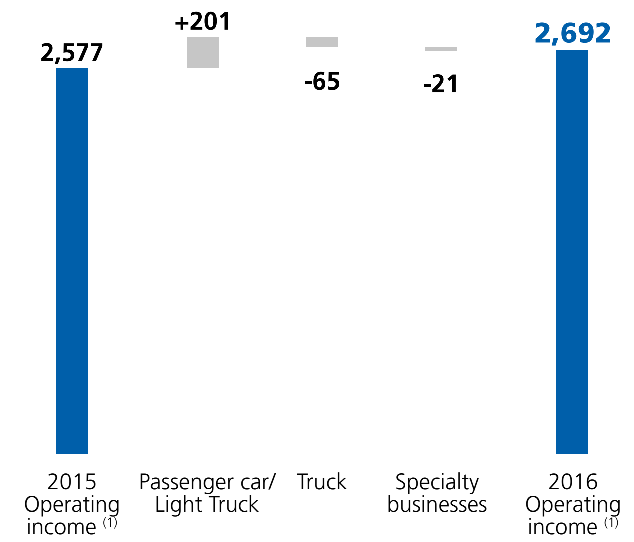
3.3.2 OPERATING INCOME FROM RECURRING ACTIVITIES BY OPERATING SEGMENT

(in € millions)	2016	2015	Second-Half 2016	First-Half 2016
Passenger car/Light truck tires & related distribution				
Net sales	12,105	12,028	6,189	5,916
Operating income from recurring activities	1,585	1,384	771	814
Operating margin on recurring activities	**13.1%**	**11.5%**	**12.5%**	**13.8%**
Truck tires & related distribution				
Net sales	5,966	6,229	3,059	2,907
Operating income from recurring activities	580	645	292	288
Operating margin on recurring activities	**9.7%**	**10.4%**	**9.5%**	**9.9%**
Specialty businesses				
Net sales	2,836	2,942	1,367	1,469
Operating income from recurring activities	527	548	224	303
Operating margin on recurring activities	**18.6%**	**18.6%**	**16.4%**	**20.6%**
Group				
Net sales	20,907	21,199	10,615	10,292
Operating income from recurring activities	2,692	2,577	1,287	1,405
Operating margin on recurring activities	**12.9%**	**12.2%**	**12.1%**	**13.7%**

3.3.2 a) Operating margin on recurring activities by operating segment



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



(1) From reccuring activities.

3.3.2 b) Passenger car/Light truck tires & related distribution – Analysis of operating income from recurring activities

Passenger car/Light truck tires & related distribution *(in € millions)*	**2016**	**2015**	**2016/2015**	**2016** *(% of Group total)*	**2015** *(% of Group total)*
Net sales	12,105	12,028	+0.6%	58%	57%
Change in volumes	*+3.1%*				
Operating income from recurring activities	1,585	1,384	+14.6%	59%	54%
Operating margin on recurring activities	13.1%	11.5%	+1.6 pt		

Operating income on recurring activities came to €1,585 million or 13.1% of net sales *versus* the €1,384 million and 11.5% reported in 2015.

The 1.6-point gain in operating margin on recurring activities was led by the 3% increase in volumes, which slightly outpaced the market's 3%. The mix effect remained favorable, supported by the success of the new MICHELIN CrossClimate and MICHELIN Pilot Sport 4S lines, which helped to drive strong growth in sales of MICHELIN brand tires (up 4%), 17-inch and larger tires (up 13%) and 18-inch and larger tires (up 17%). At the same time, sales of other Group brands rose by 3% over the year. The decline in raw materials costs was only partially attenuated by price adjustments, of which a little less than half reflected the application of indexation clauses in original equipment contracts. Industrial competitiveness continued to improve, albeit at a slower pace in the second half due to production scalebacks at a small number of plants.

3.3.2 c) Truck tires & related distribution – Analysis of operating income from recurring activities

Truck tires & related distribution *(in € millions)*	**2016**	**2015**	**2016/2015**	**2016** *(% of Group total)*	**2015** *(% of Group total)*
Net sales	5,966	6,229	-4.2%	28%	29%
Change in volumes	*+0.3%*				
Operating income from recurring activities	580	645	-10.1%	21%	25%
Operating margin on recurring activities	9.7%	10.4%	-0.7 pt		

Operating income from recurring activities amounted to €580 million or 9.7% of net sales, compared with €645 million and 10.4% the year before.

The change in margin reflected resilient volumes, up 1% over the year, in Truck tire markets down an aggregate 1%. At a time of aggressive competition in every geography, the favorable trend in raw materials costs was not enough to offset the full impact of price repositionings and strong growth in sales of intermediate tires. On the other hand, despite the production cutbacks at certain plants in the second half, industrial optimization projects and cost discipline continued to deliver benefits over the year.

3.3.2 d) Specialty businesses – Analysis of operating income from recurring activities

Specialty businesses *(in € millions)*	**2016**	**2015**	**2016/2015**	**2016** *(% of Group total)*	**2015** *(% of Group total)*
Net sales	2,836	2,942	-3.6%	14%	14%
Change in volumes	*-4.0%*				
Operating income from recurring activities	527	548	-3.8%	20%	21%
Operating margin on recurring activities	18.6%	18.6%	+0.0 pt		

Operating income from recurring activities amounted to €527 million, *versus* a reported €548 million in 2015, for a margin unchanged at 18.6% of net sales.

The margin stability reflected the fact that volumes declined less than the market (by 1% compared with 4%), thanks in particular to the rebound in mining tire sales in the fourth quarter, the firm resistance of the Agricultural tire business even as global demand softened and robust sales in the new markets. At the same time, the favorable impact of lower raw materials costs only partially offset the delayed effect of price adjustments under raw materials indexation clauses.

3.3.3 OTHER INCOME STATEMENT ITEMS

3.3.3 a) Raw materials

The cost of **raw materials** reported in the income statement under "Cost of sales" has been estimated at €4.3 billion in 2016 *versus* €4.7 billion in 2015.

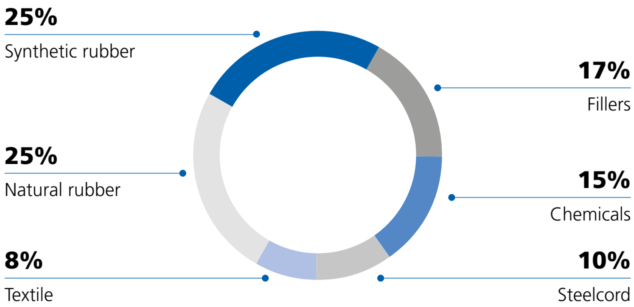
It is calculated on the basis of:

- the price and mix of the Group's raw materials purchases;
- production and sales volumes;
- the valuation of raw materials, semi-finished and finished product inventories 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;
- exchange rate movements, which correspond to (i) the impact of converting the cost of purchases made in local currencies into the consolidation currency; and (ii) an untracked residual currency effect resulting from the difference between the purchasing companies' local currency and the currency used to purchase their raw materials.

In 2016, the raw materials costs recognized in cost of sales included the €545 million cost of price adjustments, as well as the residual currency effect.

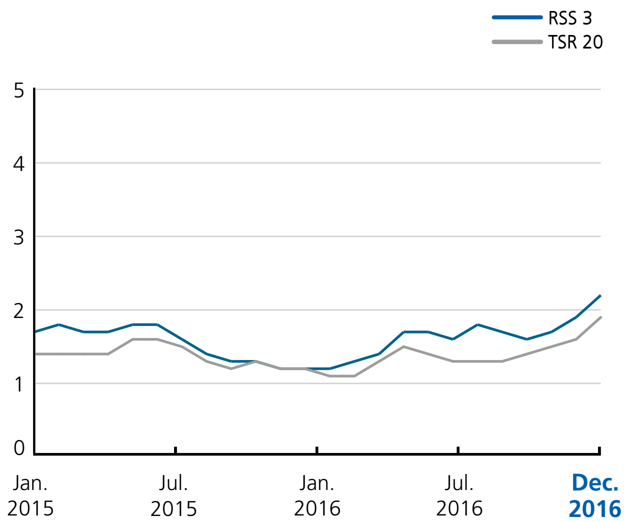
Changes in prices feed through to the income statement five to six months later for natural rubber and around three months later for butadiene.

RAW MATERIALS RECOGNIZED IN 2016 COST OF SALES (€4.3 BILLION)

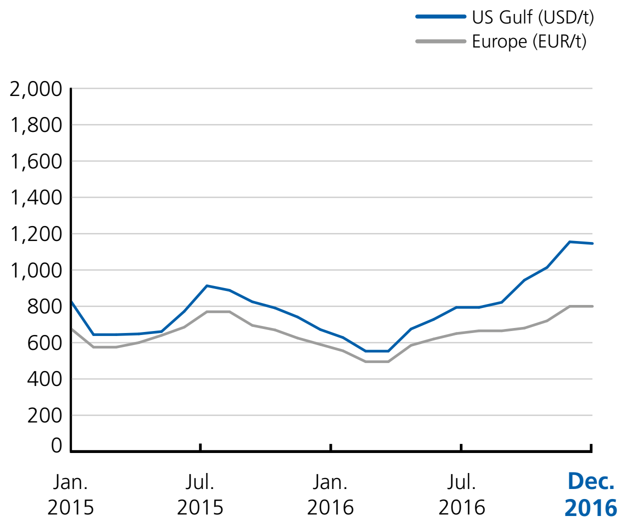


NATURAL RUBBER PRICES (SICOM)

(USD/kg)



BUTADIENE PRICES



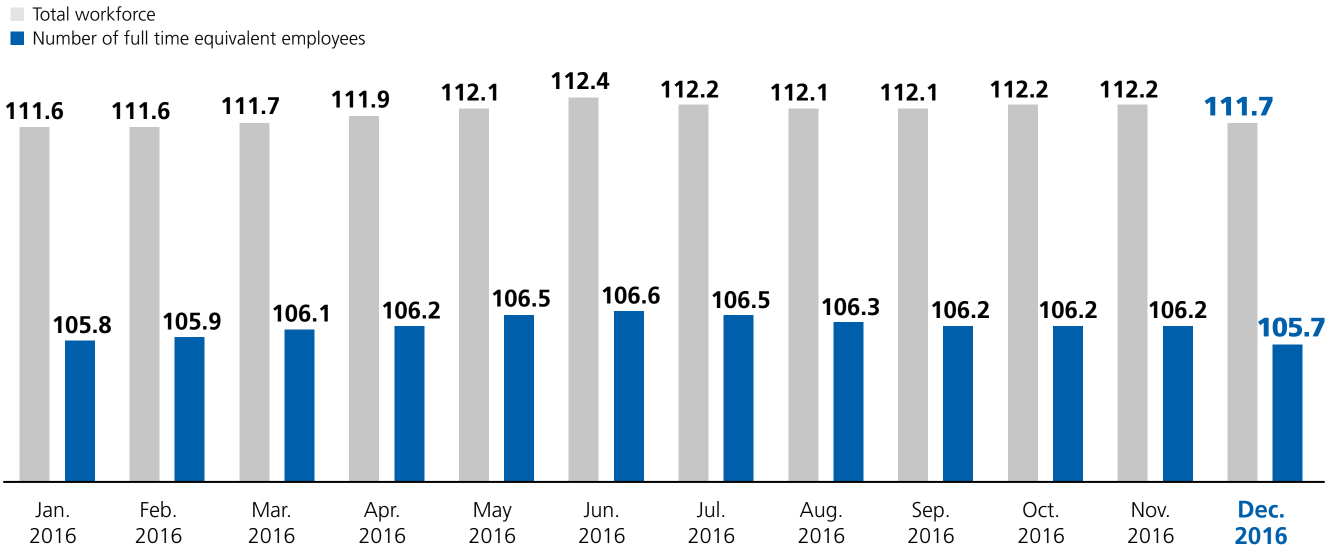
3.3.3 b) Employee benefit costs and number of employees

At €5,542 million, **employee benefit costs** represented 26.5% of net sales in 2016, *versus* 27.3% the year before. Along with the decline in the average number of employees over the year, this decrease results from a €271 million gain on a change in the retiree health coverage plan in the United States, adjusted for the combined impact of inflation in emerging markets and the integration of new digital operations, particularly BookaTable, Europe's leading online restaurant booking service. Group-wide, the inflation rate stood at 2.4% for the year.

(in € millions and number of people)	2016	2015	% change
Total employee benefit costs	5,542	5,785	-4.2%
As a % of net sales	*26.5%*	*27.3%*	*-0.8 pt*
Employees on payroll at December 31	111,700	111,700	+0.0%
Number of full time equivalent employees at December 31	105,700	105,800	-0.1%
Average number of full time equivalent employees	106,200	106,600	-0.4%

NUMBER OF EMPLOYEES

(in thousands)

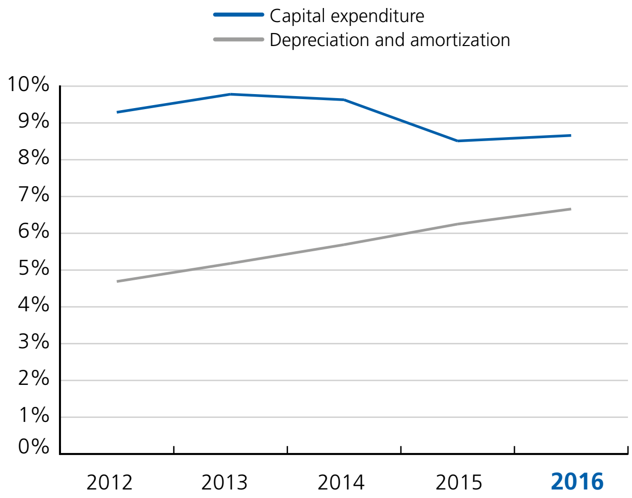


3.3.3 c) Depreciation and amortization

(in € millions)	2016	2015	% change
Depreciation and amortization	1,392	1,324	+5.1%
As a % of additions to intangible assets and property, plant and equipment	*77%*	*73%*	

Depreciation and amortization charges rose by €68 million (5.1%) to €1,392 million for the year, reflecting the temporary increase in capital expenditure committed in recent years to drive growth. Given the projects currently underway, depreciation and amortization charges are expected to continue to increase in the years ahead.

(As a % of net sales)



3.3.3 d) Transportation costs

(in € millions)	2016	2015	% change
Transportation costs	1,152	1,129	+2.1%
As a % of net sales	*5.5%*	*5.3%*	

Transportation costs stood at €1,152 million, up 2.1% year-on-year primarily as a result of the growth in volumes, the increase in intercontinental shipping to serve expanding markets and the temporary costs related to the supply chain transformation projects in Europe and North America.

3.3.3 e) Sales and marketing expenses

Sales and marketing expenses represented 9.1% of net sales in 2016, unchanged from 2015. In value, they declined by €22 million to €1,907 million as a result of the greater efficiency in spending and the favorable currency effect.

3.3.3 f) Research and development expenses

Research and development expenses stood at €718 million, a 4% year-on-year increase that reflected the Group's ongoing strategy of shortening time-to-market for new products and services, aligning innovation with real market needs and extending its technological leadership.

As a percentage of net sales, R&D expenses were stable at 3.4%, *versus* 3.3% in 2015.

3.3.3 g) General and administrative expenses

At €1,759 million, **general and administrative expenses** represented 8.4% of net sales, *versus* €1,707 million and 8.1% in 2015. The €51 million increase mainly corresponds to the impact of consolidating BookaTable, motorsports-related costs, in particular with Michelin's return to MotoGP racing, and a slight rise in employee benefit costs.

3.3.3 h) Other operating income and expenses from recurring activities

Other operating income and expenses from recurring activities represented a net expense of €21 million in 2016 *versus* the net expense of €59 million reported in 2015. Most of the 2016 expense was comprised of the €16 million employer contribution to the employee stock ownership plan, as well as various taxes and expenses on stock option grants in France.

3.3.3 i) Operating income/(loss) from non-recurring activities

Operating income/(loss) from non-recurring activities came to a net €99 million in income, reflecting the €271 million gain from a change in the retiree health coverage plan in the United States, which was partially offset by the cost of reorganizing operations in Clermont-Ferrand and elsewhere in Europe, and by the impairment of capital improvements at plants in India and United States.

3.3.3 j) Cost of net debt

(in € millions)	2016	2015	Change
Cost of net debt	203	184	+19

At €203 million, the **cost of net debt** was up €19 million compared with 2015, primarily as a result of the following factors:

- net interest expense unchanged at €202 million, reflecting the combined impact of:
  - a €7 million increase due to the rise in average net debt to €1,294 million in 2016 from €1,235 million in 2015,
  - a €11 million decrease from the decline in the average gross interest rate on borrowings to 7.14% in 2016 from 7.52% in 2015,
  - a €4 million net increase 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 €7 million negative impact from exchange rate derivatives (€22 million less than in 2015) due mainly to the decline in euro interest rates against the Brazilian real and the Chinese yuan;
- a €3 million net decrease from other factors.

3.3.3 k) Other financial income and expenses

(in € millions)	2016	2015	Change
Other financial income and expenses	20	(30)	+50

Other financial income and expenses represented net income of €20 million, a €50 million year-on-year improvement that was led by the renegotiation of pension insurance contracts in Spain and the net proceeds from the sale of financial assets, partly offset by currency losses.

3.3.3 l) Income tax

(in € millions)	2016	2015	Change
Income before taxes	2,464	1,869	+595
Income tax	**(797)**	**(706)**	**+91**
Current tax	(665)	(616)	+49
Withholding tax	(84)	(48)	+36
Deferred tax	(48)	(42)	+6

Income tax expense rose by €91 million year-on-year to €797 million in 2016, due to the improvement in taxable income. The effective tax rate was 32.3%, *versus* 37.8% the year before. In 2015, the taxation of dividends exceptionally repatriated from Thailand had a 2-point impact on the effective tax rate for the year.

3.3.3 m) Consolidated net income and earnings per share

(in € millions)	2016	2015	Change
Net income	1,667	1,163	+504
As a % of net sales	*8.0%*	*5.5%*	*+2.5 pts*
▶ Attributable to shareholders of the Company	1,676	1,168	+508
▶ Attributable to non-controlling interests	(9)	(5)	-4
Earnings per share *(in €)*			
▶ Basic	9.21	6.28	+2.93
▶ Diluted	9.03	6.19	+2.84

Net income came to €1,667 million, or 8.0% of net sales, compared with the €1,163 million reported in 2015. The €504 million increase reflected the following factors:

- favorable factors:
  - the €115 million increase in operating income from recurring activities,
  - the €469 million improvement in operating income/(loss) from non-recurring activities, which swung to income of €99 million from a €370 million loss in 2015,
  - the improvement in other financial income and expenses, which represented income of €20 million instead of a €30 million expense in 2015,
  - the €2 million decrease in interest on employee benefit obligations during the year;
- unfavorable factors:
  - the €19 million increase in the cost of net debt,
  - the €22 million decrease in the Group's share of profit from associates, which swung to a €5 million loss from a €17 million profit in 2015,
  - the €91 million increase in income tax.

3.4 CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

(in € millions)	December 31, 2016	December 31, 2015	Total change	Currency effect	Movement
Goodwill	963	803	+160	+58	+102
Intangible assets	630	621	+8	+9	-1
Property, plant and equipment	11,053	10,532	+521	+279	+242
Non-current financial assets and other assets	323	410	-87	+11	-99
Investments in associates and joint ventures	309	309	+0	+2	-2
Deferred tax assets	1,191	1,259	-68	+8	-76
Non-current assets	**14,469**	**13,934**	**+535**	**+367**	**+168**
Inventories	4,480	4,289	+191	+111	+80
Trade receivables	3,042	2,743	+299	+43	+256
Current financial assets	633	363	+270	+5	+266
Other current assets	1,202	1,012	+189	+36	+153
Cash and cash equivalents	1,496	1,552	-56	+4	-60
Current assets	**10,853**	**9,959**	**+893**	**+198**	**+695**
TOTAL ASSETS	**25,322**	**23,893**	**+1,429**	**+567**	**+862**

LIABILITIES AND EQUITY

(in € millions)	December 31, 2016	December 31, 2015	Total change	Currency effect	Movement
Share capital	360	364	-4	+0	-4
Share premiums	3,024	3,222	-198	+0	-198
Reserves	7,215	5,903	+1,312	+316	+996
Non-controlling interests	47	53	-7	+1	-8
Equity	**10,646**	**9,542**	**+1,104**	**+317**	**+786**
Non-current financial liabilities	1,773	2,444	-671	+131	-802
Employee benefit obligations	4,763	4,888	-125	+1	-126
Provisions and other non-current liabilities	1,604	1,681	-76	+12	-88
Deferred tax liabilities	117	118	-1	+7	-8
Non-current liabilities	**8,257**	**9,131**	**-874**	**+150**	**-1,024**
Current financial liabilities	1,320	548	+772	-8	+780
Trade payables	2,364	2,260	+104	+31	+73
Reverse factoring contracts	339	94	+245	+16	+230
Other current liabilities	2,396	2,318	+78	+40	+39
Current liabilities	**6,419**	**5,220**	**+1,199**	**+78**	**+1,122**
TOTAL EQUITY AND LIABILITIES	**25,322**	**23,893**	**+1,429**	**+545**	**+884**

3.4.1 GOODWILL

Goodwill at December 31, 2016 reflected a €58 million positive currency effect, and a €102 million increase corresponding to goodwill recognized on the acquisition of BookaTable, Europe's leading online restaurant booking service.

3.4.2 INTANGIBLE ASSETS

Intangible assets amounted to €630 million, unchanged from December 31, 2015 excluding the €9 million increase from the currency effect.

3.4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stood at €11,053 million at December 31, 2016, a €242 million year-on-year increase before taking into account the €279 million positive currency effect. The increase was primarily led by the ongoing investment in new capacity in fast growing markets (the premium Passenger car segment, North America and Asia), and in products for the premium and entry-level segments. Additions to property, plant and equipment exceeded depreciation expense for the year.

3.4.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

Non-current financial assets and other assets stood at €323 million, a decline of €99 million (excluding the €11 million positive currency effect) that was mainly due to:

- a €57 million increase from fair value adjustments to available-for-sale financial assets;
- a €25 million increase in available-for-sale financial assets, primarily comprising the temporary recognition of Levorin, a Brazilian manufacturer of two-wheel tires acquired in December 2016, and Restaurantes.com, Spain's leading online restaurant booking site, acquired in December 2016;
- a €51 million decrease from fair value adjustments to derivative instruments;
- a €129 million decrease from other movements, including a €114 million decrease from the consolidation of BookaTable, whose shares had been recognized in available-for-sale financial assets at December 31, 2015.

3.4.5 INVESTMENTS IN ASSOCIATES

Excluding the €2 million positive translation adjustment, **investments in associates** declined by €2 million in 2016. This relative stability reflected the net impact of a €10 million decrease in dividends received and an €8 million increase from other items.

3.4.6 DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2016, the Group held a **net deferred tax asset of €1,074 million**, representing a decrease of €68 million compared with the amount reported at end-2015 (before taking into account the €1 million positive currency effect). The decline was mainly attributable to taxable timing differences (notably the €271 million gain from a change in the retiree health coverage plan in the United States).

3.4.7 TRADE WORKING CAPITAL REQUIREMENT

(in € millions)	December 31, 2016	December 31, 2015	Change	2016 *(as a % of net sales)*	2015 *(as a % of net sales)*
Inventories	4,480	4,289	+191	21.4%	20.2%
Trade receivables	3,042	2,743	+299	14.6%	12.9%
Trade payables	(2,364)	(2,260)	-104	11.3%	10.7%
Reverse factoring contracts	(339)	(94)	-245	1.6%	0.4%
WORKING CAPITAL REQUIREMENT	**4,819**	**4,678**	**+141**	**23.0%**	**22.1%**

Trade working capital requirement increased by €141 million compared with December 31, 2015, chiefly due to the €108 million positive currency effect. Excluding that impact, trade working capital requirement rose by €34 million over the year and stood at 23.0% of net sales, compared with 22.1% at year-end 2015.

Inventories amounted to €4,480 million, representing 21.4% of net sales for 2016. Excluding the currency effect, they rose in value by €80 million over the year, primarily on the 4% increase in finished goods tonnages and the 3% increase in raw materials and semi-finished tonnages, partly offset by the decline in raw materials prices.

Excluding translation adjustments, **trade receivables** rose by €256 million year-on-year to €3,042 million at December 31, 2016, primarily as a result of the surge in net sales in the final quarter. As a percentage of net sales, they rose by 1.7 points, to 14.6% from 12.9% a year earlier.

The growth in net sales, particularly in the final months of the year, also had the effect of increasing **trade payables**, which ended the year up €303 million at €2,703 million (including €339 million in reverse factoring contracts but before €47 million in translation adjustments).

3.4.8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents declined by €60 million year-on-year, excluding the currency effect, to €1,496 million, reflecting the net impact of the following factors:

- increases from:
  - the €1,024 million in free cash flow, after the investment of €16 million in acquisitions (mainly all outstanding shares of Levorin and Restaurantes.com),
  - the €99 million in proceeds from the issue of new shares on the exercise of stock options, the granting of performance shares and purchases under the employee stock ownership plan;
- decreases from:
  - the payment of €538 million in dividends, including tax on the distribution of cash dividends,
  - the outlay of €301 million for share buybacks during the year,
  - the acquisition of cash management instruments for €287 million,
  - the €19 million in new debt taken on over the year,
  - other factors in an amount of €38 million.

3.4.9 EQUITY

Including €317 million in translation adjustments, **consolidated equity** increased by €1,104 million to €10,646 million at December 31, 2016 from the €9,542 million reported a year earlier, primarily as a result of the following factors:

- increases:
  - Recognition of the €1,830 million in comprehensive income for the year, including:
    - net income of €1,667 million,
    - the €202 million unfavorable impact of actuarial gains and losses, after deferred taxes,
    - €48 million in unrealized gains on available-for-sale financial assets, net of deferred tax,
    - the €317 million positive difference from translating foreign operations,
  - €99 million in proceeds from the issue of 1,503,749 new shares on the exercise of stock options, the granting of performance shares and purchases under the employee stock ownership plan,
  - €5 million in service costs on performance share-based payment plans,
  - other factors in an amount of €10 million ;
- decreases:
  - the payment of €538 million in dividends and other distributions,
  - the buyback and cancellation of 3,347,040 Michelin shares under the shareholder-approved plan, for €301 million,
  - the €1 million in non-controlling interests in the new share issues carried out by Group subsidiaries.

At December 31, 2016, the **share capital** of Compagnie Générale des Établissements Michelin stood at €360,132,242, comprising 180,066,121 shares corresponding to 241,849,548 voting rights.

3.4.10 NET DEBT

Net debt stood at €944 million at December 31, 2016, down €64 million year-on-year, primarily as a result of the following factors:

- €244 million in net cash flow, including:
  - €1,024 million in free cash flow generated during the year, less,
  - €780 million in dividends, net share buybacks and other outlays;
- €180 million in other factors increasing net debt, of which:
  - the €34 million interest expense on the zero-coupon convertible bonds,
  - €107 million in negative translation adjustments,
  - €42 million corresponding to new finance leases,
  - €3 million in other factors decreasing net debt.

CHANGES IN NET DEBT

(in € millions)	2016	2015
At January 1	**1,008**	**707**
Free cash flow [(1)]	-1,024	-653
Distributions and other	+780	+814
Interest expense on the zero-coupon convertible bonds	+34	+33
Translation adjustment	+107	+36
Other	+39	+71
AT DECEMBER 31	**+944**	**+1,008**
CHANGE	**-64**	**+301**

(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.

3.4.10 a) Gearing

Gearing declined to 9% at December 31, 2016, from 11% at year-end 2015, as the strong generation of free cash flow over the year more than offset the €301 million in share buybacks.

3.4.10 b) Credit ratings

The solicited corporate credit ratings of Compagnie Générale des Établissements Michelin (CGEM) and Compagnie Financière Michelin SCmA (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	A-	A-
	Moody's	A3	A3
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Stable	Stable

- On January 29, 2016, Standard & Poor's upgraded Michelin's long-term credit rating to A- from BBB+, while affirming its A-2 short-term rating and stable outlook.
- On March 20, 2015, Moody's upgraded Michelin's long-term credit rating to A3 from Baa1, with a stable outlook, while affirming its P-2 short-term rating.

Note that CGEM and CFM have also been issued unsolicited credit ratings by Fitch Ratings:

	CGEM	CFM
Short term	F2	F2
Long term	A-	A-
Outlook	Stable	Stable

3.4.11 PROVISIONS

Provisions and other non-current liabilities amounted to €1,604 million, *versus* €1,681 million at December 31, 2015. Excluding the currency effect, they declined by €88 million over the year, primarily due to the fulfillment of Group commitments undertaken as part of the reorganization and adaptation of its activities in Europe.

3.4.12 EMPLOYEE BENEFITS

CHANGE IN THE FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in € millions)	Pension plans	Other defined benefit plans	2016	2015
At January 1	**2,617**	**2,271**	**4,888**	**4,612**
Translation adjustments	(47)	48	1	137
Contributions paid to the funds	(74)	-	(74)	(240)
Benefits paid directly to the beneficiaries	(32)	(124)	(156)	(155)
Changes in scope of consolidation	8	(63)	(55)	(53)
Net cost recognized in operating expenses				
Current service cost	68	59	127	137
Actuarial (gains) or losses recognized on other long term benefit obligations	-	-	-	(5)
Past service cost arising from plan amendments	2	(264)	(262)	-
Past service cost arising from plan curtailments and settlements	(20)	1	(19)	2
Employee benefit costs included in provisions for the reorganization and adaptation of activities	(5)	(14)	(19)	(5)
Other items	(1)		(1)	-
Costs recognized below the line				
Net interest on the net defined benefit obligation (asset)	72	67	139	141
Costs recognized in other comprehensive income				
Actuarial (gains) or losses	337	40	377	118
Portion of unrecognized asset due to the application of the asset ceiling	(183)	-	(183)	199
NET OBLIGATION AT DECEMBER 31	**2,742**	**2,021**	**4,763**	**4,888**

The net defined benefit obligation recognized in the consolidated balance sheet at December 31, 2016 stood at €4,763 million, a decrease of €125 million that was led by the following main factors:

- the combined effects of applying the asset ceiling and IFRIC 14, for a net amount of €(183) million, primarily in relation to Canadian pension plans (€(179) million);
- actuarial losses of €377 million, mainly due to:
  - an actual rate of return on plan assets that was higher than the discount rate, for €(304) million,
  - the reduction in discount rates, for €745 million, and experience gains for €(66) million;
- changes in the measurement scope leading to a €55 million decrease in the net obligation, mainly stemming from the conversion of two defined benefit plans in Spain into defined contribution plans;
- a €262 million decrease from plan amendments, curtailments or settlements, primarily consisting of the €271 million gain on a change in the retiree health coverage plan in the United States.

The amount recognized in the income statement in respect of defined benefit plans represented a gain of €35 million in 2016, *versus* a cost of €270 million in 2015.

The amount recognized in operating income came to €174 million, compared to a cost of €129 million recognized in operating expenses in 2015. Net interest on the net defined benefit obligation, reported below the line, represented €139 million in 2016, *versus* €141 million in 2015. The €303 million year-on-year decline in the amount recognized in operating income and expenses in 2016 was primarily led by the €271 million change in the retiree health coverage plan in the United States.

The cost recognized in respect of defined contribution plans amounted to €213 million in 2016, up €26 million year-on-year, mainly due to increases in plan costs in North America.

Total payments under defined benefit plans amounted to €230 million in 2016, *versus* €395 million the year before, including:

- contributions paid to fund management institutions for €74 million, down €166 million from €240 million in 2015, mainly due to the non-payment during the year of €138 million in pension fund front-loading contributions in the United Kingdom;
- benefits paid directly to employees for €156 million, *versus* €155 million in 2015.

Total payments under defined contribution plans amounted to €213 million in 2016, *versus* €187 million the previous year.

Actuarial losses recorded in 2016 in the amount of €194 million corresponded to:

- €681 million in actuarial losses on defined benefit obligations, resulting mainly from reductions in discount rates;
- €304 million in actuarial gains on plan assets, due to an actual rate of return on plan assets that was higher than the discount rate;
- €183 million in actuarial gains 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 € millions)	2016	2015	Change
EBITDA from recurring activities	**4,084**	**3,934**	**150**
Change in inventory	(83)	60	(143)
Change in trade receivables and prepayments	(319)	(66)	(253)
Change in trade payables and prepayments	289	34	255
Costs related to the reorganization and adaptation of activities	(99)	(96)	(3)
Changes in provisions	(107)	(270)	163
Tax and interest paid	(911)	(897)	(14)
Other operating working capital	(89)	(4)	(85)
CASH FLOWS FROM OPERATING ACTIVITIES	**2,765**	**2,695**	**70**

At €4,084 million, **EBITDA** from recurring activities was up €150 million year-on-year.

Cash flows from operating activities climbed €70 million, to €2,765 million from €2,695 million, primarily as a result of:

- the negative impact of the increase in trade working capital requirement, which rose by €113 million in 2016 after declining by €28 million in 2015, as a result of:
  - the €83 million increase in inventories, *versus* a €60 million decrease in 2015, primarily due to the rise in finished product, semi-finished product and raw materials tonnages,
  - the €319 million increase in trade receivables, compared to a €66 million increase in 2015, reflecting in particular the surge in net sales in the final quarter of the year,
  - the €289 million decline in trade payables, compared to a €34 million decrease in 2015, primarily due to the €136 million increase in payables covered by reverse factoring contracts;
- the increase in costs related to the reorganization and adaptation of activities to €99 million from €96 million in 2015;
- the increase in tax and interest paid during the year, to €911 million from €897 million in 2015.

3.5.2 CAPITAL EXPENDITURE

(in € millions)	2016	2015	2016/2015	2016 *(as a % of net sales)*	2015 *(as a % of net sales)*
Gross purchases of intangible assets and PP&E	**1,811**	**1,804**	**+7**	**8.7%**	**8.5%**
Investment grants received and change in capital expenditure payables	6	(30)	+36	0.0%	0.1%
Proceeds from sales of intangible assets and PP&E	(91)	(43)	-48	0.4%	0.2%
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**1,725**	**1,730**	**-5**	**8.3%**	**8.2%**

Additions to **intangible assets and property, plant and equipment** amounted to €1,811 million during the year, compared with €1,804 million in 2015. As a result of this increase, total capital expenditure represented 8.7% of net sales *versus* 8.5% in 2015. Growth investments accounted for €826 million of the total for the year.

By Product Line, the main capital projects completed during the year or still underway are as follows:

Passenger car and Light truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - León, Mexico,
  - Roanne, France,
  - Shenyang, China,
  - Pirot, Serbia,
  - Indonesia;

Truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - Romania,
  - Thailand,
  - France;

Specialty products:

- Agricultural tires.

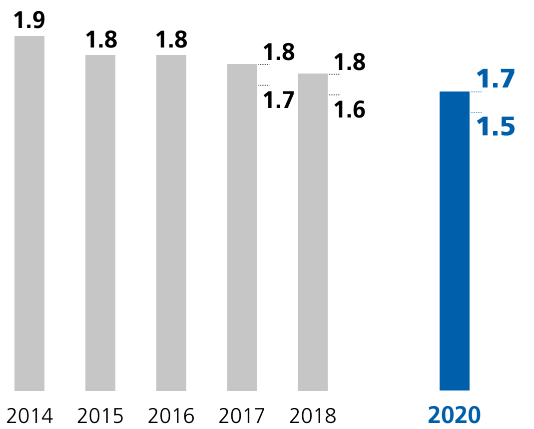
In addition, Michelin is actively investing in the following areas:

- fast growing markets, such as premium Passenger car and Light truck tires, North America and China;
- customer service (information systems, logistics hubs, etc.);
- digital services;
- raw materials and semi-finished products.

The amounts expected to result from this capital expenditure strategy are illustrated below.

CHANGE IN ACTUAL AND ESTIMATED PURCHASES OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

(in € billions)



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

3.5.3 AVAILABLE CASH FLOW AND FREE CASH FLOW

Available cash flow corresponds to cash flow from recurring operating activities, *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 (excluding net cash flows used in cash management instruments and loan guarantees).

(in € millions)	2016	2015
Cash flows from operating activities	**2,765**	**2,695**
Routine capital expenditure (maintenance, IT, dealerships, etc.)	(985)	(996)
AVAILABLE CASH FLOW	**1,780**	**1,699**
Growth investments	(826)	(808)
Acquisitions	(16)	(312)
Other	86	74
FREE CASH FLOW	**1,024**	**653**

After deducting €985 million in routine capital expenditure, **available cash flow** was strongly positive in 2016, at €1,780 million.

Free cash flow amounted to €1,024 million thanks notably to available cash flow, after committing €826 million to growth investments and €16 million to acquisitions (primarily Levorin and Restaurantes.com).

3.5.4 STRUCTURAL FREE CASH FLOW

To track its intrinsic performance, Michelin has set targets based on its structural free cash flow, which is defined as free cash flow adjusted for acquisitions and the impact of raw materials prices on trade receivables, trade payables and inventory, and end-of-year volumes on working capital requirement.

(in € millions)	2016	2015
FREE CASH FLOW	**1,024**	**653**
Acquisitions	16	312
FREE CASH FLOW EXCLUDING ACQUISITIONS & DISPOSALS	**1,040**	**965**
Impact of raw materials costs on working capital requirement	(79)	(132)
End-of-year volumes on working capital requirement	nm	nm
STRUCTURAL FREE CASH FLOW	**961**	**833**

Note that all of the €193 million in interest on the zero-coupon Oceane 2017 convertible bonds was paid in January 2017 and will be adjusted when calculating the amount of structural free cash flow for 2017.

3.6 RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving an annual return on capital employed (ROCE) after tax and at constant scope of consolidation 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, 2016 WACC remained below the 9% target the Group uses to assess its value creation.

(in € millions)	2016	2015
Operating income from recurring activities	2,692	2,577
Average standard income tax rate used for ROCE calculation	31%	31%
Net operating profit after tax (NOPAT)	**1,857**	**1,778**
Intangible assets and property, plant and equipment	12,646	11,957
Loans and deposits	70	77
Investments in associates and joint ventures	309	308
Total non-current financial assets	13,025	12,342
Working capital requirement	2,873	2,574
Economic assets at December 31	15,898	14,916
Average economic assets	**15,407**	**14,613**
Consolidated ROCE	**12.1%**	**12.2%**
Passenger car/Light truck tires & related distribution ROCE	12.9%	12.2%
Truck tires & related distribution ROCE	8.1%	9.4%
Specialty businesses ROCE	17.9%	18.9%

In light of the acquisition strategy led by the Group in recent years, Michelin has decided to refine its objective as part of its 2020 strategic plan to deliver an ROCE of at least 15% at constant scope of consolidation. Accordingly, operating ROCE at constant scope of consolidation excludes goodwill.

Operating ROCE as described above is presented below for previous years:

	2016	2015	2014	2013	2012
Operating ROCE	12.8%	12.9%	11.6%	12.3%	13.2%

3.7 TREND INFORMATION

In 2017, tire markets are expected to track the trends observed in late 2016, in particular with the upturn in mining tire sales. The year will also see an increase in raw materials costs, in response to which Michelin will agilely manage prices so as to hold unit margins firm in businesses not subject to indexation clauses.

Based on average January prices, raw materials could have up to an approximate €900 million unfavorable impact over the full year.

In this market environment, Michelin's objectives for 2017 are volume growth in line with global market trends, operating income from recurring activities equal to or exceeding the 2016 figure at constant exchange rates, and structural free cash flow of more than €900 million.

3.8 SHARE INFORMATION

3.8.1 THE MICHELIN SHARE

Traded on the NYSE Euronext Paris stock exchange

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

Market capitalization

- €19,033 million at December 31, 2016.

Average daily trading volume

- 554,262 shares since January 1, 2016.

Indices

The Michelin share is included in two leading stock market indices. As of December 31, 2016, it represented:

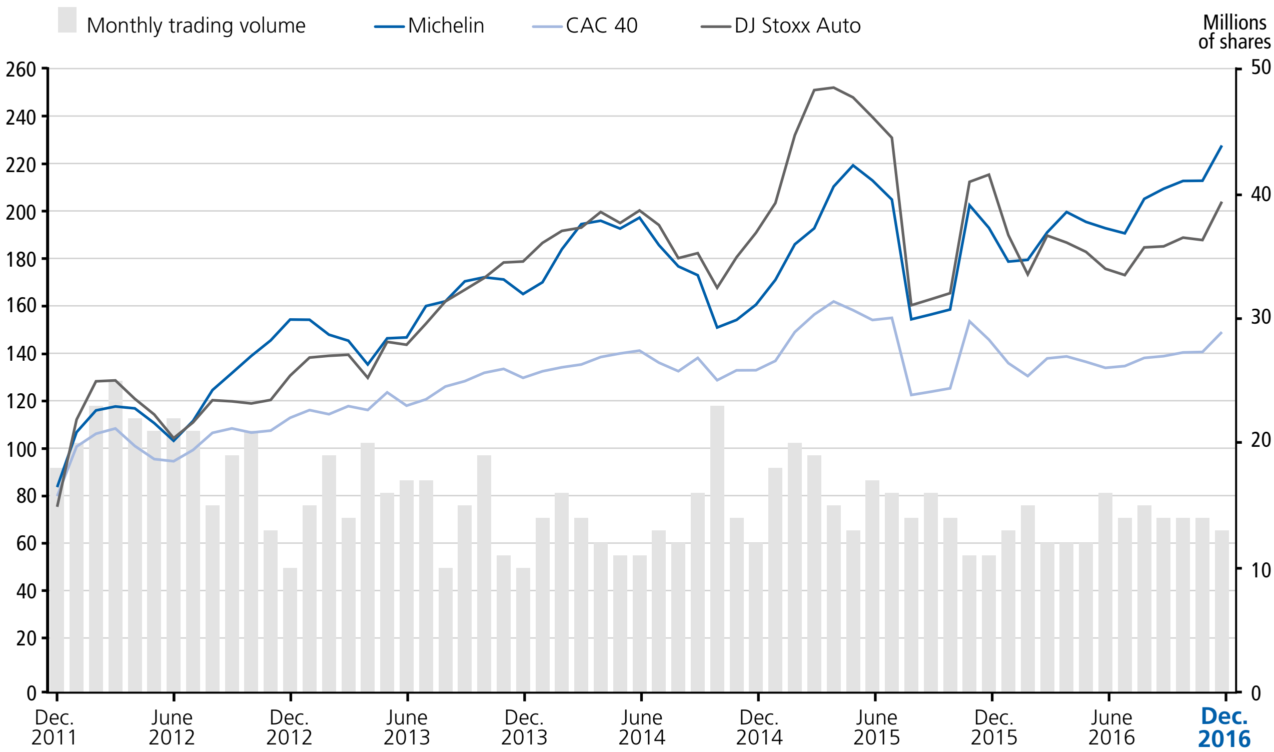
- 1.83% of the CAC 40 index;
- 0.81% of the Euronext 100 index.

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, 2016)



3.8.2 SHARE DATA

Share price *(in €)*	**2016**	**2015**	**2014**	**2013**	**2012**
High	106.80	103.90	94.33	84.71	72.58
Low	77.40	71.60	65.10	57.23	45.32
High/low ratio	1.38	1.45	1.45	1.48	1.60
Closing price, end of period	105.70	87.90	75.27	77.25	71.59
Average share price over the period	91.97	90.26	82.10	72.28	57.15
Change over the period	+20.3%	+16.8%	-2.6%	+7.9%	+56.7%
Change in the CAC 40 index over the period	*+4.9%*	*+8.5%*	*-0.5%*	*+18.0%*	*+15.2%*
Market value *(at end of period, in € billion)*	**19.03**	**15.98**	**13.98**	**14.35**	**13.07**
Average daily trading volume over the period	554,262	719,709	662,063	719,464	913,167
Average shares outstanding	182,122,667	185,960,394	185,954,390	184,901,269	181,099,501
Volume of shares traded over the period	142,445,218	184,245,619	168,826,055	183,463,371	233,770,814
Share turnover ratio	**78%**	**99%**	**91%**	**99%**	**129%**

3.8.3 PER-SHARE DATA

(in € per share, except ratios)	**2016**	**2015**	**2014**	**2013**	**2012**
Net assets per share	59.1	52.5	51.3	49.8	46.6
Basic earnings per share	9.21	6.28	5.52	6.08	8.62
Diluted earnings per share [(1)]	9.03	6.19	5.45	5.98	8.41
Price-earnings ratio	**11.5**	**14.0**	**13.6**	**12.7**	**8.3**
Dividend for the year	3.25*	2.85	2.50	2.50	2.40
Pay-out ratio	36.5%	37.0%	40.6%	35.0%	28.7%
Yield [(2)]	3.1%	3.2%	3.3%	3.2%	3.4%

(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 submitted to shareholder approval at the Annual Meeting on May 19, 2017.*

The goal of the Group's dividend policy is to pay out at least 35% of consolidated net income excluding non-recurring items for the year.

3.8.4 CAPITAL AND OWNERSHIP STRUCTURE

At December 31, 2016, Michelin's share capital amounted to €360,132,242.

	At December 31, 2016			**At December 31, 2015**		
	Number of shareholders	**Shares outstanding**	**Voting rights outstanding**	**Number of shareholders**	**Shares outstanding**	**Voting rights outstanding**
French institutional investors	5,023	22.7%	25.4%	3,183	21.4%	24.1%
Non-resident institutional investors		63.1%	61.4%		63.0%	60.8%
Individual shareholders	109,410	12.1%	10.6%	119,307	13.8%	12.7%
Employee Shareholder Plan	79,284	2.1%	2.6%	69,068	1.8%	2.4%
TOTAL	**193,717**	**180,066,121 SHARES***	**241,849,548 VOTING RIGHTS**	**191,558**	**181,902,182 SHARES***	**242,005,720 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

3.9.1 STRATEGY – PARTNERSHIP – INVESTMENTS

Michelin is named one of the best 10 corporate brands in Europe

(February 19, 2016) – Michelin is delighted to be ranked amongst the top 10 best companies in Europe by the renowned "Best Brands" study after an online survey questioned 5,000 people in Germany, England, France, Italy and Spain.

Michelin: a competitiveness plan over four years

(June 6, 2016 – To achieve our goal of savings of €1.2 billion between 2017 and 2020, we are accelerating our efforts in three areas: industrial costs, overhead costs and the costs of materials consumed.

A new high-end touring tire production factory in Mexico

(July 4, 2016) – To meet our commitment to manufacturing tires as close as possible to where they are sold, we will soon be opening our 21st production site in the Americas. The construction of this plant represents an investment of €450 million and it will be in León, central Mexico, in a region where there are 18 other major car manufacturer production facilities.

A strategic partnership for the Michelin Aircraft Product Line

(July 12, 2016) – Aviall, a Boeing subsidiary dedicated to the supply of spare parts, and Michelin will join forces to better meet the needs of airlines and airport services operators. Thanks to this agreement, our Aircraft Product Line will now be able to use Aviall's international distribution network.

Acquisition of Levorin: Michelin gains strength in Brazil

(August 26, 2016) – The two-wheel tire market is booming in Brazil. To meet the market's specific requirements, we will be offering a wide, adapted range of tires thanks to the acquisition of Levorin (€135 million in annual turnover and 2,000 employees), a local two-wheel tire specialist.

New employee share scheme

(September 15, 2016) – From September 15 to October 3, 2016, Michelin Group employees could subscribe, with preferential conditions, to shares issued by way of a capital increase reserved to them. 52,099 employees subscribed and 657,366 new shares were generated.

Urbalad: innovation accelerator

(September 16, 2016) – In the heart of the Ladoux (France) Technology Center, the new Campus demonstrates our ambition to be the most innovative company in our sector. This 70,000 square-meter space designed to encourage horizontal collaboration between businesses and open innovation will be a lever to stimulate sustainable mobility development, in line with our customer expectations.

Success for a €93 million bond issue

(September 28, 2016) – Michelin successfully placed €93 million in bonds maturing in 2045 and with a coupon of 3.25%. This offer's very favorable reception confirms market confidence in our Group's credit.

OCEANES bonds mature

(December 1, 2016) – OCEANES bonds, issued March 21, 2007 matured on January 1, 2017. The redemption price per OCEANE was €139.57.

Capital reduction and share buyback

(December 15, 2016) – Compagnie Générale des Établissements Michelin continued its share buyback program in 2016, with the acquisition of Group shares for €301 million over the year. The 3,347,040 treasury shares, representing 1.8% of the capital, were canceled as of December 15, 2016.

Acquisition of Restaurantes.com: Easy to book a table in Spain

(December 20, 2016) – In January 2016, Michelin had already established its European leadership of online restaurant reservations with the purchase of BookaTable, based in London. Today we are strengthening this position with the acquisition of Restaurantes.com, market leader in Spain: 5,000 restaurants and 700,000 covers reserved in 2015.

Success for the non-dilutive convertible bond issue from Michelin

(January 5, 2017) – Michelin successfully proceeded with the placement of a non-dilutive convertible bond maturing in 2022 for a nominal sum of USD500 million. The bonds, only redeemable in cash, will not involve the issue of new shares or the delivery of existing Michelin shares.

3.9.2 PRODUCTS – INNOVATION – SERVICES

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

MICHELIN Pilot Sport4: a new tire generation

(January 12, 2016) – On the back of analysis collected from 3,000 private vehicles throughout Europe and partnerships with our competition manufacturers, the MICHELIN Pilot Sport24 has become the new benchmark tire for premium and sports sedans. It is also the first MICHELIN tire available for online purchase directly from Michelin.

Paris Motor Show: MICHELIN PS4S and CrossClimate+

(September 29, 2016) – At the Paris Motor Show, Michelin presented two new tires. MICHELIN CrossClimate+ continues to merge the best summer and winter tire technologies whilst offering lasting performance. MICHELIN PILOT SPORT 4S, the new ultra high performing tire is among the first tires in its category to have the letter A (for the 19-inch model) in braking distance on wet surfaces.

3.9.2 b) Truck tires and related distribution

MICHELIN X® WORKS™: an offer to build the future

(April 18, 2016) – In its offer to manufacturers, Michelin has three new MICHELIN X® WORKS™ tires which will help improve productivity. This offer is accompanied by services like retreading and a damage warranty, for more peace of mind.

MICHELIN X® LINE™ Energy™: the AAA-scored heavy truck tire

(September 21, 2016) – Saving fuel has become a priority for long-distance transporters. The MICHELIN X® LINE™ Energy™ range of heavy truck tires, the first to be awarded the AAA score in roll resistance, helps save up to a liter of fuel every 100 kilometers with no compromise on the tire lifespan!

MICHELIN X® GUARD™: the sun rises in the East

(December 21, 2016) – Asian markets are asking for high performance and solid tires. In one word: premium, but at competitive prices because of the strong local competition. To solve this difficult equation, we are today offering Chinese and Indian carriers the MICHELIN X® GUARD™ tire range for trucks which takes advantage of all the latest technological innovations, like 3D printing.

3.9.2 c) Specialty businesses

/ Earthmover tires

MICHELIN XDR3 tire: a mine of innovation

(October 20, 2016) – Mines are a particularly hostile environment, especially for tires. The new MICHELIN XDR3 pushes the boundaries of what a tire can withstand thanks to innovations in its structure and tread. It is available in four types of rubber to adapt to the mines operated.

/ Agricultural tires

EXOTIC SYSTEMS: Michelin invests in agricultural innovation

(October 5, 2016) – Farmers are increasingly using innovations in smart digital technology. To support them in this area, today both Limagrain and Michelin are acquiring a 20% stake in the capital of a start-up called Exotic Systems, specializing in smart objects specifically designed for the farming world.

Adaptable pressure: a gold medal

(November 24, 2016) – Farmers need tires that perform as well in the field as they do on the road. Thanks to our two-in-one technology, it is now easy to adapt the pressure and therefore the tread of the tire on the ground. An invention rewarded with a gold medal for innovation at the 2017 International Trade Fair for Agricultural Machines, in Paris.

Kubota: Michelin tires for the Japanese tractor manufacturer

(December 16, 2016) – Since 2013, the Japanese manufacturer Kubota has had a factory in northern France capable of producing 3,000 tractors a year. It has just awarded Michelin the title of "supplier of excellence" which highlights the quality of collaboration between our two teams.

/ Two-wheel tires

MICHELIN Power RS: competition quality available to all bikers

(October 20, 2016) – Inspired by competition tires, the new MICHELIN Power RS motorbike range is for all bikes, from 300cc to Supersport models. Using a unique combination of rubbers and an innovative casing, this tire is becoming the market benchmark in terms of dry grip, handling and stability.

MICHELIN POWER squares up

(November 28, 2016) – Launched in spring 2016, the new MICHELIN POWER high performance range for road bikes boasts the latest technological advances. It dazzles with unequaled performance. Since then, it has been joined by a new tire, the MICHELIN POWER All Season, capable of coping with all weather conditions.

/ Aircraft tires

MICHELIN NZG radial technology chosen by Boeing

(February 8, 2016) – In July 2016, Michelin became the sole tire supplier for the main landing gear for several Boeing 777 models. The B777-300ER long-haul plane is now equipped with the latest generation MICHELIN tires with NZG radial technology.

Bombardier chooses Michelin for its new aircraft

(July 18, 2016) – Our NZG radial technology continues to delight aircraft manufacturers. After Boeing and Airbus, Bombardier has exclusively selected Michelin tires for its new model, the CS100. This aircraft is the first to obtain the ISO 14025 standard, the highest environmental certification.

/ Michelin Travel Partner

Tennis: Michelin creates a unique sole for Babolat

(March 8, 2016) – The new Babolat JET tennis shoes have an exclusive MICHELIN sole adapted to the quick changes in direction so specific to this sport, are long-lasting and have excellent grip. With its innovative sole, the Babolat JET tennis shoe is one of the lightest on the market.

New for the 2017 MICHELIN guides

(July 21, 2016) – For the first edition of Singapore's MICHELIN guide, our inspectors tirelessly walked the streets, giving star billing to typical street food. They found 29 Michelin-starred restaurants and one three-star restaurant.

Near Lake Michigan, the new edition of the Chicago MICHELIN guide awarded six new stars, including two two-star restaurants.

3.9.3 SUSTAINABLE DEVELOPMENT

The PSA group gives Michelin its first "Social and Environmental Responsibility" award

(June 2, 2016) – On May 24, the PSA group gave Michelin the Social and Environmental Trophy at its 12th Supplier Trophy ceremony. This award recognizes environmental and safety performance in MICHELIN products and services and strengthens the connections between our two groups in our commitment to sustainable mobility.

ENGIE joins Michelin as Sybmio FCell shareholders

(September 19, 2016) – By joining Michelin as a shareholder of Symbio FCell, European specialist in fuel cells, ENGIE is providing its expertise in hydrogen production and distribution. This technology, used to improve battery life of electric vehicles, is one of the future's sustainable mobility solutions.

Michelin recognized for its climate actions

(October 25, 2016) – Every year CDP, a non-profit organization, assesses the environmental performance of thousands of companies, noting the best performances in the reduction of CO_2 emissions, and the management of risks and opportunities associated with climate change. For the first time, tire manufacturers appeared on the Climate A List in 2016: Michelin and Yokohama.

COP22: Michelin's determination

(November 7, 2016) – A pioneer of sustainable mobility with the creation of the first low-consumption tire in 1992, Michelin has already contributed a great deal to Paris' COP21 transport commitment. COP22 in Marrakesh was for us an opportunity to reaffirm our motivation for more efficient and eco-friendly mobility and our determination to translate this into concrete actions today.

Circular economy: perfect circles for Michelin

(December 6, 2016) – The principle of the circular economy feeds our strategy for sustainable growth. This is what we call the 4R approach: Reduce, Reuse, Recycle and Renew, which applies to all our products and services. This approach was recognized by the ADEME (the French Agency for the Environment and Energy Management) with the Grand Prize in Circular Economy.

Michelin Challenge Bibendum: from ambition to action!

(December 13, 2016) – In twenty years and twelve editions, Michelin Challenge Bibendum has become the world summit for sustainable mobility, celebrated as such by the entire transport sector. For its 13th edition, it is becoming Movin'on and will be held from June 13-15, 2017 in Montreal, the great Canadian metropolis, a pioneer in sustainable urban mobility, host city and partner to the event.

3.9.4 COMPETITION

Formula-E: MICHELIN's Pilot Sport EV tire at the first e-Prix in Paris

(April 22, 2016) – The first Paris e-Prix was held on April 24, a race which combines Michelin's passion for driving sports and the importance of alternative energies; it was a very special moment for all of the Formula E teams. In cool and dry weather, the MICHELIN Pilot Sport EV tires certainly rose to the occasion.

The 24 Hours of Le Mans: an extreme sport laboratory

(June 16, 2016) – The 84th edition of the 24 Hours of Le Mans race took place on June 18 and 19, 2016. This unique and legendary race pushes drivers and their teams to their very limits. A philosophy which every year turns this endurance race into a genuine laboratory for future automobile innovations.

WRC: 300th victory

(October 20, 2016) – With their Spanish rally win, Sébastien Ogier and Julien Ingrassia could celebrate their title as 2016 World Champions. Michelin also had something to celebrate. At this 555th rally in the history of this championship launched in 1973, our teams won their 300th victory!

MotoGP™: the comeback!

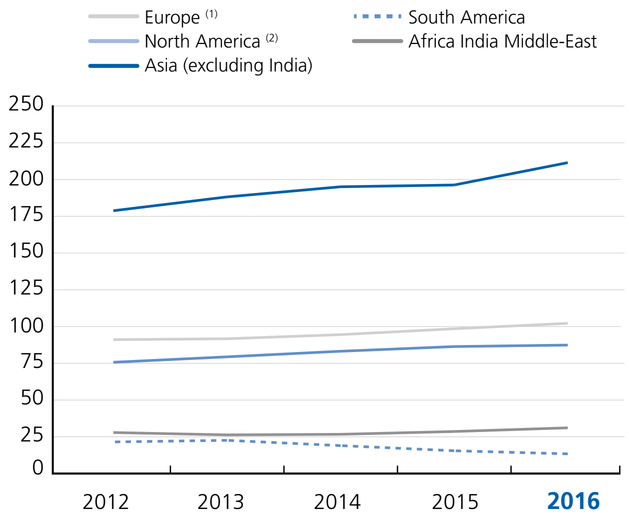
(December 8, 2016) – After seven years away, an eternity at this level of competition, Michelin made its MotoGP™ comeback in 2016. Our teams worked their socks off to provide drivers with an ultra high performance tire and win back their confidence. This great human adventure had a fantastic outcome on the first Grand Prix of the season in Losail (Qatar) with a new record race lap.

4 / FINANCIAL HIGHLIGHTS

4.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

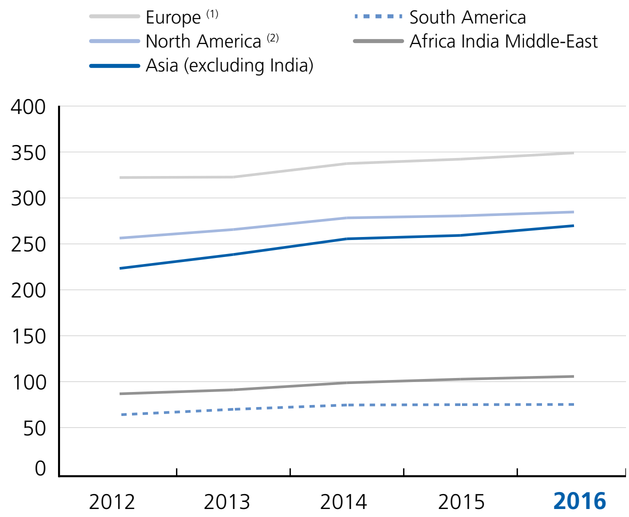
(in millions of tires)



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

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

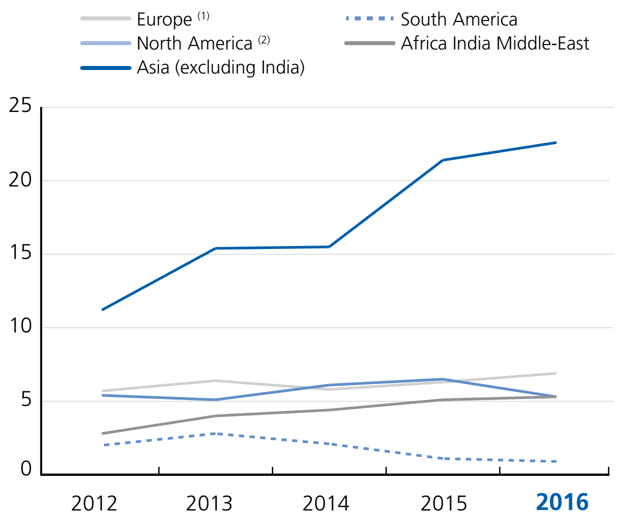
(in millions of tires)



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

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

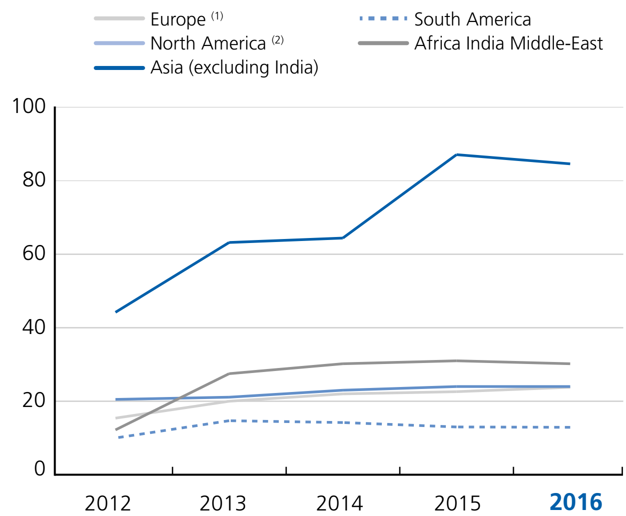
(in millions of new tires)



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

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

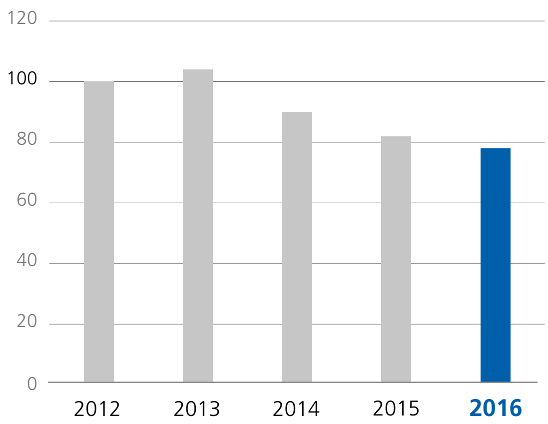
(in millions of new tires)



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

THE EARTHMOVER MINING TIRE MARKET

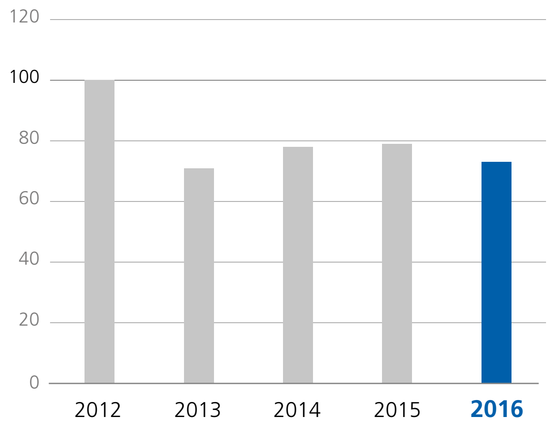
(base 100 in 2012 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

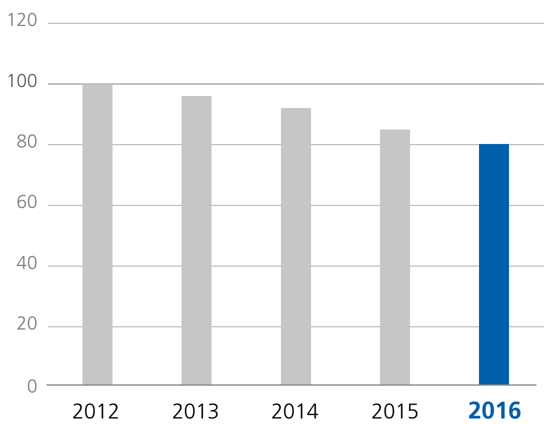
(base 100 in 2012 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

(base 100 in 2012 in number of tires in Europe and North America)

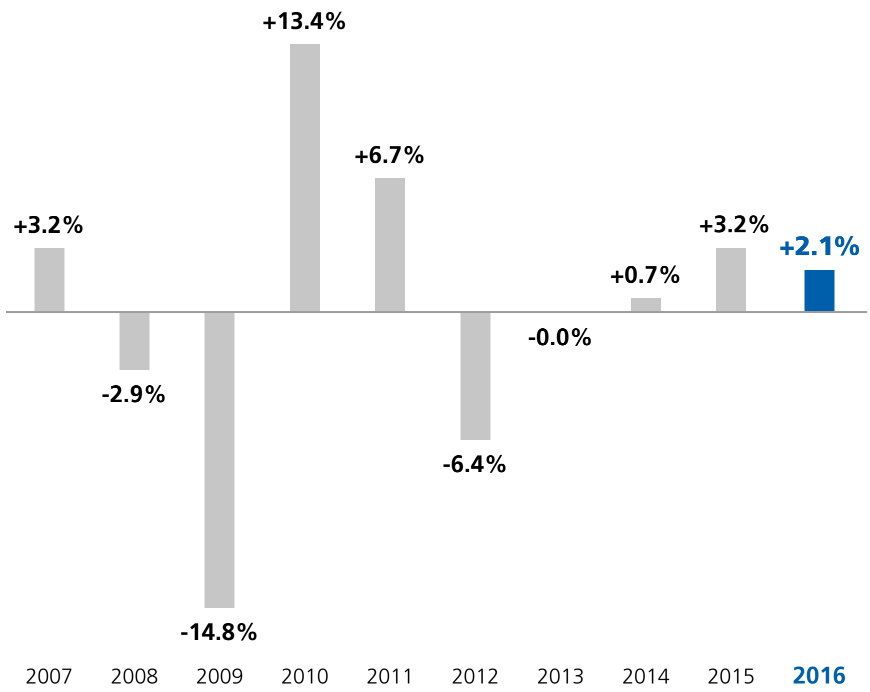


Michelin estimates.

4.2 SALES

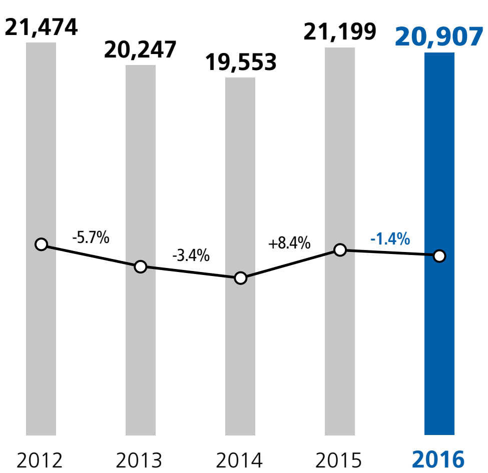
SALES VOLUME

(in tons)



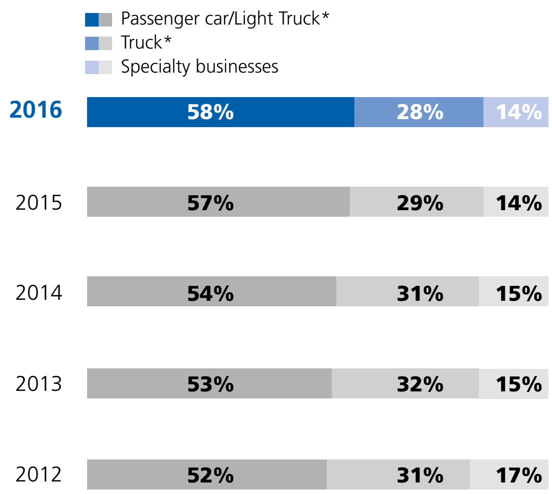
NET SALES

(in € million)



NET SALES BY REPORTING SEGMENT – BREAKDOWN

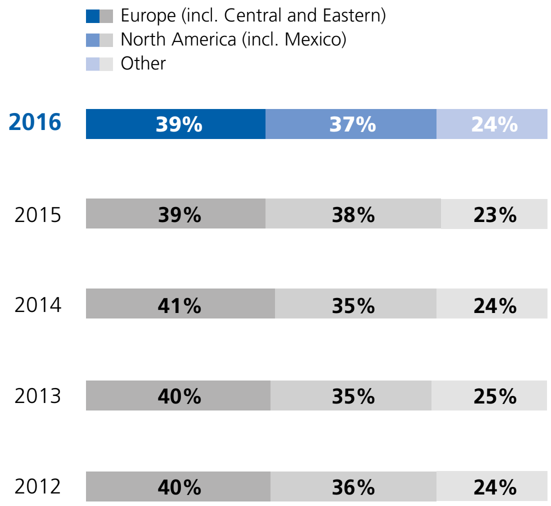
(in value)



* *And related distribution.*

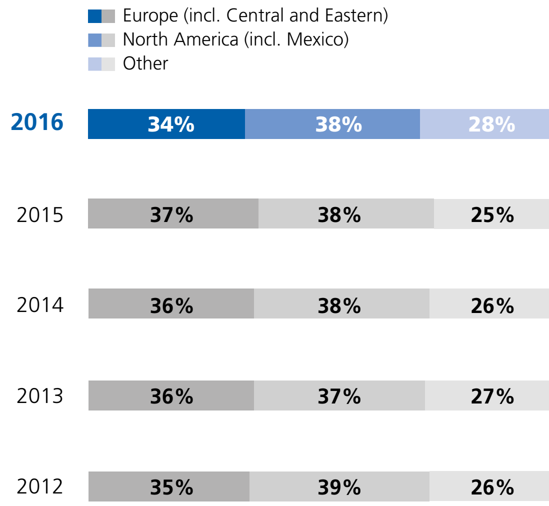
NET SALES BY REGION – BREAKDOWN

(in value)



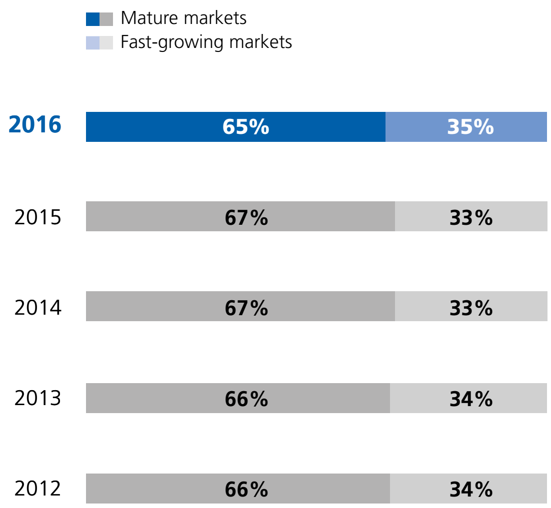
SALES BY REGION – BREAKDOWN

(in tons)



BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

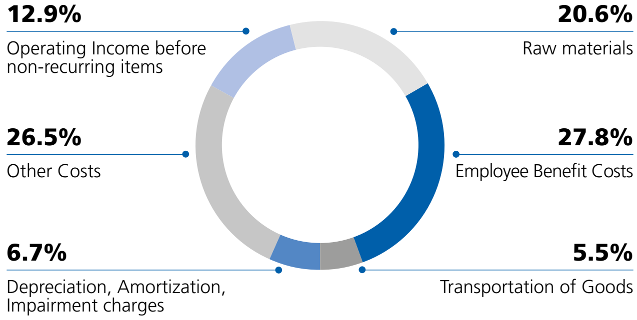


* *Mature markets: United States, Canada, Western Europe and Japan.*

4.3 EARNINGS

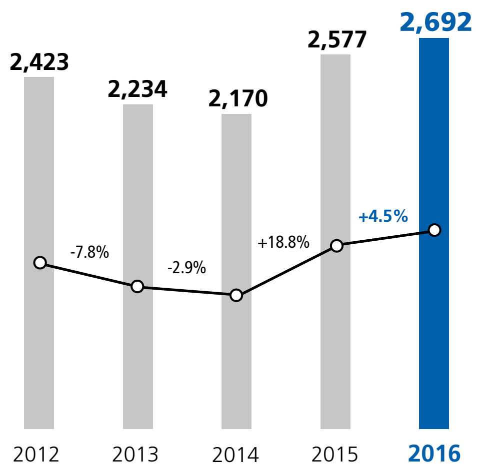
ANALYSIS OF OPERATING EXPENSES

(as a % of 2016 net sales)



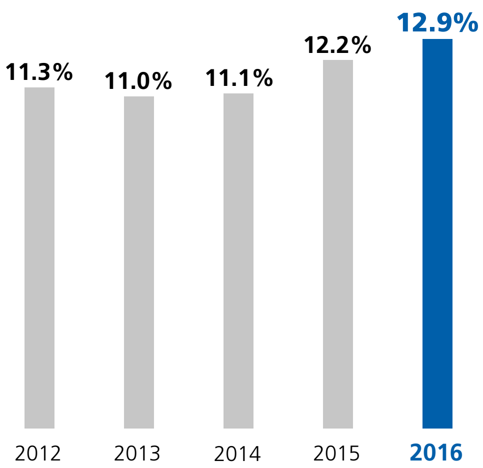
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



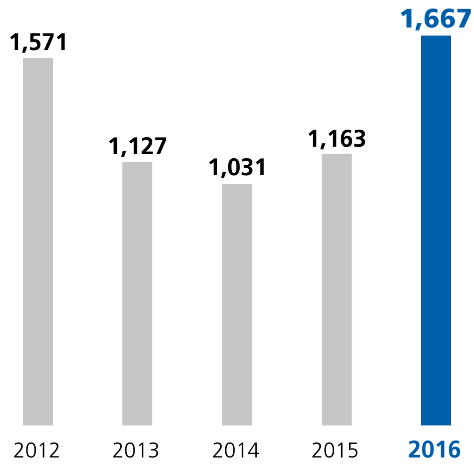
OPERATING MARGIN FROM RECURRING ACTIVITIES

(as a % of net sales)



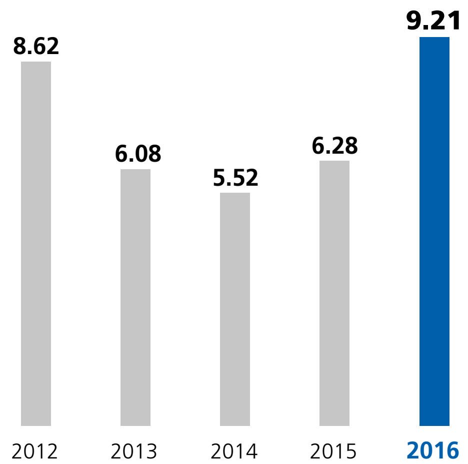
NET INCOME

(in € million)



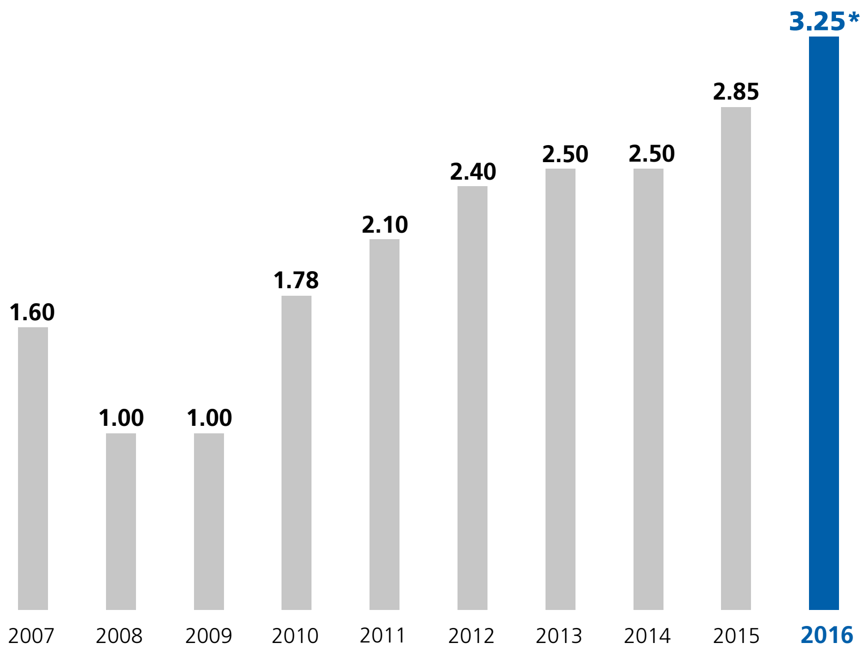
BASIC EARNINGS PER SHARE

(in €)



DIVIDEND PER SHARE

(in €)



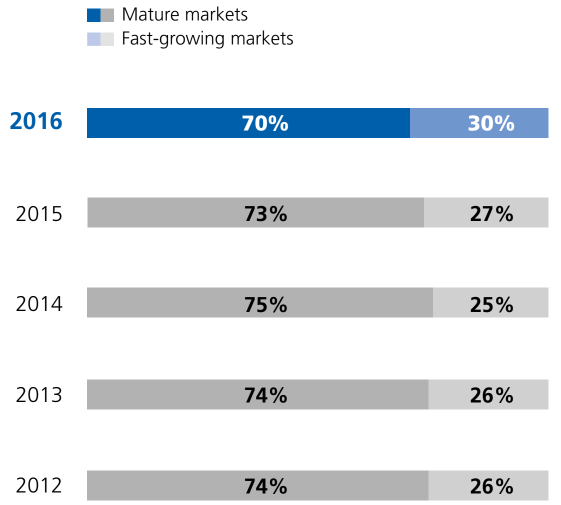
* *Subject to approval by the Annual Meeting of May 19, 2017.*

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

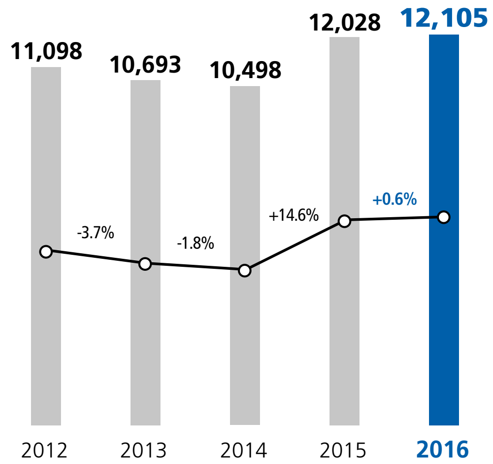
(in tons)



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

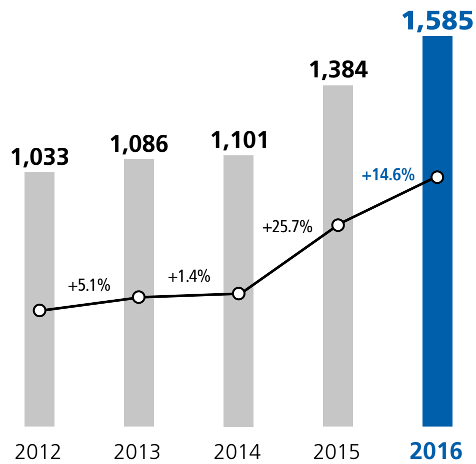
NET SALES

(in € million)



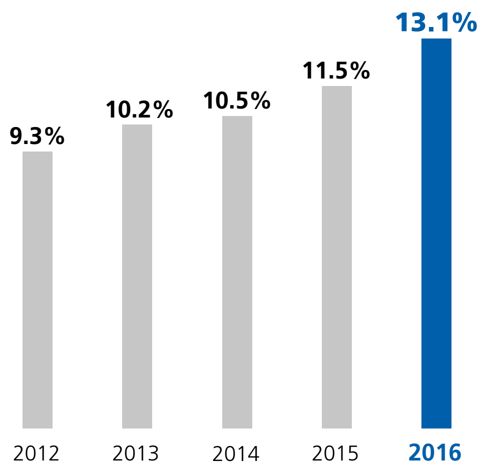
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

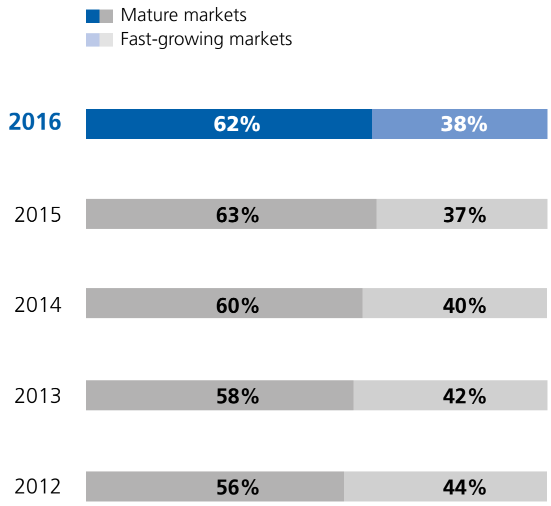
(as a % of net sales)



4.4.2 TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

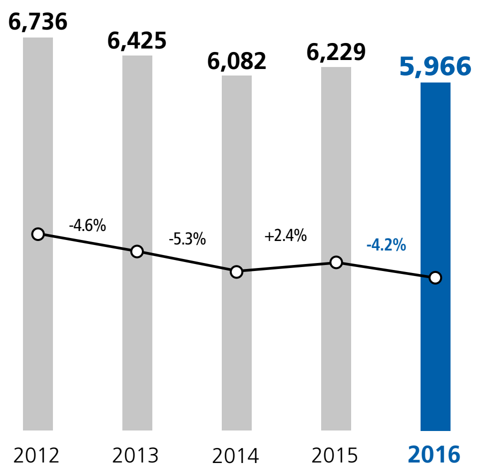
(in tons)



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

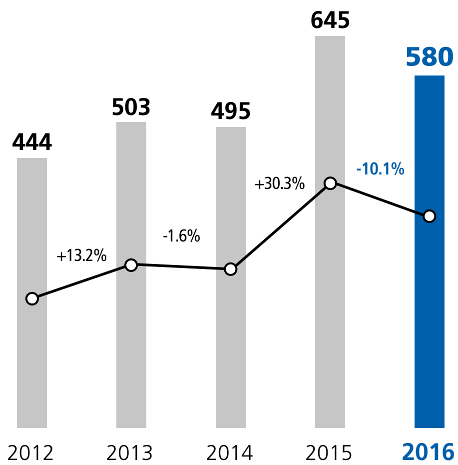
NET SALES

(in € million)



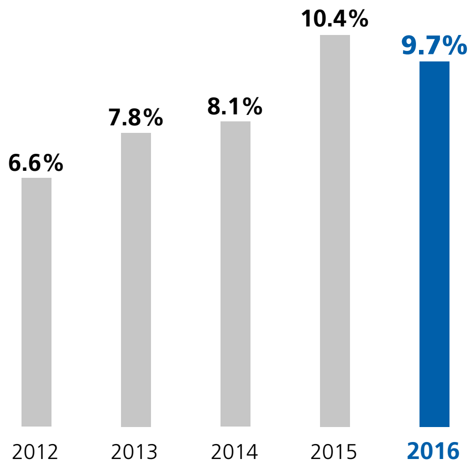
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

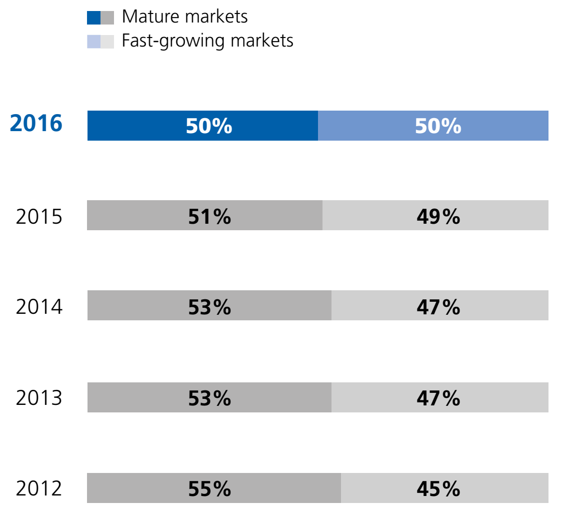
(as a % of net sales)



4.4.3 SPECIALTY BUSINESSES

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

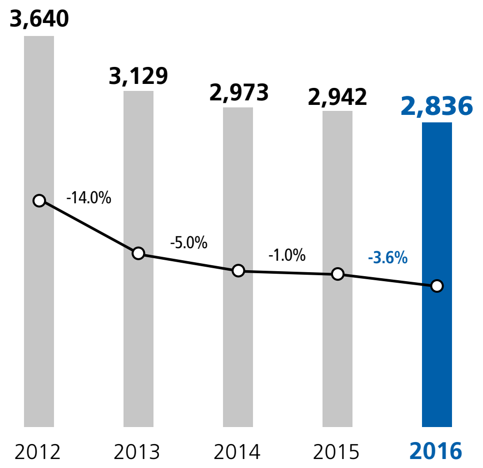
(in tons)



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

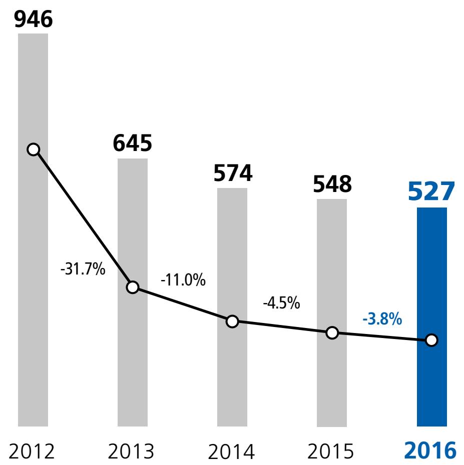
NET SALES

(in € million)



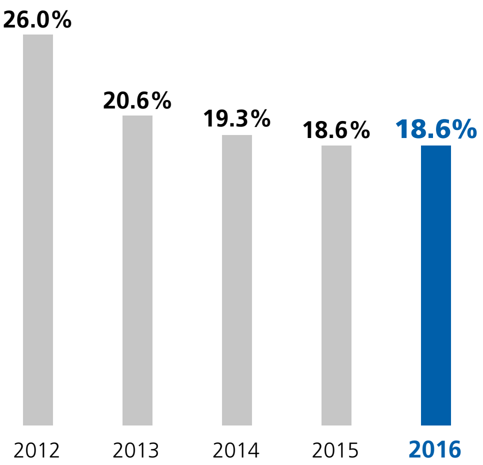
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

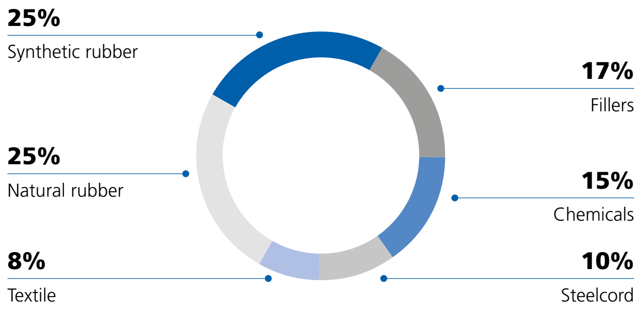
(as a % of net sales)



4.5 COST STRUCTURE

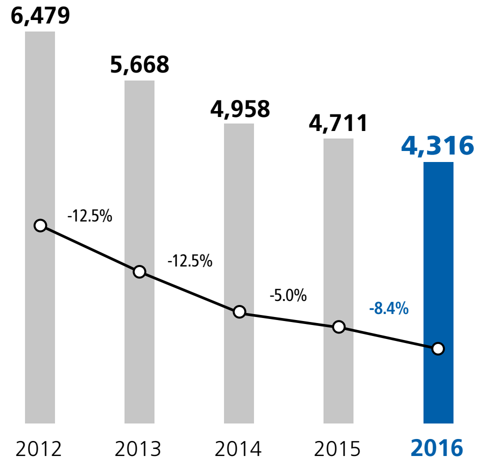
RAW MATERIAL COST

(in €, in 2016)



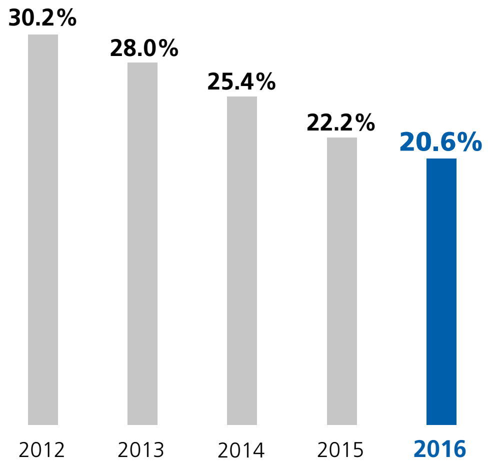
RAW MATERIAL COST

(in € million)



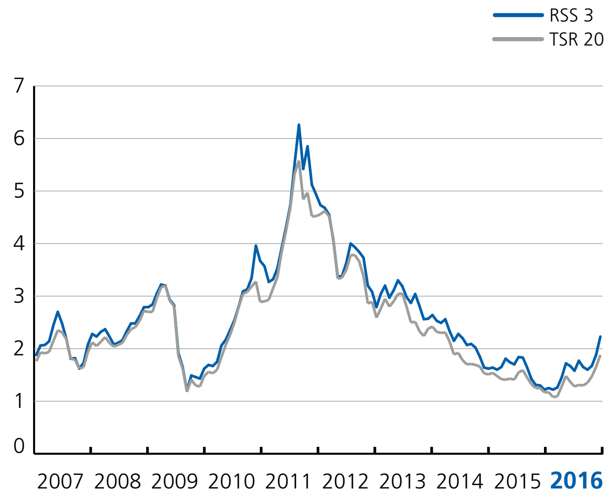
RAW MATERIAL COST

(as a % of net sales)



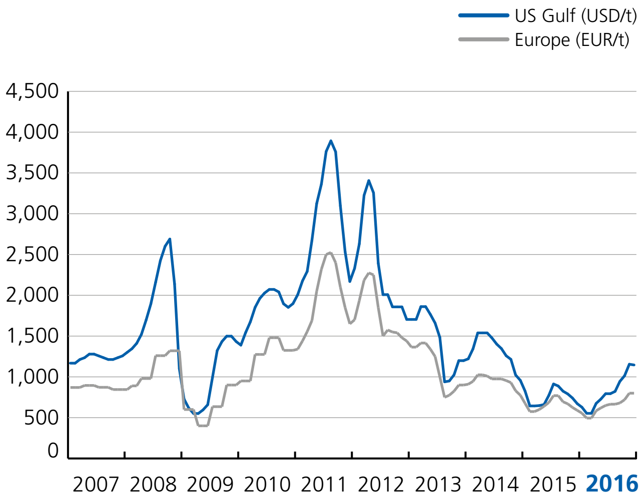
NATURAL RUBBER PRICES*

(in $/kg)



* *Monthly average.*

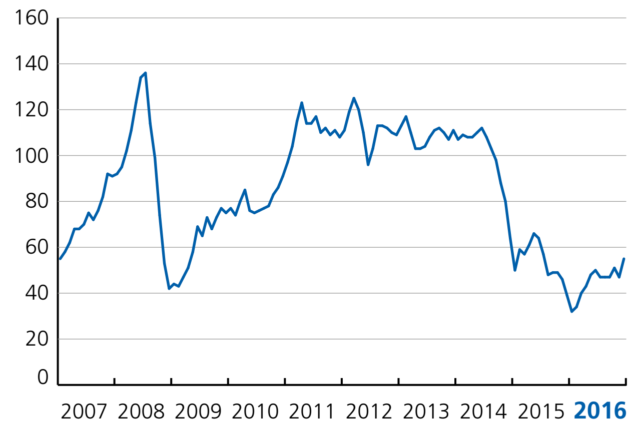
BUTADIENE PRICES*



* *Monthly average.*

BRENT OIL PRICES*

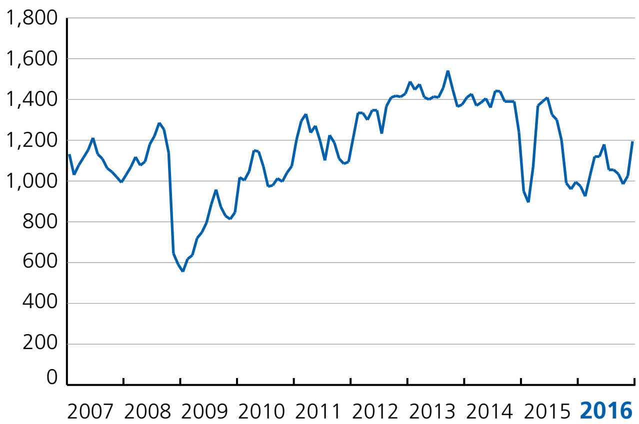
(in $/bbl)



* *Monthly average.*

STYRENE PRICES*

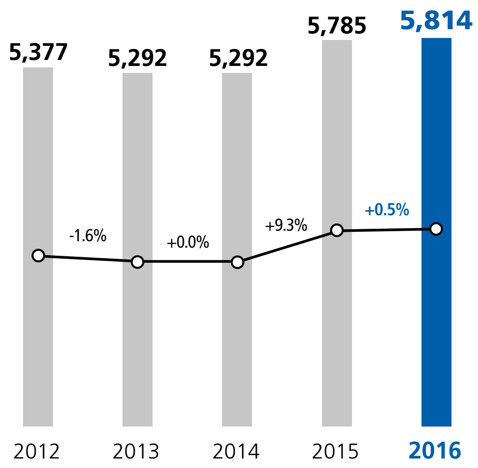
(in €/ton)



* *Monthly average.*

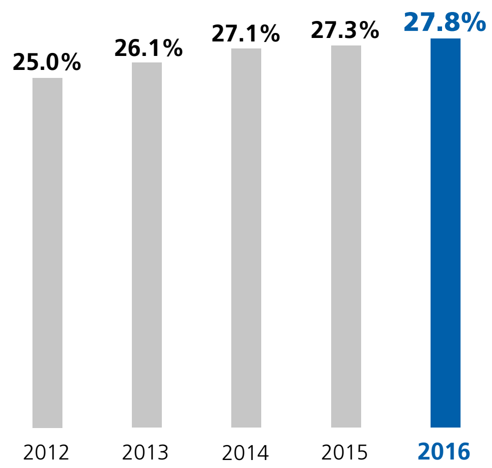
EMPLOYEE BENEFIT COSTS

(in € million)



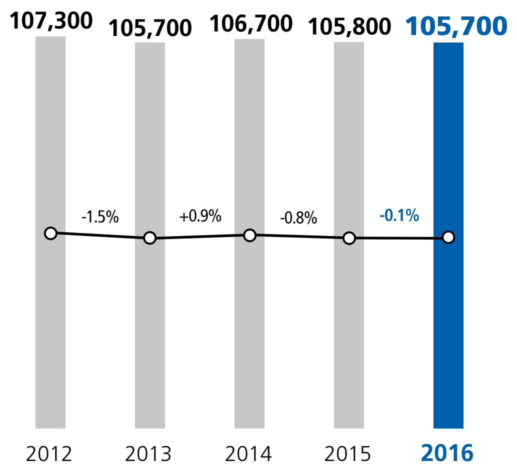
EMPLOYEE BENEFIT COSTS

(as a % of net sales)



NUMBER OF EMPLOYEE

(full-time equivalent employees at December 31)



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

	2016	2015	2014	2013	2012
Europe	61,200	61,400	61,300	62,100	63,100
North America	22,000	21,700	21,900	21,300	21,400
Asia (excluding India)	14,800	15,000	15,400	15,400	15,300
South America	6,000	6,000	6,300	5,100	5,500
Africa India Middle-East	1,700	1,700	1,800	1,800	2,000
TOTAL	**105,700**	**105,800**	**106,700**	**105,700**	**107,300**
including mature countries (1)	*67%*	*67%*	*66%*	*68%*	*68%*
including fast-growing countries	*33%*	*33%*	*34%*	*32%*	*32%*

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

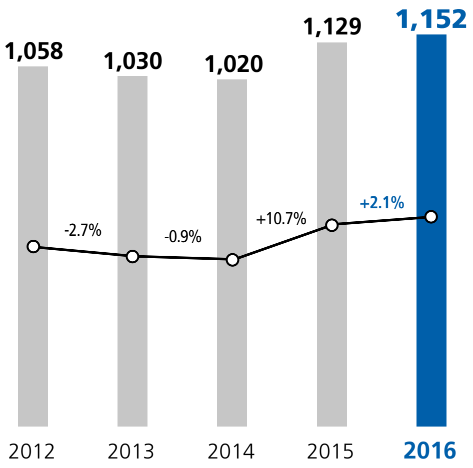
EMPLOYEES BY JOB CATEGORY

(total workforce at December 31)

	2016	2015	2014	2013	2012
Production workers	61.5%	61.5%	62.4%	61.4%	63.1%
Administrative and technical staff	30.0%	30.3%	30.0%	31.0%	30.1%
Managers	8.5%	8.2%	7.6%	7.6%	6.8%

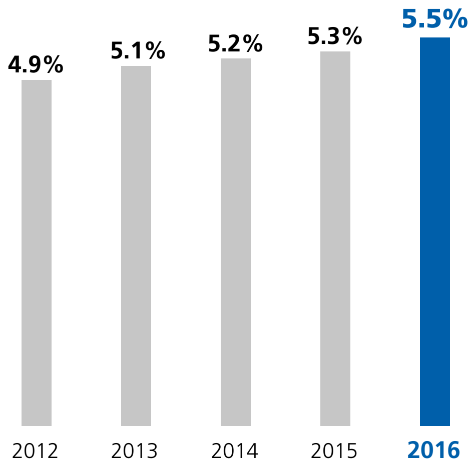
TRANSPORTATION COSTS

(in € million)



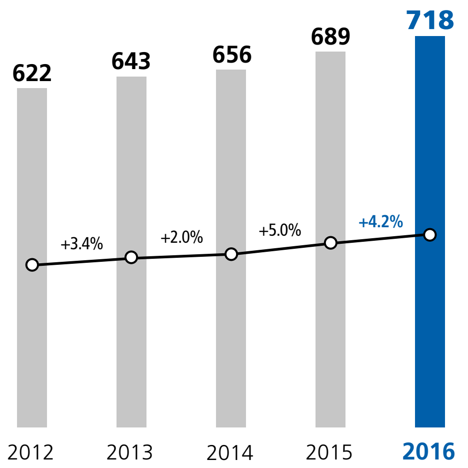
TRANSPORTATION COSTS

(as a % of net sales)



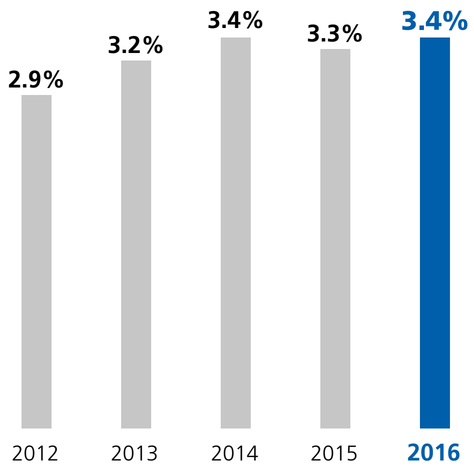
RESEARCH AND DEVELOPMENT COSTS

(in € million)



RESEARCH AND DEVELOPMENT COSTS

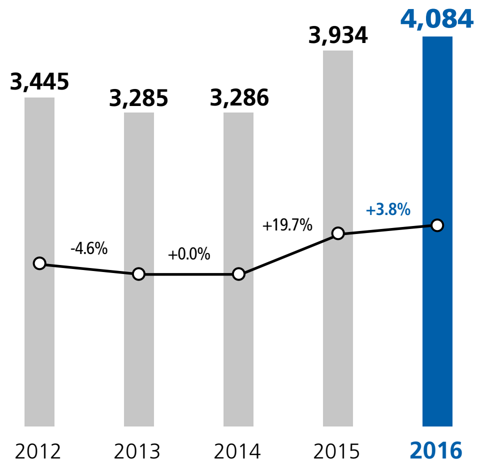
(as a % of net sales)



4.6 CASH FLOW AND BALANCE SHEET

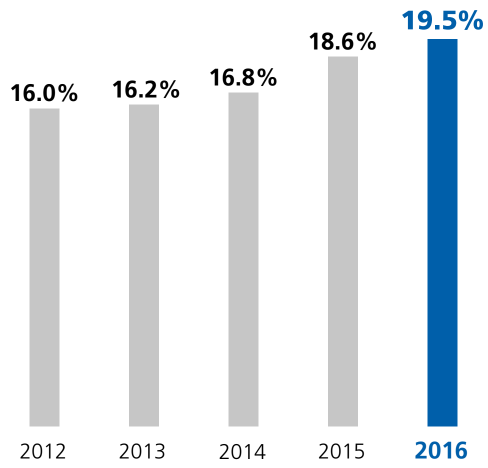
EBITDA FROM RECURRING ACTIVITIES [1]

(in € million)



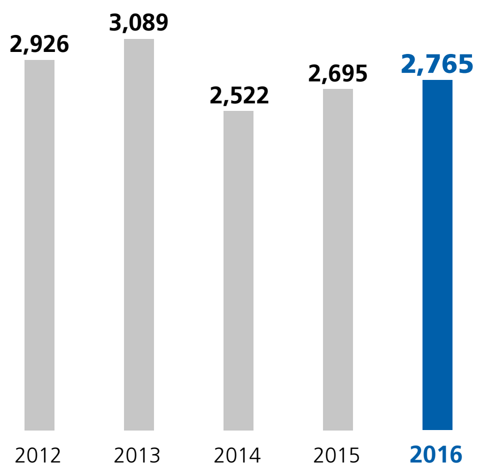
EBITDA FROM RECURRING ACTIVITIES [1]

(as a % of net sales)



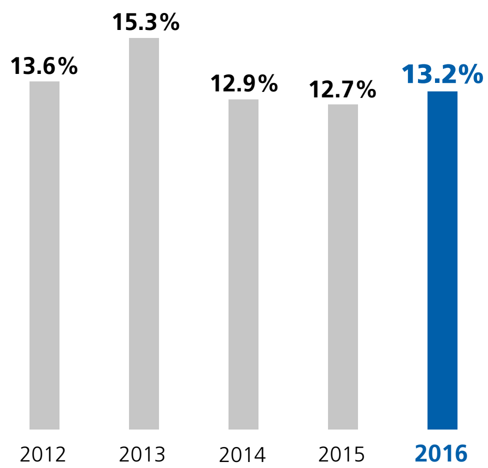
CASH FLOWS FROM OPERATING ACTIVITIES

(in € million)



CASH FLOWS FROM OPERATING ACTIVITIES

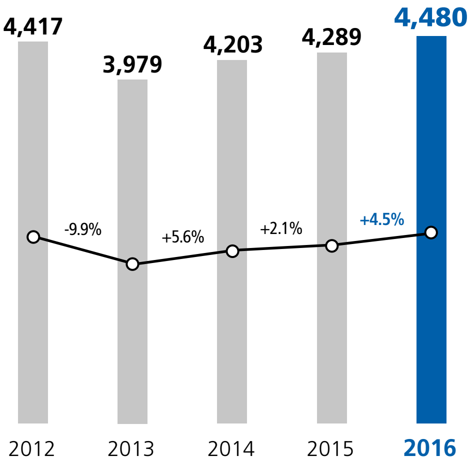
(as a % of net sales)



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

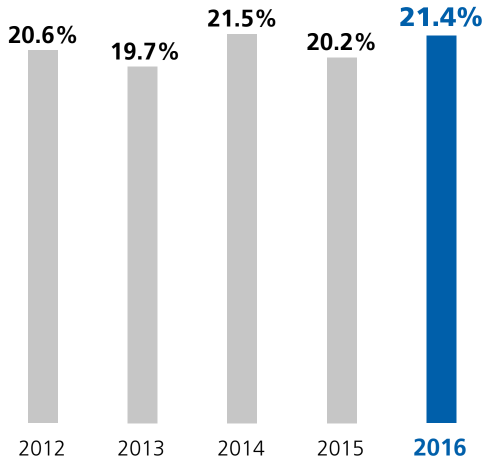
INVENTORIES

(in € million)



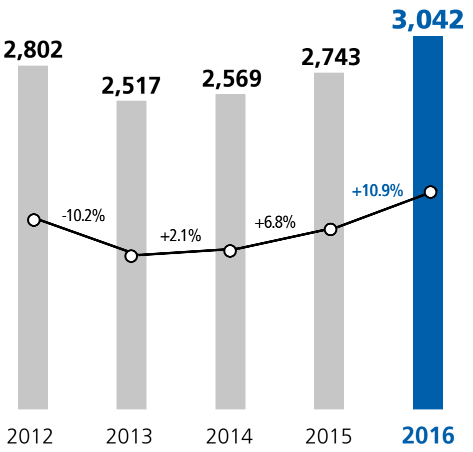
INVENTORIES

(as a % of net sales)



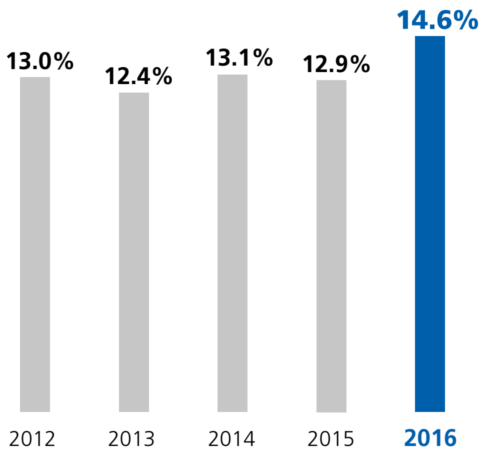
TRADE RECEIVABLES

(in € million)



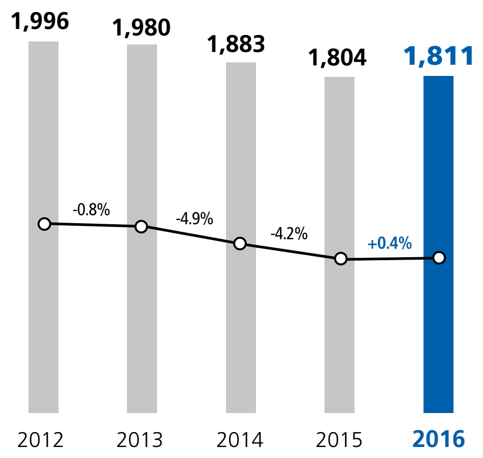
TRADE RECEIVABLES

(as a % of net sales)



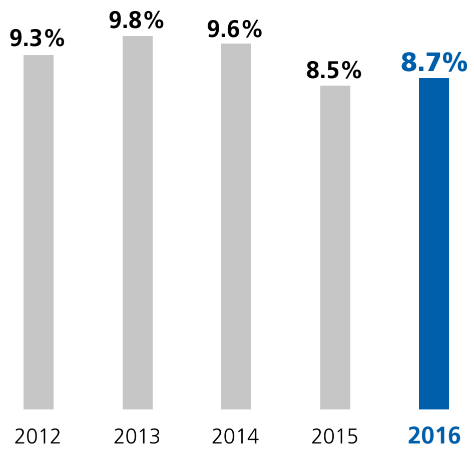
CAPITAL EXPENDITURE

(in € million €)



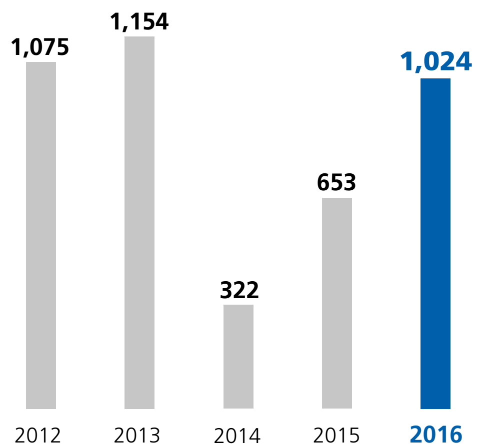
CAPITAL EXPENDITURE

(as a % of net sales)



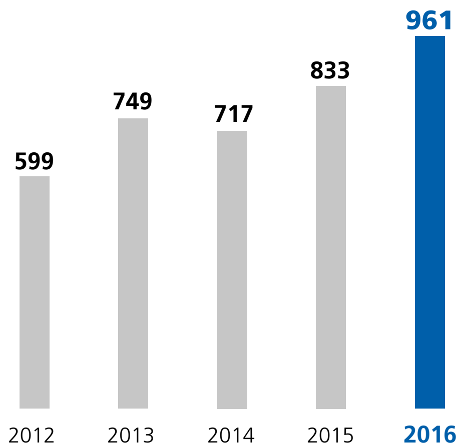
FREE CASH FLOW [(1)] (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)

(in € million)



STRUCTURAL FREE CASH FLOW [(1)]

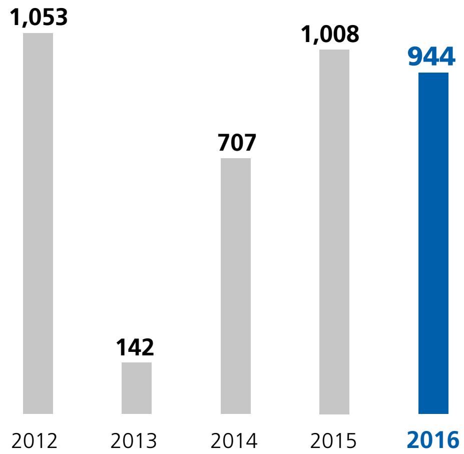
(in € million)



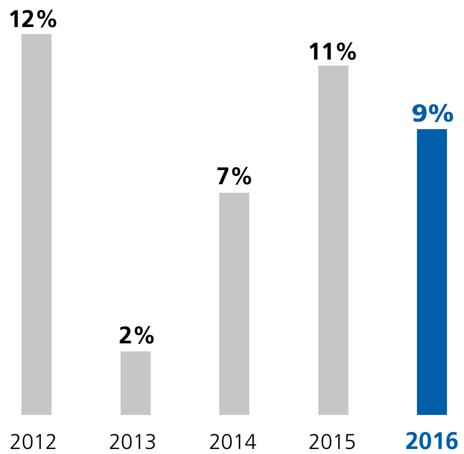
(1) This indicator is defined in section 3.5.3 of the present document.

NET DEBT [(1)]

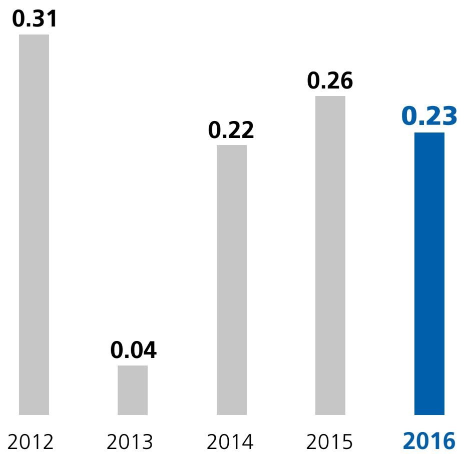
(in € million)



NET DEBT-TO-EQUITY RATIO [(1)]

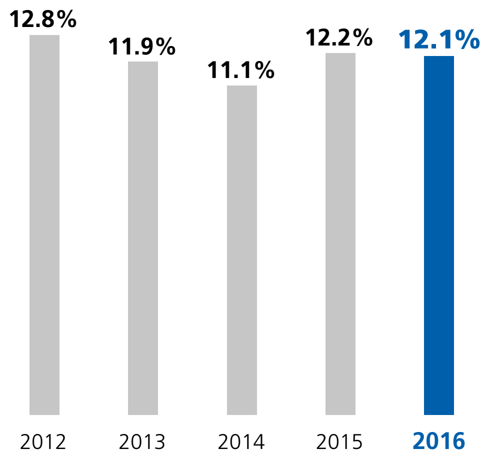


NET DEBT [(1)]-TO-EBITDA RATIO [(2)]



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)	2016	2015	2014	2013	2012
Net sales	20,907	21,199	19,553	20,247	21,474
% change	-1.4%	+8.4%	-3.4%	-5.7%	+3.6%
Total employee benefit costs	5,814	5,785	5,292	5,292	5,377
as a % of sales	27.8%	27.3%	27.1%	26.1%	25.0%
Number of employees *(full time equivalent)*	105,700	105,800	106,700	105,700	107,300
Research and development expenses	718	689	656	643	622
as a % of sales	3.4%	3.3%	3.4%	3.2%	2.9%
EBITDA from recurring activities (1)	4,084	3,934	3,286	3,285	3,445
Operating income from recurring activities	2,692	2,577	2,170	2,234	2,423
Operating margin from recurring activities	12.9%	12.2%	11.1%	11.0%	11.3%
Operating income	2,791	2,207	1,991	1,974	2,469
Operating margin	13.3%	10.4%	10.2%	9.7%	11.5%
Cost of net debt	203	184	130	94	155
Other financial income and expenses	20	(30)	(43)	(15)	(22)
Income before taxes	2,464	1,869	1,651	1,702	2,307
Income tax	797	706	620	575	736
Effective tax rate	32.3%	37.8%	37.5%	33.8%	31.9%
Net income	1,667	1,163	1,031	1,127	1,571
as a % of sales	8.0%	5.5%	5.3%	5.6%	7.3%
Dividends (2)	522	463	464	438	378
Cash flows from operating activities	2,764	2,695	2,522	3,089	2,926
as a % of sales	13.2%	12.7%	12.9%	15.3%	13.6%
Gross purchases of intangible assets and PP&E	1,811	1,804	1,883	1,980	1,996
as a % of sales	8.7%	8.5%	9.6%	9.8%	9.3%
Net debt (3)	944	1,008	707	142	1,053
Equity	10,646	9,542	9,523	9,256	8,501
Gearing	9%	11%	7%	2%	12%
Net debt (3) / EBITDA (1)	0.23	0.26	0.22	0.04	0.31
Cash flows from operating activities / Net debt (3)	NS	NS	NS	NS	NS
Operating income from recurring activities / Net interest charge (4)	13.3	12.8	16.0	15.7	14.2
Free cash flow (5)	653	653	322	1,154	1,075
ROE (6)	15.7%	12.2%	10.8%	12.2%	18.5%
ROCE (7)	12.1%	12.2%	11.1%	11.9%	12.8%
Per share data *(in €)*					
Net assets per share (8)	59.1	52.5	51.3	49.8	46.6
Basic earnings per share	9.21	6.28	5.52	6.08	8.62
Diluted earnings per share	9.03	6.19	5.45	5.98	8.41
Price-earnings ratio (9)	11.5	14.0	13.6	12.7	8.3
Dividend for the year (10)	3.25	2.85	2.50	2.50	2.40
Pay-out ratio (11)	36.5%	37.0%	40.6%	35.0%	28.7%
Yield (12)	3.1%	3.2%	3.3%	3.2%	3.4%
Share turnover rate (13)	78%	99%	91%	99%	129%

(1) As defined in note 3.7.2 to the 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 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) Subject to approval at the Annual Shareholders Meeting on May 19, 2017.
(11) Distribution rate: Dividend/Net income.
(12) Dividend yield: dividend per share/share price at December 31.
(13) Share turnover rate: number of shares traded during the year/average number of shares outstanding during the year.

5/ CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

DETAILED SUMMARY OF THE NOTES OF THE FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2016	Year ended December 31, 2015
Net sales	5	20,907	21,199
Cost of sales		(13,810)	(14,238)
Gross income		**7,097**	**6,961**
Sales and marketing expenses		(1,907)	(1,929)
Research and development expenses		(718)	(689)
General and administrative expenses		(1,759)	(1,707)
Other operating income and expenses from recurring activities	8	(21)	(59)
Operating income from recurring activities	5	**2,692**	**2,577**
Operating income/(loss) from non-recurring activities	9	99	(370)
Operating income/(loss)		**2,791**	**2,207**
Cost of net debt	10	(203)	(184)
Other financial income and expenses	10	20	(30)
Net interest on employee benefit obligations	27.1	(139)	(141)
Share of profit/(loss) from associates		(5)	17
Income/(loss) before taxes		**2,464**	**1,869**
Income tax	11	(797)	(706)
NET INCOME/(LOSS)		**1,667**	**1,163**
▶ Attributable to the shareholders of the Company		1,676	1,168
▶ Attributable to the non-controlling interests		(9)	(5)
Earnings per share *(in €)*			
▶ Basic	12	9.21	6.28
▶ Diluted		9.03	6.19

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Note	Year ended December 31, 2016	Year ended December 31, 2015
Net income/(loss)		**1,667**	**1,163**
Post-employment benefits	27.1	(194)	(317)
Tax effect - Post-employment benefits	18	(8)	82
Other items of comprehensive income that will not be reclassified to income statement		**(202)**	**(235)**
Available-for-sale financial assets - change in fair values	15.1	57	(25)
Tax effect - available-for-sale financial assets - change in fair values	18	(9)	-
Available-for-sale financial assets - (gain)/loss recognized in income statement		-	-
Currency translation differences		317	(70)
Other		-	7
Other items of comprehensive income that may be reclassified to income statement		**365**	**(88)**
Other comprehensive income		**163**	**(323)**
COMPREHENSIVE INCOME		**1,830**	**840**
▶ Attributable to the shareholders of the Company		1,838	843
▶ Attributable to the non-controlling interests		(8)	(3)

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in € million)	Note	December 31, 2016	December 31, 2015
Goodwill	13	963	803
Intangible assets	13	630	621
Property, plant and equipment (PP&E)	14	11,053	10,532
Non-current financial assets and other assets	15	323	410
Investments in associates	17	309	309
Deferred tax assets	18	1,191	1,259
Non-current assets		**14,469**	**13,934**
Inventories	19	4,480	4,289
Trade receivables	20	3,042	2,743
Current financial assets	21	633	363
Other current assets	22	1,202	1,012
Cash and cash equivalents	23	1,496	1,552
Current assets		**10,853**	**9,959**
TOTAL ASSETS		**25,322**	**23,893**
Share capital	24	360	364
Share premiums	24	3,024	3,222
Reserves	25	7,215	5,903
Non-controlling interests		47	53
Equity		**10,646**	**9,542**
Non-current financial liabilities	26	1,773	2,444
Employee benefit obligations	27.1	4,763	4,888
Provisions and other non-current liabilities	29	1,604	1,681
Deferred tax liabilities	18	117	118
Non-current liabilities		**8,257**	**9,131**
Current financial liabilities	26	1,320	548
Trade payables		2,364	2,260
Trade payables under factoring contracts	3.26	339	94
Other current liabilities	30	2,396	2,318
Current liabilities		**6,419**	**5,220**
TOTAL EQUITY AND LIABILITIES		**25,322**	**23,893**

The notes 1 to 37 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, 2015	**371**	**3,601**	**5,534**	**12**	**9,518**
Net income/(loss)	-	-	1,168	(5)	1,163
Other comprehensive income	-	-	(325)	2	(323)
Comprehensive income	**-**	**-**	**843**	**(3)**	**840**
Issuance of shares	2	62	-	-	64
Purchase of shares	-	-	(451)	-	(451)
Cancellation of shares	(10)	(441)	451	-	-
Dividends and other allocations	-	-	(483)	-	(483)
Share-based payments - cost of services rendered	-	-	9	-	9
Other	1	-	-	44	45
At December 31, 2015	**364**	**3,222**	**5,903**	**53**	**9,542**
Net income/(loss)	-	-	1,676	(9)	1,667
Other comprehensive income	-	-	162	1	163
Comprehensive income	**-**	**-**	**1,838**	**(8)**	**1,830**
Issuance of shares	3	96	-	-	99
Purchase of shares	-	-	(301)	-	(301)
Cancellation of shares	(7)	(294)	301	-	-
Dividends and other allocations	-	-	(538)	-	(538)
Share-based payments - cost of services rendered	-	-	5	-	5
Other	-	-	7	2	9
AT DECEMBER 31, 2016	**360**	**3,024**	**7,215**	**47**	**10,646**

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in € million)	Note	Year ended December 31, 2016	Year ended December 31, 2015
Net income		1,667	1,163
Adjustments to reconcile net income to EBITDA			
▶ Cost of net debt	10	203	184
▶ Other financial income and expenses	10	(20)	30
▶ Net interest on benefits	27.1	139	141
▶ Income tax	11	797	706
▶ Amortization, depreciation and impairment of intangible assets and PP&E	6	1,392	1,357
▶ Operating income/(loss) from non-recurring activities	9	(99)	370
▶ Share of loss/(profit) from associates		5	(17)
EBITDA from recurring activities	3.7.2	**4,084**	**3,934**
Operating income and expenses from non-recurring activities (cash) and change in provisions	31	(206)	(366)
Cost of net debt and other financial income and expenses paid	31	(146)	(143)
Income tax paid	18.2	(765)	(754)
Change in working capital, net of impairments	31	(202)	24
Cash flows from operating activities		**2,765**	**2,695**
Purchases of intangible assets and PP&E	31	(1,815)	(1,774)
Proceeds from sale of intangible assets and PP&E		89	43
Equity investments in consolidated companies, net of cash acquired		(2)	(181)
Disposals of equity investments in consolidated companies, net of cash sold		-	-
Purchases of available-for-sale financial assets		(25)	(118)
Proceeds from sale of available-for-sale financial assets		11	2
Cash flows from other financial assets	31	(284)	86
Cash flows from investing activities		**(2,026)**	**(1,942)**
Proceeds from issuances of shares	24	99	64
Purchase of shares	24	(301)	(451)
Dividends paid to the shareholders of the Company	24	(515)	(463)
Cash flows from financial liabilities	31	(19)	462
Other cash flows from financing activities		(63)	36
Cash flows from financing activities		**(799)**	**(352)**
Effect of changes in exchange rates		**4**	**(16)**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**(56)**	**385**
Cash and cash equivalents at January 1		**1,552**	**1,167**
Cash and cash equivalents at December 31	23	**1,496**	**1,552**

Some items of the "Cash flows from operating activities" section in the consolidated cash flow statement for the year ended December 31, 2015 have been reclassified to conform to the current period's presentation.

The notes 1 to 37 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 9, 2017.

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); 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, 2016 in the European Union

There are no new standards or major amendments, applicable for the accounting periods beginning on January 1, 2016 having an effect on the consolidated financial statements of the Group.

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

IFRS 9, "Financial instruments", published in July 2014, endorsed by the European Union in November 2016, 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. For the Group, the changes will impact mainly the accounting of Equity instruments and the evaluation of the trade receivable impairments. The Group is analysing the full impact of this standard and will adopt it no later than the accounting period beginning on January 1, 2018.

IFRS 15, "Revenue from Contracts with Customers", published in May 2014 and endorsed by the European Union in October 2016 is applicable from accounting period beginning on January 1, 2018. It is applicable to all the contracts with customers, except leases, insurance contracts and financial instruments, which are covered by other standards. The standard defines new revenue recognition principles and disclosure requirements. It establishes the fundamental principle that the revenue recognition must depict the transfer of the 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 is in the process of assessing IFRS 15's full impact on its consolidated financial statements. The 2015 Net Sales have been divided according to the type of contract and activity. The analysis has allowed to organize the contracts in several categories with common characteristics for the purpose of this standard. For each category, a representative sample of contracts has been defined and a detail analysis is being carried out. The vast majority of the Group's revenues are generated by sales of tires, recognised when the goods are leaving the warehouse, without any other performance obligation. The Group will continue its analysis during 2017 in order to refine the assessment with quantitative data.

IFRS 16 "Leases", published in January 2016 but not yet endorsed by the European Union, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretative guidance. The standard applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting model are introduced; the lessee must recognise an asset, corresponding to the right of use, and a liability corresponding to the lease commitment. The current distinction between operating and finance leases will disappear. Limited exceptions for short-term leases and/or leases of low value assets are allowed. In order to assess the impacts of this norm, a project based on the identification of contracts nature and type has been launched. The Group will adopt it from the accounting period beginning on January 1, 2019, providing its endorsement by the European Union.

The Group early adopted IAS 7's amendments. These amendments require more detailed disclosures of the evolution of financial liabilities included in the financing activities of the cash flow statement.

This information is presented in note 26 "Financial liabilities".

There are no other new standards, amendments and interpretations to existing standards, which have been published but are not yet effective 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 date of the consolidated statement of financial position 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 3.17 "Impairment of non-financial assets") are derived from the Group's five-year strategic plan. The construction of the strategic orientations 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. Consequently, the actual cash flows may differ from the estimates used in the calculation of CGU's value in use.

Quantitative information is provided in note 13.2 "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 subsidiaries pension plans or to some legal obligations.

The valuation of these benefits is carried out annually with the assistance of 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 inflation 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 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.

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 having standard maturities are determined using several methods:

- by using the tools from the actuaries based on target rates published by Central Banks, forecasts from the Consensus Economics organization and inflation swap curves;
- 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;
- based on historical averages.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, disability) 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.

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: restructuring, 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 long as they do not result in a change of control from the Group over the entities (no loss or gain of control), as equity transactions having no impact on the comprehensive income. Expenses occurring from these operations are directly accounted for in equity. At the date the Group gains control of an entity, the carrying amount of previously held non-controlling interests, if any, is adjusted to fair value and the difference is recognized in the income statement. All other related items that were recognized in the comprehensive income are reclassified in the income statement. When the Group loses control over an entity but keeps some non-controlling interests in the entity, such a transaction is analysed as an exchange, i.e. the disposal of a controlling interest and the acquisition of a non-controlling interest.

Shareholdings in companies which are not subsidiaries, joint arrangements or associates are not consolidated. They are accounted for as non-derivative financial assets (note 3.18 "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 the 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 date of the consolidated statement of financial position, 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 €:	**2016**	**2015**	**2016**	**2015**
US dollar (USD)	1.046	1.093	1.107	1.111
Canadian dollar (CAD)	1.415	1.513	1.466	1.416
Mexican peso (MXN)	21.628	18.866	20.615	17.575
Brazilian real (BRL)	3.436	4.226	3.841	3.631
British pound (GBP)	0.854	0.737	0.816	0.726
Chinese yuan (CNY)	7.275	7.097	7.351	6.980
Indian rupee (INR)	71.225	72.577	74.389	71.218
Thai baht (THB)	37.614	39.420	39.070	37.979

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 is immediately recognized in 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 date of the consolidated statement of financial position. 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 date of the consolidated statement of financial position, 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).

When observable yield curves include negative interest rates, those are used without change to determine the fair value of derivatives.

The Group assesses the counterparty risk included in the fair value of its OTC (over-the-counter) derivatives for which there is no exchange of collaterals. 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 for long term derivatives with no exchange of collaterals 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 consolidated statement of financial position less:

- cash and cash equivalents as they appear on the consolidated statement of financial position;
- derivative instruments included in "Current financial assets and Non-current financial assets" on the consolidated statement of financial position;
- cash management financial assets included in "Current financial assets" on the consolidated statement of financial position (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 consolidated statement of financial position.

/ 3.7.2 EBITDA from recurring activities

The Group defines EBITDA from recurring activities as operating income before operating income and expenses from non-recurring activities and depreciation of property, plant and equipment and amortization of intangible assets.

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 date of the consolidated statement of financial position, 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 Operating income from recurring activities

In order to improve the understanding and the analysis of its operational performance, the Group has decided to change the sub-total of the "Operating income before non-recurring income and expenses" management measure to "Operating income from recurring activities". Likewise, "Other operating income and expenses" is renamed "Other operating income and expenses from recurring activities".

In comparison to measures used in previous years, gain/loss on disposal of tangible and intangible assets, changes in impairment of tangible and intangible assets, the adjustments of provisions for reorganizations and adaptation of activities, acquisition price adjustments as well as the cost of benefits for retired personnel are now included in the balance "Operating income/(loss) from non-recurring activities" of the consolidated income statement instead of "Other operating income and expenses from recurring activities".

These changes do not have any significant impact on the presentation of the consolidated income statement as at December 31, 2015 or on the segment reporting disclosed in note 5. As a consequence, they have not been restated. The "Operating income from recurring activities" would have amounted to €2,609 million.

3.12 Operating income/(loss) from non-recurring activities

"Non-recurring income and expenses" becomes "Operating income/(loss) from non-recurring activities".

Unusual, abnormal or non-frequent significant items of income and expenses that are not considered inherent to the Group's recurring activity are separately disclosed in this section of the income statement. The operating income/loss from non-recurring activities include, in addition to the items listed in the previous paragraph, costs for reorganizations and adaptation of activities, impairment of goodwill and costs or provisions associated with major litigations. They are detailed in note 9 "Operating income/(loss) from non-recurring activities".

3.13 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 offset.

Deferred tax is calculated on temporary differences arising from investments in subsidiaries, joint ventures, and associates: deferred tax assets are recognised if the reversal is both under the entity's control and it is probable. Deferred tax liabilities are recognised unless their reversal is controlled and not probable.

3.14 Business combination and goodwill

When the Group obtains control of an entity, the business combination is valuated and accounted for by applying the acquisition method. Goodwill is computed at acquisition date as the difference between:

- the fair value of the consideration transferred including, if any, the fair value of contingent consideration;
- the fair value at the acquisition date of the identifiable acquired assets, the liabilities and contingent liabilities assumed.

Goodwill is carried at cost less any accumulated impairment losses.

Costs directly attributable to the business combination are expensed as incurred and booked as other operating income and expenses from recurring activities in the consolidated income statement.

The valuation period for a business combination does not exceed twelve months after acquisition date.

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of CGUs that are expected to benefit from the synergies of the combination and that reflect the level at which the Group manages goodwill. Goodwill is tested for impairment annually.

3.15 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 but are tested annually for impairment. 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 trademarks acquired in a business combination and land-use rights which are amortized over the period the right is granted for.

3.16 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: 2-12 years
- Computer and telecommunication equipment: 5 years
- Vehicles: 5 years
- Other: 5-12 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 operating income/(loss) from non-recurring activities.

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 consolidated statement of financial position. The payments related to operating leases are expensed on a straight-line basis over the lives of the contracts.

3.17 Impairment of non-financial assets

When there is any indication that the recoverable amount of an asset (goodwill, intangible assets or property, plant and equipment) may be lower than its carrying amount, the recoverable amount of the asset is measured and if needed, an impairment is recognised.

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 or group of 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 mainly based on the CGU's five-years 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 financial debt and a risk premium reflecting the risks of the countries where the assets are located. 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 non-current 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 operating income/(loss) from non-recurring activities.

3.18 Non derivative financial assets

/ 3.18.1 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 are 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 date of the consolidated statement of financial position.
- 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 date of the consolidated statement of financial position.
- 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 date of the consolidated statement of financial position.

/ 3.18.2 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.

/ 3.18.3 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.

/ 3.18.4 Impairment

The Group assesses at each consolidated statement of financial position 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 on equity instruments recognized in the income statement cannot be reversed.

3.19 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 labor 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.

3.20 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 previously recognized impairment. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

3.21 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.

3.22 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 separately in 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.

3.23 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 consolidated statement of financial position 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.

3.24 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 the 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.

/ 3.24.1 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 management policies regarding post-employment benefits have led to the transformation of defined benefit plans to defined contribution benefit plans since the early 2000's. Nevertheless a significant part of the post-employment benefit plans are still 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 carried out with the help of independent actuaries. Actuarial assumptions, primarily discount rates, projected rates of remuneration growth, inflation rates and expected increase of healthcare costs are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position 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 outside the Operating Income.

/ 3.24.2 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 from recurring activities.

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 from recurring activities.

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 of 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, within the Operating income from recurring activities.

3.25 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.

The provisions for reorganizations and adaptation of activities 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.

3.26 Trade payables

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

The Group has put in place paying agent contracts with some financial institutions. Under these agreements, the financial institution acts as a paying agent with respect to invoices due to our suppliers who have entered into a bilateral agreement with the financial institution in order to be in position to factor their trade receivables from the Group.

Given the nature of these contracts, the total balance of trade payables to such suppliers is presented on a separate line of the consolidated statement of financial position "Trade payables under factoring contracts".

In the consolidated cash flow statement, these operations are included in operating activities.

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 Michelin, SCmA, 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 the following model:

- 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 (six years maturity maximum) 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 unfavorable 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 unfavorable 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 the investments' monitoring rules. 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, 2016, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2017	2018	2019	2020	2021	2022	2023 and beyond
Bonds	931	28	421	18	18	315	847
Loans from financial institutions and other	335	28	2	9	1	2	197
Obligation under finance lease	16	15	15	15	15	15	55
Derivative instruments	42	33	27	(2)	(2)	(1)	-
Repayment schedule of financial debts	**1,324**	**104**	**465**	**40**	**32**	**331**	**1,099**
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 (€1,496 million) as well the cash management financial assets (€492 million).

In 2014, the Group renewed its syndicated credit line with a maturity of five years. In 2015 and 2016 the Group exercised its two extension options, extending the maturity from 2019 to 2021.

/ 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, 2016						December 31, 2015					
(in € million)	RON	JPY	MXN	USD	EUR	Other	RON	JPY	MXN	USD	EUR	Other
Monetary assets	62	244	204	4,724	719	2,406	60	302	148	3,635	789	2,214
Monetary liabilities	(39)	(89)	(130)	(3,708)	(1,687)	(1,756)	(39)	(85)	(124)	(2,691)	(1,878)	(1,207)
Net position before hedging	**23**	**155**	**74**	**1,016**	**(968)**	**650**	**21**	**217**	**24**	**944**	**(1,089)**	**1,007**
Hedges	(16)	(162)	(86)	(1,082)	857	(657)	(14)	(220)	(26)	(897)	1,047	(1,025)
NET POSITION AFTER HEDGING	**7**	**(7)**	**(12)**	**(66)**	**(111)**	**(7)**	**7**	**(3)**	**(2)**	**47**	**(42)**	**(18)**

At December 31, 2016, a subsidiary had net exposure in EUR for €107 million, due to the change of its functional currency as of January 1, 2017. This exposure is being hedged from the beginning of January 2017.

At December 31, 2015, another subsidiary had net exposure in USD for €53 million and in EUR for €66 million, due to the change of its functional currency as of January 1, 2016. This exposure had been hedged from the beginning of January 2016.

An unfavorable 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 (2015: €1 million) in the consolidated income statement for every cent change. A favourable change would have a totally symmetrical impact. This relatively low sensitivity 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, 2016	December 31, 2015
EUR	5,429	5,383
USD	1,760	1,317
BRL	1,063	744
THB	661	753
CNY	430	403
CAD	417	278
CHF	387	13
INR	252	255
Other	247	396
TOTAL	**10,646**	**9,542**

/ 4.2.3 Interest rate risk

Net debt at December 31, 2016 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	1,920	(1,230)	**690**	(2,030)	1,920	(3,260)	**(1,340)**	(383)	383	1,537	(2,877)	**(1,340)**
CNY	-	(71)	**(71)**	1,015	-	944	**944**	459	(459)	459	485	**944**
USD	1	55	**56**	426	1	481	**482**	239	(239)	240	242	**482**
BRL	65	13	**78**	287	65	300	**365**	217	(217)	282	83	**365**
THB	-	94	**94**	104	-	198	**198**	53	(53)	53	145	**198**
INR	-	1	**1**	119	-	120	**120**	48	(48)	48	72	**120**
Other currencies	19	(20)	**(1)**	79	19	59	**78**	46	(46)	65	13	**78**
Total before derivatives	**2,005**	**(1,158)**	**847**	**-**	**2,005**	**(1,158)**	**847**	**679**	**(679)**	**2,684**	**(1,837)**	**847**
Fair value of derivatives included in net debt			**97**				**97**					**97**
NET DEBT (NOTE 26)			**944**				**944**					**944**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2016:

		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	(18)	(7)	(3)	112	**102**
1-point upward shift	18	7	3	(112)	**(102)**

(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% unfavorable change in the price of the Group investment portfolio.

(in € million)	December 31, 2016	December 31, 2015
Carrying amount (note 15.1)	208	243
Impact on equity of a 10% unfavorable change in the price of the Group investment portfolio	**(13)**	**(8)**

/ 4.2.5 Counterparty risk

At December 31, 2016, 49% 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 which meet the counterparty risk management criteria defined by the Group.

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

/ 4.2.6 Credit risk

At December 31, 2016, net receivable balances from the ten largest customers amounted to €572 million (2015: €453 million). Six of these customers are located in Europe and four in North America.

At the same date, 64 customers (2015: 58) have been granted credit limits in excess of €10 million. Out of these, 24 are located in Europe, 27 in North America, 3 in Asia, 7 in Africa, India or Middle-East and 3 in South America. There was no significant collateral received to limit credit risk. In 2016, credit losses represented 0.07% of sales (2015: 0.13%).

/ 4.2.7 Commodities derivatives

In 2016, 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, 2016	December 31, 2015
Net debt (note 26)	944	1,008
Total equity	10,646	9,542
Gearing ratio	**0.09**	**0.11**

4.4 Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2016 and 2015 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total 2016
Cash and cash equivalents	1,293	203	-	**1,496**
Cash management financial assets	-	-	-	**-**
Deposits borrowing collaterals	77	-	-	**77**
Derivatives (note 16.1)	-	84	-	**84**
Available-for-sales financial assets (note 15.1)	43	-	165	**208**
TOTAL ASSETS	**1,413**	**287**	**165**	**1,865**
Derivatives (note 16.2)	-	181	-	**181**
TOTAL LIABILITIES	**-**	**181**	**-**	**181**

(in € million)	Level 1	Level 2	Level 3	Total 2015
Cash and cash equivalents	1,220	332	-	1,552
Cash management financial assets	-	205	-	205
Deposits borrowing collaterals	80	-	-	80
Derivatives (note 16.1)	-	147	-	147
Available-for-sales financial assets (note 15.1)	24	-	219	243
TOTAL ASSETS	**1,324**	**684**	**219**	**2,227**
Derivatives (note 16.2)	-	141	-	141
TOTAL LIABILITIES	**-**	**141**	**-**	**141**

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, 2016:

(in € million)	
At January 1, 2016	**219**
Additions	23
Disposals	(116)
Transfers from other level to level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in net income	(4)
Gains or losses for the year included in other comprehensive income	39
Others	4
AT DECEMBER 31, 2016	**165**

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, Michelin Lifestyle, BookaTable and Michelin Restaurants.

The operating segments performance is measured on operating income from recurring activities, and it is based on the same principles applied to the Group's consolidated income statement.

This measurement basis excludes the effects of income and expenses from non-recurring activities 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:

	2016				2015			
(in € million)	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	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	12,105	5,966	2,836	**20,907**	12,028	6,229	2,942	**21,199**
Operating income from recurring activities	1,585	580	527	**2,692**	1,384	645	548	**2,577**
In percentage of net sales	*13.1%*	*9.7%*	*18.6%*	***12.9%***	*11.5%*	*10.4%*	*18.6%*	***12.2%***
Depreciation and amortization	(778)	(383)	(231)	**(1,392)**	(720)	(375)	(230)	**(1,325)**
Segment assets								
Goodwill, intangible assets and PP&E	6,935	3,648	2,063	**12,646**	6,457	3,410	2,089	**11,956**
Finished products inventories	1,508	839	477	**2,824**	1,425	885	429	**2,739**
Trade receivables	1,666	1,048	328	**3,042**	1,492	972	279	**2,743**
Total of segment assets	**10,109**	**5,535**	**2,868**	**18,512**	**9,374**	**5,267**	**2,797**	**17,438**
Other information								
Capital expenditure	1,080	520	211	**1,811**	1,077	487	239	**1,803**

In 2016, the impairment recognised in the operating income amounts to €158 million (2015: €198 million), of which €27 million (2015: €24 million) pertaining to the Passenger car and Light trucks tires and related distribution operating segment, €66 million (2015: €94 million) to the Truck tires and related distribution operating segment and €65 million (2015: €80 million) to the Speciality businesses. Note 9 provides further details on these impairments.

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

(in € million)	December 31, 2016	December 31, 2015
Segment assets	**18,512**	**17,438**
Non-current financial assets and other assets	323	410
Investments in associates and joint ventures	309	309
Deferred tax assets	1,191	1,259
Other net inventories (raw materials and supplies, work in progress)	1,656	1,550
Current financial assets	633	363
Other current assets	1,202	1,012
Cash and cash equivalents	1,496	1,552
TOTAL GROUP ASSETS	**25,322**	**23,893**

The geographic information is broken down by zone hereunder:

	2016				2015			
(in € million)	Europe	North America	Other	Total	Europe	North America	Other	Total
Net sales	8,101	7,792	5,014	**20,907**	8,203	8,084	4,912	**21,199**
Goodwill, intangible assets and PP&E	5,674	3,036	3,936	**12,646**	5,404	2,898	3,654	**11,956**
Capital expenditure	943	413	455	**1,811**	901	434	468	**1,803**

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 €1,917 million (2015: €1,974 million). The intangible assets and PP&E located in France amounted to €2,164 million (2015: €2,059 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 2016 and 2015.

NOTE 6 EXPENSES BY NATURE

The following operating costs from recurring activities are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Raw materials and consumables used and changes in finished products inventories	(7,130)	(7,552)
Employee benefit costs	(5,814)	(5,785)
Transportation of goods	(1,152)	(1,129)
Depreciation and amortization	(1,392)	(1,357)
Other expenses	(2,727)	(2,799)
EXPENSES BY NATURE	**(18,215)**	**(18,622)**

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, 2016	Year ended December 31, 2015
Wages and salaries	(4,529)	(4,484)
Payroll taxes	(950)	(971)
Defined benefit plan costs (note 27.1)	155	(134)
Defined contribution plan costs (note 27.2)	(213)	(187)
Share-based payments - cost of services rendered (note 25)	(5)	(9)
EMPLOYEE BENEFIT COSTS	**(5,542)**	**(5,785)**

The average number of employees in 2016 is 112,088 (2015: 112,484).

NOTE 8 OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES

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

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Provisions for reorganizations and adaptation of activities (1)	-	3
(Charge)/reversal on impairment of intangible assets and property, plant and equipment (1)	-	(21)
Retiree benefit costs (1)	-	(12)
Employee shareholder plan cost	(16)	-
Share-based payments - cost of services rendered (note 25)	(5)	(9)
Other operating income/(expenses)	-	(20)
OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES	**(21)**	**(59)**

(1) These incomes and expenses are now recognised in Operating income/loss from non-recurring activities (note 3.11).

NOTE 9 OPERATING INCOME/(LOSS) FROM NON-RECURRING ACTIVITIES

The income and expenses from non-recurring activities are detailed in the table below:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Reorganizations and adaptation of activities (note 9.1)	(80)	(292)
Impairment of fixed assets (note 9.2)	(129)	(78)
Retiree benefit costs (note 9.3)	272	-
Other operating income/(expenses) (note 9.4)	36	-
OPERATING INCOME/(LOSS) FROM NON-RECURRING ACTIVITIES	**99**	**(370)**

9.1 Reorganizations and adaptation of activities

During the first semester 2016 the Group announced a reorganization of its manufacturing engineering function and the closure, by the end of 2017, of a truck tire retreading facility in Clermont-Ferrand. A provision covering the social costs of both plans as well as the impairment of non-reusable equipment has been recorded for a total amount of €45 million.

Anticipating a large number of employees retirements in the coming years within some of the Group's French subsidiaries, an agreement with the local Unions was concluded in September 2016. In exchange for providing better visibility on their provisional retirement date, the companies concerned will grant specific benefits to the willing employees. A €30 million provision has been set aside to cover the expected cost of this agreement.

In 2015 the Group had launched a project to reorganize its production activities for new and retread truck tires and had announced the closure of industrial sites and departments located in various European countries, mainly Italy, the United Kingdom, and Germany. A provision amounting to €275 million had been recognized to cover the costs of the social elements of these projects, the impairment of non-reusable equipment and the necessary costs to deploy the revitalization plan to help the impacted areas.

9.2 Impairment of fixed assets

In 2016, the Tweel product line has decided to redirect its activities towards markets and products for which the current technology and equipment are unsuitable. As a consequence, an impairment amounting to €45 million and covering all of the CGU's equipment was recognized.

In India, the semi-finished production capacity of the Chennai site had originally been sized to supply three tires production units. As at today, only the truck tires plant is operational. In 2016, Passenger car and Light truck product line's industrial strategy review has limited the equipment's possible future usage and therefore an impairment of €54 million has been recognized.

The Group has abandoned the construction of a passenger car tires production plant in Shenyang. A cost of €25 million has been recognized, covering the impairment of the land-right-of-use and associated site preparation investments that had already begun.

In 2015 the Group had decided not to implement the Earthmover tire project in India at the Chennai plant and, as a result, a €78 million impairment was recognized, for the buildings of the Chennai site, the equipment already manufactured dedicated to this facility and the capitalized process engineering costs for the planned equipment related to the OE and Infrastructure segments.

9.3 Retiree benefit costs

In 2016, a change in the American medical cover for the Group's retired employees has reduced significantly the present value of the obligation, allowing a provision reversal for €271 million.

9.4 Other operating income and expenses

At the end of 2012, in China, the Shenyang's local authorities had requested the Group to relocate the factory to a nearby location as the area where the plant was, became unsuitable for industrial activities. The difference between the recoverable amount and the net book value of the assets concerned was recognized as impairment, within the non-recurring costs, for €51 million. In 2016, an agreement was reached with the local authorities to return the land in exchange for a payment of €34 million.

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, 2016	Year ended December 31, 2015
Interest expenses	(209)	(212)
Interest income	6	9
Interest rate derivatives	(7)	15
Fees on credit lines	(5)	(7)
Capitalized borrowing costs	12	11
COST OF NET DEBT	**(203)**	**(184)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	21	8
Currency remeasurement (including currency derivatives)	(18)	(22)
Other	17	(16)
OTHER FINANCIAL INCOME AND EXPENSES	**20**	**(30)**

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 €8 million (2015: increase of €15 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 (2015: nil) in "Interest rate derivatives (Cost of net debt)". No cash flow hedge ineffectiveness was recognized in the income statement (2015: nil).

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Current tax expense (note 18.2)	(749)	(664)
Deferred tax income/(expense) (note 18.1)	(48)	(42)
INCOME TAX	**(797)**	**(706)**

Current tax includes €84 million of withholding tax on royalties and distribution of retained earnings between Group companies (2015: €48 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Income before tax	**2,464**	**1,869**
Tax calculated using domestic tax rates applicable to income in the respective countries	**(669)**	**(496)**
Tax effect from:		
▶ untaxed transactions	15	10
▶ deferred tax assets not recognized during the year	(81)	(103)
▶ net change in unrecognized deferred tax assets	5	-
▶ changes in tax rates	(2)	(9)
▶ taxes with no tax base (tax credits, withholding tax, etc.)	(76)	(105)
▶ other items	11	(3)
INCOME TAX	**(797)**	**(706)**

The Group has operations in various countries that have different 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 2015 and 2016, the difference between the Group's effective and theoretical tax rates can be explained mainly by deferred tax assets not recognized during the year and by withholding taxes, tax credits and other taxes whose base is not the income before tax.

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 granted free of charge and 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, 2016	Year ended December 31, 2015
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,676	1,168
▶ Less, estimated grants to the General Partners	(12)	(8)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,664**	**1,160**
▶ Plus, interest expenses on convertible bonds	28	27
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,692**	**1,187**
Weighted average number of shares *(thousands of shares)* **outstanding used in the calculation of basic earnings per share**	**180,685**	**184,734**
▶ Plus, adjustment for share option plans	422	561
▶ Plus, adjustment for convertible bonds	5,598	5,598
▶ Plus, adjustment for performance shares	729	974
Weighted average number of shares used in the calculation of diluted earnings per share	**187,434**	**191,867**
Earnings per share *(in €)*		
▶ Basic	9.21	6.28
▶ Diluted	9.03	6.19

Since the convertible bonds, as described in the note 26.1 "Bonds and commercial paper", are dilutive in 2016, they have been considered in the calculation of diluted earnings per share. Taking into account the evolution of the average share price in 2016, all the stock option plans as described in the note 28.1 "Stock option plans" are dilutive.

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 2016 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, 2015	**856**	**1,647**	**2,503**
Translation adjustments	(76)	1	**(75)**
Additions (including new emission rights: €5 million)	-	140	**140**
Disposals	-	(33)	**(33)**
Changes in scope of consolidation	53	36	**89**
Transfers and other	(1)	4	**3**
Gross carrying amounts at December 31, 2015	**832**	**1,795**	**2,627**
Translation adjustments	58	28	**86**
Additions (including new emission rights: €4 million)	-	162	**162**
Disposals	-	(54)	**(54)**
Changes in scope of consolidation (note 13.1)	104	20	**124**
Transfers and other	(1)	5	**4**
Gross carrying amounts at December 31, 2016	**993**	**1,956**	**2,949**
Amortization and impairment at January 1, 2015	**(21)**	**(1,045)**	**(1,066)**
Translation adjustments	-	(12)	**(12)**
Amortization	-	(126)	**(126)**
Net impairment	(9)	(9)	**(18)**
Disposals	-	25	**25**
Changes in scope of consolidation	-	(7)	**(7)**
Transfers and other	1	-	**1**
Amortization and impairment at December 31, 2015	**(29)**	**(1,174)**	**(1,203)**
Translation adjustments	-	(19)	**(19)**
Amortization	-	(144)	**(144)**
Net impairment	(2)	(6)	**(8)**
Disposals	-	17	**17**
Changes in scope of consolidation	-	-	**-**
Transfers and other	1	-	**1**
Amortization and impairment at December 31, 2016	**(30)**	**(1,326)**	**(1,356)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2016	**963**	**630**	**1,593**
Net carrying amounts at December 31, 2015	**803**	**621**	**1,424**

13.1 Livebookings Holdings Limited

On December 29, 2015, the Group took control of Livebookings Holdings Limited, the European leader with its BookaTable trademark in the online restaurant reservation market with headquarters in London. The Group was previously holding a 9.1% interest in the company and acquired an additional 90.8% of the share capital for an amount of €106 million. At December 31, 2015 this acquisition was provisionally reported as "Non-current financial assets and other assets".

At the acquisition-date, the fair value of both the consideration transferred and the previously owned interest, amounted to €115 million.

During 2016, the Group has finalised the price allocation and the related acquisition accounting entries.

The assets acquired and liabilities assumed measured at fair value are detailed in the following table:

(in € million)	**At acquisition date**
Intangible assets [(1)]	19
Property, plant and equipment (PP&E)	-
Non-current financial assets and other assets	-
Non-current assets	**19**
Inventories	-
Trade receivables and other current assets [(2)]	4
Cash and cash equivalents	4
Current assets	**8**
Non-current financial liabilities	-
Provisions and other non-current liabilities	-
Deferred tax liabilities	4
Non-current liabilities	**4**
Current financial liabilities	-
Trade payables and other current liabilities	10
Current liabilities	**10**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**13**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for the trademark and the technology while using an income approach for the client portfolio. The BookaTable trademark has been valued at €13 million. Its remaining useful life is 10 years. The fair value of the client portfolio has been measured at €4 million. It will be amortized over its remaining useful life of 11 years. The technology has been valued at €2 million.
(2) At the acquisition date the trade receivables amounted to €4 million and they have been kept at the same value.

The purchase price allocation, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for an amount of €102 million, calculated as follows:

(in € million)	**At acquisition date**
Fair value of consideration transferred (1)	115
Fair value of net assets acquired (2)	13
GOODWILL (1) - (2)	**102**

With this acquisition the Group believes that the complementarity with its Michelin Restaurant activity will allow to build synergies between the two entities. It has access to the BookaTable technology and online reservation site. The Group will allow BookaTable to take advantage of the Michelin name, well-known within the restauration and gastronomy business, to increase the number of its reservation site's customers. Furthermore the two entities are complementary from a geographical point of view; BookaTable has a strong presence in the United Kingdom and in the Nordic Countries, whereas Michelin Restaurant is active in France and Germany. These aspects have led to the allocation of the entire goodwill, amounting to €102 million, to the CGU consisting of BookaTable and Michelin Restaurant.

In 2016 BookaTable has contributed to the Group's net sales for an amount of €20 million, to the operating result for € -8 million (including €2 million of amortization relating to the intangible assets identified during the price allocation) and to the net result for € -5 million.

Livebookings Holdings Limited is allocated to the operating segment "Speciality businesses".

13.2 Goodwill

The amounts allocated to the CGUs are as follows:

(in € million)	**December 31, 2016**	**December 31, 2015**
CGU Passenger car and light truck tires Southeast Asia / Australia	125	120
CGU Passenger car and light truck tires North America	128	123
CGU Passenger car and light truck tires Europe	113	119
Group of CGUs Truck tires South America [(2)]	233	189
Group of CGUs Truck tires North America [(2)]	88	71
Group of CGUs Truck tires Europe [(2)]	115	106
CGU BookaTable [(1)]	88	-
Other CGUs [(3)]	73	75
GOODWILL	**963**	**803**

(1) Corresponding to the goodwill recognized in relation to the acquisition of Livebookings Holdings Limited at 2016 closing rate (note13.1).
(2) In 2015, the synergies identified at Sascar's acquisition, reflecting the opportunity for Sascar to have access to the Group's customers in Brazil and to expand its service offering in other geographical zones led the Group to allocate the goodwill to three groups of CGUs (comprising Truck tire, fleet services and digital activities) in South America, in North America and in Europe.
(3) Including €19 million (2015: €22 million) that are a part of the goodwill recognized in relation to the acquisition of Blackcircles in 2015.

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

- The terminal value takes into account an annual growth rate ranging from 1.5% to 2.2% for the CGUs located in mature countries and from 3.0% to 4.5% for the CGUs located in emerging countries.
- The rates used to discount the CGUs' future cash flows are based on the WACC (Weighted Average Cost of Capital) and range between 6.9% and 13.7% depending on the geographical zones and type of activity.

As the recoverable amount of the above CGUs and group of CGUs is in excess of their assets value, no sensitivity analysis is disclosed, with the exception of the group of CGU Truck tires South America for which a WACC increase of 100 basis points would lead to an impairment of €40 million.

13.3 Intangible assets

In 2016, additions to intangible assets, amounting to €162 million (2015: €140 million) break down into the following categories:

- Software: €148 million
- Emission rights – allowances granted: €4 million
- Other: €10 million

/ 13.3.1 Software

The net carrying amount of software at December 31, 2016 was €455 million (2015: €424 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.

/ 13.3.2 Trademarks

At December 31, 2016 the net carrying amount of trademarks was €61 million (2015: €48 million). These amounts correspond mainly to the fair value of Sascar, Blackcircles and BookaTable trademarks.

/ 13.3.3 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, 2016 amounted to 1.9 million metric tons (2015: 1.8 million metric tons) representing a value of €12 million (2015: €13 million). The liability related to actual emissions in 2016 amounts to 0.8 million metric tons (2015: 0.7 million metric tons) representing a value of €5 million (2015: €6 million). It will be offset by the delivery of the allowances granted.

/ 13.3.4 Development costs

In 2016 and 2015, 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.

13.4 Impairment of goodwill and intangible assets

Accumulated impairment losses on goodwill and intangible assets at December 31, 2016 amounted to €60 million (2015: €50 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, 2015	**5,772**	**16,832**	**1,366**	**23,970**
Translation adjustments	85	267	12	**364**
Additions (including finance leases: €55 million)	464	1,141	118	**1,723**
Disposals	(39)	(454)	(49)	**(542)**
Changes in scope of consolidation	-	2	13	**15**
Transfers and other	5	(43)	2	**(36)**
Gross carrying amounts at December 31, 2015	**6,287**	**17,745**	**1,462**	**25,494**
Translation adjustments	128	468	34	**630**
Additions (including finance leases: €42 million)	470	1,119	106	**1,695**
Disposals	(199)	(471)	(68)	**(738)**
Changes in scope of consolidation	-	-	1	**1**
Transfers and other	5	(10)	-	**(5)**
Gross carrying amounts at December 31, 2016	**6,691**	**18,851**	**1,535**	**27,077**
Depreciation and impairment at January 1, 2015	**(2,567)**	**(10,375)**	**(947)**	**(13,889)**
Translation adjustments	(38)	(173)	(13)	**(224)**
Depreciation	(169)	(957)	(72)	**(1,198)**
Net impairment	(50)	(104)	-	**(154)**
Disposals	21	419	45	**485**
Changes in scope of consolidation	-	(2)	(10)	**(12)**
Transfers and other	14	16	-	**30**
Depreciation and impairment at December 31, 2015	**(2,789)**	**(11,176)**	**(997)**	**(14,962)**
Translation adjustments	(49)	(281)	(20)	**(350)**
Depreciation	(175)	(997)	(76)	**(1,248)**
Net impairment	(53)	(78)	(16)	**(147)**
Disposals	155	465	65	**685**
Changes in scope of consolidation	-	-	(1)	**(1)**
Transfers and other	1	(1)	(1)	**(1)**
Depreciation and impairment at December 31, 2016	**(2,910)**	**(12,068)**	**(1,046)**	**(16,024)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2016	**3,781**	**6,783**	**489**	**11,053**
Net carrying amounts at December 31, 2015	**3,498**	**6,569**	**465**	**10,532**

PP&E under construction amounted to €2,027 million (2015: €1,931 million).

Accumulated impairment losses amounted to €355 million (2015: €362 million).

The borrowing costs capitalized in 2016 in PP&E amounted to €12 million (2015: €11 million).

PP&E held under finance leases amounted to €165 million (2015: €123 million). The gross carrying amounts of these assets totalled €222 million (2015: €168 million).

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

	December 31, 2016		December 31, 2015	
(in € million)	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	16	19	16	18
Between one and five years	61	73	53	59
More than five years	70	77	48	57
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**147**	**169**	**117**	**134**

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, 2016	December 31, 2015
Available-for-sale financial assets (note 15.1)	208	243
Loans and deposits (note 15.2)	62	71
Derivative instruments (note 16.1)	45	89
Other	8	7
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**323**	**410**

15.1 Available-for-sale financial assets

Available-for-sale financial assets consist essentially of a portfolio of shares of non-listed companies (note 4.4).

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

(in € million)	2016	2015
At January 1	**243**	**151**
Translation adjustments	3	4
Additions [(1)]	25	118
Disposals [(1)]	(116)	(6)
Impairment reversal	(4)	1
Fair value changes	57	(25)
AT DECEMBER 31	**208**	**243**

(1) Available-for-sale financial assets at December 31, 2015 included €114 million related to the acquisition on December 29, 2015 of Livebookings Holdings Limited which has been consolidated in 2016 (note 13.1).

15.2 Loans and deposits

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

(in € million)	December 31, 2016	December 31, 2015
Gross loans and deposits	102	111
Impairments	(40)	(40)
TOTAL	**62**	**71**

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, 2016		December 31, 2015	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	18	383	22	400
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	4	61	1	40
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	23	170	66	532
▶ Interest-rate derivatives	-	-	-	91
▶ Other derivatives	-	-	-	-
Non-current derivative instruments (note 15)	**45**	**614**	**89**	**1,063**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	-	16	4	33
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	1	3	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	38	1,765	54	1,650
▶ Interest-rate derivatives	-	143	-	-
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 21)	**39**	**1,927**	**58**	**1,683**
TOTAL ASSETS	**84**	**2,541**	**147**	**2,746**

The Group grants cash collaterals to mitigate its credit risk associated with its derivative assets. The amount of collaterals transferred is €77 million as of December 31, 2016 (December 31, 2015: €80 million).

16.2 Derivatives recognized in liabilities

(in € million)	December 31, 2016		December 31, 2015	
	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	4	65	10	129
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	94	663	88	517
▶ Interest-rate derivatives	2	198	5	935
▶ Other derivatives	-	-	-	-
Non-current derivative instruments (note 26)	**100**	**926**	**103**	**1,581**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	7	65	-	9
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	1	5	1	6
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	73	1,968	36	1,360
▶ Interest-rate derivatives	-	199	1	321
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 26)	**81**	**2,237**	**38**	**1,696**
TOTAL LIABILITIES	**181**	**3,163**	**141**	**3,277**

The Group holds cash collaterals to guarantee its own credit risk associated with its derivatives liabilities. The amount of collaterals received is €7 million as of December 31, 2016 (December 31, 2015: €7 million).

16.3 Derivative contractual amounts

The Group concluded long term currency derivative contracts with maturities between one and six years for a total amount of €958 million (2015: €1,218 million). The nominal amounts by major currencies bought against the euro are denominated in USD for €147 million (2015: €221 million), in BRL for €145 million (2015: €206 million), in CNH and CNY for €365 million (2015: €394 million) and in THB for €220 million (2015: €220 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:

(in € million)	December 31, 2016							December 31, 2015						
	Currencies purchased forward							Currencies purchased forward						
	EUR	CNY	USD	THB	BRL	Other	Total	EUR	CNY	USD	THB	BRL	Other	Total
Currencies sold forward														
EUR	-	549	382	249	307	1,037	**2,524**	-	459	466	292	411	639	**2,267**
CNY	567	-	23	-	-	24	**614**	493	-	56	-	-	22	**571**
USD	72	-	-	195	79	38	**384**	13	43	-	216	40	58	**370**
JPY	211	10	-	1	-	-	**222**	262	-	7	1	-	-	**270**
HUF	120	-	1	-	-	-	**121**	66	-	-	-	-	-	**66**
THB	59	-	49	-	-	2	**110**	56	-	15	-	-	-	**71**
AUD	90	-	-	1	-	-	**91**	30	-	-	1	-	-	**31**
Other	579	-	105	-	-	23	**707**	521	-	99	-	2	2	**624**
TOTAL	**1,698**	**559**	**560**	**446**	**386**	**1,124**	**4,773**	**1,441**	**502**	**643**	**510**	**453**	**721**	**4,270**

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:

	December 31, 2016				December 31, 2015			
(in € million)	Less than 1 year	Between 1 and 3 years	More than 3 years	Total	Less than 1 year	Between 1 and 3 years	More than 3 years	Total
EUR	100	483	-	**583**	-	200	899	**1,099**
INR	24	24	-	**48**	22	47	-	**69**
THB	27	26	-	**53**	25	51	-	**76**
USD	191	48	-	**239**	274	229	-	**503**
Interest-rate derivatives	**342**	**581**	**-**	**923**	**321**	**527**	**899**	**1,747**
EUR	7	-	-	**7**	5	-	-	**5**
USD	1	-	-	**1**	1	-	-	**1**
Other currencies	-	-	-	**-**	-	-	-	**-**
Other derivatives	**8**	**-**	**-**	**8**	**6**	**-**	**-**	**6**
TOTAL	**350**	**581**	**-**	**931**	**327**	**527**	**899**	**1,753**

At December 31, 2016, the Group has outstanding short term futures contracts on natural rubber with an asset market value of €4 million (2015: asset of €1 million) which has been fully cashed in through the daily margin calls. The contractual values of these futures are €15 million (2015: €23 million).

NOTE 17 EQUITY METHOD INVESTMENTS

Investments in joint ventures and associates amounted to €309 million (2015: €309 million). These include essentially Allopneus SAS in France, 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, Royal Lestari Utama (a joint-venture created in Indonesia in 2015 with Barito Pacific Group) and SIPH Group in France.

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

(in € million)	2016	2015
Assets	1,259	1,173
Liabilities	646	542
Net sales	1,374	1,544
Net income	(23)	50

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the consolidated statement of financial position are as follows:

(in € million)	December 31, 2016	December 31, 2015
Deferred tax assets	1,191	1,259
Deferred tax liabilities	(117)	(118)
NET DEFERRED TAX ASSET	**1,074**	**1,141**

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

(in € million)	December 31, 2016	December 31, 2015
Employee benefits	1,084	1,180
Inventories	186	166
Financial instruments	109	110
Provisions	97	56
Unused tax losses	68	55
Unused tax credits	9	11
Goodwill & Intangible assets	26	(38)
Property, plant and equipment	(631)	(564)
Other	126	165
NET DEFERRED TAX ASSET	**1,074**	**1,141**

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

(in € million)	2016	2015
At January 1	**1,141**	**1,061**
Translation adjustments	1	46
Deferred tax income/(expense) (note 11)	(48)	(42)
Tax recognized in other comprehensive income	(17)	82
Changes in scope of consolidation	(3)	(5)
Other	-	(1)
AT DECEMBER 31	**1,074**	**1,141**

In 2016, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset comes essentially from variations of temporary differences on employee benefits.

In 2015, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset comes essentially from provisions for withholding taxes on subsidiaries' retained earnings.

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

(in € million)	December 31, 2016	December 31, 2015
Post-employment benefits	566	576
Available-for-sale financial assets	(24)	(13)
Compound financial instruments (convertible bond)	(13)	(13)
TOTAL DEFERRED TAX INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**529**	**550**

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2016	December 31, 2015
Deductible temporary difference	**123**	**119**
Tax losses		
▶ of which expiring in less than one year	10	-
▶ of which expiring between one to five years	111	80
▶ of which expiring in more than five years	57	125
▶ of which no expiration	296	240
Total tax losses	**474**	**445**
Tax credits	**1**	**5**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**598**	**569**

18.2 Current taxes

Current taxes in the consolidated statement of financial position are as follows:

(in € million)	2016	2015
Taxes receivables (note 22)	360	278
Taxes payables (note 30)	(126)	(144)
Net total at January 1	**234**	**134**
Current tax expense (note 11)	(749)	(664)
Income tax paid	765	754
Translation adjustments and other	-	10
Total changes	**16**	**100**
Taxes receivables (note 22)	438	360
Taxes payables (note 30)	(188)	(126)
NET TOTAL AT DECEMBER 31	**250**	**234**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2016	December 31, 2015
Raw materials and supplies	1,227	1,148
Work in progress	474	447
Finished goods	2,879	2,787
Total gross inventory	**4,580**	**4,382**
Write-downs on raw materials and supplies	(44)	(44)
Write-downs on work in progress	(1)	(1)
Write-downs on finished goods	(55)	(48)
Total write-downs	**(100)**	**(93)**
NET INVENTORY	**4,480**	**4,289**

Movements in inventory write-downs were as follows:

(in € million)	2016	2015
At January 1	**(93)**	**(94)**
Translation adjustments and other	(2)	(1)
Write-downs of inventories recognized as an expense in the period	(42)	(32)
Reversals of write-downs	37	34
AT DECEMBER 31	**(100)**	**(93)**

NOTE 20 TRADE RECEIVABLES

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

(in € million)	December 31, 2016	December 31, 2015
Gross trade receivables	3,156	2,855
Impairment	(114)	(112)
TRADE RECEIVABLES	**3,042**	**2,743**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2016:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,781**	**(34)**	**2,747**
Overdue			
▸ from less than three months	241	(3)	238
▸ between three and six months	35	(4)	31
▸ from more than six months	99	(73)	26
Overdue trade receivables	**375**	**(80)**	**295**
TRADE RECEIVABLES	**3,156**	**(114)**	**3,042**

Movements in impairment are broken down in the table below:

(in € million)	2016	2015
At January 1	**(112)**	**(121)**
Translation adjustments	(4)	1
Impairment charges	(44)	(29)
Impairment reversals	46	39
Changes in scope of consolidation	-	(2)
AT DECEMBER 31	**(114)**	**(112)**

Impairment reversals in 2016 include write-offs of €14 million (2015: €29 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, 2016	December 31, 2015
Loans and deposits	102	100
Cash management financial assets (note 26)	492	205
Derivative instruments (note 16.1)	39	58
CURRENT FINANCIAL ASSETS	**633**	**363**

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 3.21 "Cash and cash equivalents"). They are accounted for at amortised cost. (note 3.18 "Non derivative financial assets").

Loans and deposits include collaterals with financial institutions of €77 million (2015: €80 million) that are not freely available.

NOTE 22 OTHER CURRENT ASSETS

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

(in € million)	December 31, 2016	December 31, 2015
Suppliers – advances	173	135
Current tax – advance payments	438	360
Other taxes receivable	304	286
Other	293	237
Less impairment	(6)	(6)
OTHER CURRENT ASSETS	**1,202**	**1,012**

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, 2016	December 31, 2015
Cash at bank and in hand	287	172
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)	1,209	1,380
CASH AND CASH EQUIVALENTS	**1,496**	**1,552**

The average effective interest rate on short-term bank deposits was 0.38% in 2016 (2015: 0.59%).

Cash and cash equivalents are essentially held in Euros (2016: 87% after hedge, 2015: 88%)

The less easily available amounts to meet the needs of the Group are mainly related to prudential rules in Ireland specific to captive insurance companies (2016: €83 million, 2015: €150 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2015	**371**	**3,601**	**3,972**
Issuance of shares from the exercise of share options and performance shares	2	62	64
Cancellation of shares	(10)	(441)	(451)
Other	1	-	1
At December 31, 2015	**364**	**3,222**	**3,586**
Issuance of shares from the exercise of share options and performance shares	3	96	99
Cancellation of shares	(7)	(294)	(301)
Other	-	-	-
AT DECEMBER 31, 2016	**360**	**3,024**	**3,384**

(number of shares)	Share issued	Treasury shares	Shares outstanding
At January 1, 2015	**185,726,200**	**-**	**185,726,200**
Issuance of shares from the exercise of share options and performance shares	1,137,488	-	1,137,488
Purchase of shares	-	(4,961,534)	(4,961,534)
Disposal of shares	-	-	-
Reduction in capital	(4,961,534)	4,961,534	-
Other	28	-	28
At December 31, 2015	**181,902,182**	**-**	**181,902,182**
Issuance of shares from the exercise of share options and performance shares	1,503,749	-	1,503,749
Purchase of shares	-	(3,347,040)	(3,347,040)
Disposal of shares	-	-	-
Reduction in capital	(3,347,040)	3,347,040	-
Other	7,230	-	7,230
AT DECEMBER 31, 2016	**180,066,121**	**-**	**180,066,121**

The par value per share amounts to €2 (unchanged from 2015). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2016, the dividend payable for the year 2015 to the shareholders was €2.85 per share (2015: €2.50 per share). It has been fully settled in cash for a net amount of €515 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €3.25 per share in 2017 for the year 2016.

NOTE 25 RESERVES

(in € million)	Translation reserve	Treasury shares	Other reserves	Retained earnings	Total
At January 1, 2015	**(236)**	**-**	**138**	**5,632**	**5,534**
Dividends and other allocations	-	-	-	(483)	(483)
Share-based payments - cost of services rendered (notes 7 and 8)	-	-	-	9	9
Purchase of shares	-	(451)	-	-	(451)
Cancellation of shares	-	451	-	-	451
Other	-	-	-	-	-
Transactions with the shareholders of the Company	**-**	**-**	**-**	**(474)**	**(474)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,168	1,168
Post-employment benefits	-	-	-	*(317)*	*(317)*
Tax effect - Post-employment benefits	-	-	-	*82*	*82*
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(235)	(235)
Available-for-sale financial assets - change in fair values	-	-	*(25)*	-	*(25)*
Tax effect - available-for-sale financial assets - change in fair values	-	-	-	-	-
Available-for-sale financial assets - (gain)/loss recognized in income statement	-	-	-	-	-
Currency translation differences	*(72)*	-	-	-	*(72)*
Other	-	-	*7*	-	*7*
Other items of comprehensive income that may be reclassified to income statement	(72)	-	(18)	-	(90)
Comprehensive income	**(72)**	**-**	**(18)**	**933**	**843**
At December 31, 2015	**(308)**	**-**	**120**	**6,091**	**5,903**
Dividends and other allocations	-	-	-	(538)	(538)
Share-based payments - cost of services rendered (notes 7 and 8)	-	-	-	5	5
Purchase of shares	-	(301)	-	-	(301)
Cancellation of shares	-	301	-	-	301
Other	3	-	(1)	5	7
Transactions with the shareholders of the Company	**3**	**-**	**(1)**	**(528)**	**(526)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,676	1,676
Post-employment benefits	-	-	-	*(194)*	*(194)*
Tax effect - Post-employment benefits	-	-	-	*(8)*	*(8)*
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(202)	(202)
Available-for-sale financial assets - change in fair values	-	-	*57*	-	*57*
Tax effect - available-for-sale financial assets - change in fair values	-	-	*(9)*	-	*(9)*
Available-for-sale financial assets - (gain)/loss recognized in income statement	-	-	-	-	-
Currency translation differences	*314*	-	*2*	-	*316*
Other	-	-	*3*	*(3)*	-
Other items of comprehensive income that may be reclassified to income statement	314	-	53	(3)	364
Comprehensive income	**314**	**-**	**53**	**1,471**	**1,838**
AT DECEMBER 31, 2016	**9**	**-**	**172**	**7,034**	**7,215**

The equity part of the OCEANE zero coupon convertible bond (note 26 "Financial debts") amounts to €65 million (2015: €65 million) after tax. It is included in "Other reserves".

In April 2015, the Group announced a share buyback program of €750 million over a period of 18 to 24 months.

During 2016, the Group concluded with an investment services provider two payback conventions that committed the Group to repurchase a variable number of shares within the limit of a total amount of €300 million before December 15, 2016.

The average purchase price of the 3,347,040 shares acquired during 2016 was €89.63. All the shares were cancelled during the year.

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2016	December 31, 2015
Bonds	1,310	1,940
Loans from financial institutions and other	232	300
Finance lease liabilities	131	101
Derivative instruments	100	103
Non-current financial liabilities	**1,773**	**2,444**
Bonds and commercial paper	903	212
Loans from financial institutions and other	320	282
Finance lease liabilities	16	16
Derivative instruments	81	38
Current financial liabilities	**1,320**	**548**
FINANCIAL LIABILITIES	**3,093**	**2,992**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2016	December 31, 2015
Financial liabilities	3,093	2,992
Derivatives recognized as assets (note 16.1)	(84)	(147)
Borrowing collaterals (note 32.3.2)	(77)	(80)
Cash management financial assets (note 21)	(492)	(205)
Cash and cash equivalents (note 23)	(1,496)	(1,552)
NET DEBT	**944**	**1,008**

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, 2016	December 31, 2015
Bonds	1,388	1,894
Loans from financial institutions and other	232	320
Finance lease liabilities	131	101
Derivative instruments	100	103
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**1,851**	**2,418**

Changes in financial liabilities and derivatives are detailed by flow in the table below:

(in € million)	At January 1, 2016	Cash Flows from financial liabilities	Non-cash variations: Translation adjustments	Non-cash variations: Other [(1)]	At December 31, 2016
Bonds, loans from financial institutions and other	2,240	23	6	(727)	1,542
Finance lease liabilities	101	(10)	1	39	131
Derivative instruments	103	(6)	3	-	100
Non-current financial liabilities	**2,444**	**7**	**10**	**(688)**	**1,773**
Bonds, loans from financial institutions and other	493	(141)	110	761	1,223
Finance lease liabilities	16	(3)	-	3	16
Derivative instruments	39	43	2	(3)	81
Current financial liabilities	**548**	**(101)**	**112**	**761**	**1,320**
FINANCIAL LIABILITIES	**2,992**	**(94)**	**122**	**73**	**3,093**
Derivatives recognized as assets	(147)	75	(12)	-	(84)
Net impact net in the consolidated cash flow statement		**(19)**			

(1) Mainly due to (i) reclassification of bonds between long term and short term and (ii) new finance lease contracts.

26.1 Bonds and commercial paper

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

	December 31, 2016		December 31, 2015	
(in € million)	Current	Non-current	Current	Non-current
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €302 million (2015: €209 million) ▶ issued in September 2015 and September 2016 and due in September 2045 ▶ nominal interest rate of 3.25% ▶ effective interest rate of 3.02%	-	316	-	206
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €300 million ▶ issued in May 2015 and due in May 2027 ▶ nominal interest rate of 1.75% (1.68% after hedging) ▶ effective interest rate of 1.86% (1.80% after hedging)	-	297	-	296
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €300 million ▶ issued in May 2015 and due in May 2022 ▶ nominal interest rate of 1.125% ▶ effective interest rate of 1.17%	-	299	-	299
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €383 million (2015: €400 million) ▶ issued in June 2012 and due in June 2019 ▶ nominal interest rate of 2.75% (1.10% after hedging) ▶ hedged through a €383 million interest rate swaps (2015: €400 million) expiring in June 2019 (fair value hedge) (note 16)	-	398	-	419
Liability component of zero-coupon convertible bonds (OCEANEs) 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% ▶ 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: €753 million	753	-	-	720
Commercial paper issued by Compagnie Générale des Établissements Michelin ▶ nominal value in € equivalent: €74 million, £24 million, $53 million (2015: €212 million) ▶ effective interest rate of 0.25% at December 31, 2016	150	-	212	-
TOTAL	**903**	**1,310**	**212**	**1,940**

At December 31, 2016, the weighted average nominal interest rate for bonds and commercial paper is 2.72% (2.38% 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, 2016 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	BRL	Other	Total
Fixed rates	-	-	92	-	**92**
Floating rates	261	98	-	101	**460**
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**261**	**98**	**92**	**101**	**552**
Average effective interest rate paid in 2016	**0.62%**	**1.41%**	**8.13%**	**9.14%**	**4.26%**

The contractual repricing of the interest rates of these loans is generally less than six months.

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 with the assistance of 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 consolidated statement of financial position 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 or Chief Investment Officers of the main funded pension plans and Group experts. 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 but quite different durations, two different rates are used.

The inflation assumptions are set using different methods. For the Euro zone, the actuary tool is used with reference to different sources of information as the target inflation set by the Central Banks, the forecasts from the Consensus Economics organization and inflation swap curves. In the UK, the market implied inflation rate is also considered (differential between gilts and indexed linked gilts less a spread). In the USA and Canada, the cost of living increases for some pensions is set using historical averages, central banks targets as well as implied inflation (differential between indexed and non-indexed bonds).

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-2014 Aggregate table using Scale MP-2015; (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, 2016				December 31, 2015			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	19.4	22.0	22.1	18.8	19.8	22.0	22.0	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	20.7	22.9	23.1	20.7	21.2	22.8	23.0	20.7
Life expectancy for females at 65 at the end of the reporting period	21.4	24.5	24.8	22.8	21.8	24.4	24.7	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.7	25.2	26.1	24.8	23.3	25.1	26.0	24.8

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2016	December 31, 2015
Present value of fully or partly funded obligations	8,203	-	8,203	7,919
Fair value of plan assets	(6,520)	-	(6,520)	(6,448)
Funded status deficit/(surplus)	**1,683**	**-**	**1,683**	**1,471**
Present value of unfunded obligations	1,013	2,021	3,034	3,204
Unrecognized asset due to application of asset ceiling	46	-	46	213
NET DEFINED BENEFIT OBLIGATION	**2,742**	**2,021**	**4,763**	**4,888**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			4,763	4,888
NET LIABILITY	**2,742**	**2,021**	**4,763**	**4,888**

At December 31, 2016, the present value of the defined benefit obligation is made up of €4,450 million relating to active employees, €1,263 million relating to deferred members and €5,524 million relating to members in retirement (2015: respectively €4,618 million, €1,097 million and €5,408 million).

At December 31, 2016, the present value of the defined benefit obligation is made up of €8,772 million relating to vested benefits and €2,465 million relating to non-vested benefits (2015: respectively €8,461 million and €2,662 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 consolidated statement of financial position are shown below:

(in € million)	Pension plans	Other plans	2016	2015
At January 1	**2,617**	**2,271**	**4,888**	**4,612**
Contributions paid to the funds	(74)	-	(74)	(240)
Benefits paid directly to the beneficiaries	(32)	(124)	(156)	(155)
Other movements	8	(63)	(55)	(53)
Items recognized in operating income				
Current service cost	68	59	127	137
Actuarial (gains) or losses recognized on other long term benefit plans	-	-	-	(5)
Past service cost resulting from plan amendments	2	(264)	(262)	-
Effect of plan curtailments or settlements	(20)	1	(19)	2
Effect of plan curtailments recognized within reorganizations and adaptation of activities	(5)	(14)	(19)	(5)
Other items	(1)	-	(1)	-
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	72	67	139	141
Items recognized in other comprehensive income				
Translation adjustments	(47)	48	1	137
Actuarial (gains) or losses	337	40	377	118
Portion of unrecognized asset due to the application of the asset ceiling	(183)	-	(183)	199
AT DECEMBER 31	**2,742**	**2,021**	**4,763**	**4,888**

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	2016	2015
At January 1	**1,907**	**461**	**2,368**	**2,051**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	(58)	(15)	(73)	250
▶ Due to experience	(38)	(13)	(51)	(121)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	749	70	819	(139)
▶ Due to experience	(315)	(2)	(317)	128
Unrecognized asset due to application of asset ceiling	(183)	-	(183)	199
Change in the scope of consolidation	(14)	-	(14)	-
AT DECEMBER 31	**2,048**	**501**	**2,549**	**2,368**
Of which actuarial gains or (losses)	*2,002*	*501*	*2,503*	*2,138*
Of which asset ceiling effect	*46*	*-*	*46*	*230*

In 2016, the net amount recognized in the consolidated income statement was an income of €35 million (2015: expense of €270 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2016	Year ended December 31, 2015
Cost of services rendered during the year	68	59	127	137
Net interest on the defined benefit liability (asset)	72	67	139	141
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	(5)
Past service cost recognized during the year:				
▶ Due to the introduction of or modifications to defined benefit plans	2	(264)	(262)	-
▶ Due to curtailments of defined benefit plans	-	-	-	2
Effect of defined benefit plans settlements	(20)	1	(19)	-
Other items	(1)	-	(1)	-
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	(5)	(14)	(19)	(5)
TOTAL RECORDED IN THE INCOME STATEMENT	**116**	**(151)**	**(35)**	**270**

Annual charges are determined with the assistance of 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 ("past service cost recognized during the year").

/ 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 with the assistance of 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 statement of financial position.

The main pension plans provided within the Group are as follows:

USA

The defined benefit plan in USA is the Michelin Retirement Plan (MRP). The provisions applicable to the main population are described below.

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 were frozen under the Plan as of December 31, 2016. These participants will be enrolled in a defined contribution plan. Those participants may only receive this benefit as an annuity.

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.

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). Other minor defined benefit plans which are closed to new entrants are valued but 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 were frozen under the plan as of December 31, 2015. These participants are 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 March 31, 2005 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, provision for spouse reversion benefit as well as 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 being not possible for new entrants, the threshold of 55% is decreasing progressively until 2046 where it will be nil. In return, employees must participate to a defined contribution plan (Article 83) and can also participate in other defined contribution plans (PERCO).

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:

	2016				2015			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	4,274	4,543	35	**8,852**	4,130	4,265	45	**8,440**
Translation adjustments	216	(413)	7	**(190)**	250	178	(6)	**422**
Changes in scope of consolidation	-	8	-	**8**	5	(7)	(2)	**(4)**
Current service cost	23	44	1	**68**	36	32	2	**70**
Interest cost on the defined benefit obligation	176	128	3	**307**	172	140	3	**315**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	2	-	-	**2**	-	-	-	**-**
▶ Past service cost due to curtailments of defined benefit plans	-	(5)	-	**(5)**	1	(3)	-	**(2)**
▶ (Gains) or losses on settlements of defined benefit plans	-	(20)	-	**(20)**	-	-	-	**-**
Benefits paid	(264)	(181)	(4)	**(449)**	(264)	(177)	(3)	**(444)**
Other items	-	(1)	3	**2**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	22	612	7	**641**	(56)	115	(4)	**55**
Present value of the obligations at the end of the year	**4,449**	**4,715**	**52**	**9,216**	**4,274**	**4,543**	**35**	**8,852**
Fair value of plan assets at the beginning of the year	3,813	2,610	25	**6,448**	3,731	2,383	28	**6,142**
Translation adjustments	198	(340)	8	**(134)**	205	140	(6)	**339**
Changes in scope of consolidation	-	(1)	-	**(1)**	-	(4)	-	**(4)**
Interest income on plan assets	156	85	3	**244**	153	91	3	**247**
Contributions paid to the plans	2	71	1	**74**	32	208	1	**241**
Administration costs	-	-	-	**-**	-	(5)	-	**(5)**
Benefits paid by the plans	(263)	(151)	(2)	**(416)**	(263)	(147)	(1)	**(411)**
Other items	(2)	-	3	**1**	-	-	-	**-**
Actual return on plan assets excluding interest income	70	235	(1)	**304**	(45)	(56)	-	**(101)**
Fair value of plan assets at the end of the year	**3,974**	**2,509**	**37**	**6,520**	**3,813**	**2,610**	**25**	**6,448**
Deficit/(Surplus) at the end of the year	**475**	**2,206**	**15**	**2,696**	**461**	**1,933**	**10**	**2,404**
Deferred items at the beginning of the year	(210)	-	(3)	**(213)**	(28)	-	-	**(28)**
Translation adjustments	(9)	-	-	**(9)**	13	-	1	**14**
Unrecognized asset due to application of the asset ceiling generated during the year	173	-	3	**176**	(195)	-	(4)	**(199)**
Deferred items at the end of the year	**(46)**	**-**	**-**	**(46)**	**(210)**	**-**	**(3)**	**(213)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**521**	**2,206**	**15**	**2,742**	**671**	**1,933**	**13**	**2,617**

France

In 2016, the Group has implemented the reorganization of the manufacturing engineering function and has decided to close a retreading facility in Clermont-Ferrand. These two operations have generated a curtailment of the Company-sponsored pension plan *(retraite supplémentaire)* for an amount of €5 million recognized as an income from non-recurring activities. At the same time, a provision for reorganizations and adaptation of activities has been recognized as an expense on the same line of the consolidated income statement and for an equivalent amount.

Spain

The Spanish pension plan *"Regimen de Prevision"* has been fully outsourced to an insurance company. The Group no longer has obligations towards the participants of the plan. The full settlement of the plan has generated an income of €20 million recognized as an operating income from non-recurring activities.

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 2016, the amount recognized resulting from the effect of the asset ceiling was €-183 million (2015: €199 million)

In 2016, the present value of defined benefit pension obligations increased by €364 million. This change was due to:

(in € million)	2016	2015
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	190	(422)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(641)	(55)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	74	59
Changes in plan regulations	23	2
Changes in the scope of consolidation	(8)	4
Other items	(2)	-

The fair value of plan assets amounted to €6,520 million at December 31, 2016, showing an increase of €72 million compared to December 31, 2015. The factors behind this variation were as follows:

(in € million)	2016	2015
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(134)	338
Difference between the contributions paid to the funds and the benefits paid by the funds	(342)	(175)
Actual return on plan assets	548	147
Changes in the scope of consolidation	(1)	(4)
Other items	1	-

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 2016 and the previous four periods:

(in € million)	2016	2015	2014	2013	2012
Defined benefit obligation	(9,216)	(8,852)	(8,440)	(7,079)	(7,563)
Plan assets	6,520	6,448	6,142	5,182	5,195
SURPLUS/(DEFICIT)	**(2,696)**	**(2,404)**	**(2,298)**	**(1,897)**	**(2,368)**
Experience adjustment to:					
▶ plan liabilities	38	75	32	(43)	(60)
▶ plan assets	315	(107)	538	166	227

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:

	2016	2015	2014	2013	2012
Experience adjustment to:					
▶ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.41%	-0.85%	-0.38%	0.61%	0.79%
▶ to the plan assets in percentage of the fair value of the assets	4.83%	-1.66%	8.76%	3.20%	4.37%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2016			December 31, 2015		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.02%	2.30%	11.10%	4.23%	3.08%	12.65%
Inflation rate	2.37%	2.78%	5.00%	2.38%	2.54%	5.00%
Rate of salary increases	2.85%	2.69%	6.00%	2.84%	2.49%	6.00%
Weighted average duration of the defined benefit obligation	12.0	16.5	11.3	12.3	15.1	10.5

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 2016 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.70%	7.54%
Discount rate on the aggregate of current service cost and interest cost on the obligation	5.93%	-7.15%
Inflation rate on the defined benefit obligation (DBO)	5.12%	-5.03%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	5.03%	-5.03%
Salary increase rate on the defined benefit obligation (DBO)	1.41%	-1.19%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	2.39%	-2.12%
Interest rates on the fair market value of plan assets	-4.82%	5.40%

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

(in € million)	Year ended December 31, 2016				Year ended December 31, 2015			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	23	44	1	**68**	36	35	2	**73**
Interest cost on the defined benefit obligation	176	128	3	**307**	172	140	3	**315**
Interest income on plan assets	(147)	(85)	(3)	**(235)**	(153)	(91)	(3)	**(247)**
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	2	-	-	**2**	-	-	-	**-**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	1	-	-	**1**
Effect of defined benefit plans settlements	-	(20)	-	**(20)**	-	-	-	**-**
Other items	-	(1)	-	**(1)**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(5)	-	**(5)**	-	(3)	-	**(3)**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**54**	**61**	**1**	**116**	**56**	**81**	**2**	**139**
Actual return on plan assets	**226**	**320**	**2**	**548**	**109**	**36**	**2**	**147**

The asset allocation of fully and partly funded pension plans is as follows:

	December 31, 2016					December 31, 2015				
	Canada	USA	UK	Other	Total	Canada	USA	UK	Other	Total
Quoted securities										
Local equities	3.5%	11.0%	3.0%	0.0%	**6.4%**	3.5%	13.1%	3.4%	0.0%	**7.3%**
Foreign and global equities	8.9%	10.0%	18.7%	0.0%	**12.5%**	7.8%	10.6%	14.3%	0.0%	**11.1%**
Alternative investments	5.2%	10.3%	19.6%	0.0%	**12.3%**	8.3%	9.3%	24.8%	0.0%	**14.6%**
Real estate	0.0%	0.0%	7.2%	0.0%	**2.5%**	0.0%	0.0%	7.6%	0.0%	**2.8%**
Indexed linked bonds	0.1%	0.1%	10.8%	14.0%	**4.4%**	0.2%	0.2%	8.2%	8.4%	**3.4%**
Fixed income government and agencies	21.3%	8.9%	6.3%	0.2%	**9.9%**	20.5%	7.3%	3.0%	1.6%	**7.8%**
Corporate bonds	11.6%	26.5%	6.6%	0.0%	**15.8%**	11.8%	25.3%	8.5%	0.0%	**15.8%**
Other fixed income, multi-asset credit, emerging market bonds	35.9%	20.2%	18.8%	0.0%	**21.8%**	33.8%	20.7%	21.5%	0.0%	**22.6%**
Cash & cash equivalent	2.6%	2.7%	3.5%	0.8%	**2.9%**	1.6%	3.1%	5.1%	0.7%	**3.5%**
Total quoted securities	**89.2%**	**89.7%**	**94.5%**	**15.0%**	**88.5%**	**87.5%**	**89.6%**	**96.4%**	**10.7%**	**88.9%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	85.0%	**3.2%**	0.0%	0.0%	0.0%	89.3%	**3.2%**
Private placements [(1)]	4.0%	2.9%	5.5%	0.0%	**3.9%**	4.8%	3.6%	3.6%	0.0%	**3.7%**
Real estate	6.8%	7.4%	0.0%	0.0%	**4.4%**	7.7%	6.8%	0.0%	0.0%	**4.2%**
Total non-quoted securities	**10.8%**	**10.3%**	**5.5%**	**85.0%**	**11.5%**	**12.5%**	**10.4%**	**3.6%**	**89.3%**	**11.1%**
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	**17.6**	**16.4**	**30.2**	**N/A**	**20.7**	**18.9**	**17.9**	**18.3**	**N/A**	**18.3**

(1) Private equity and private debt.

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 or Chief Investment Officers 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 or in derivatives, as well as in the UK in multi asset credit 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 numerous currencies and has a policy to hedge 75% of its exposure. Also in Canada 50% of the American dollar exposure is hedged. 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 2016 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				
2016	3	100	3	**106**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2017	1	112	-	**113**
2018	1	89	1	**91**
2019	2	89	-	**91**
2020	3	105	-	**108**
2021	3	118	-	**121**
2022-2026	478	662	3	**1,143**

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 BBA15 (Bipartisan Budget Act of 2015). In Canada the contributions are determined on a tri-annual base and the funding plan is spread over 15 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 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.

/ 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 mainly long service awards plans provided under local company-specific agreements. Such defined benefit plans generally concern the Group European companies.

As in the case of the above-described defined benefit plans, "other defined benefit plans" are valued with the assistance of 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, 2016				December 31, 2015			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	1,184	1,055	32	**2,271**	1,095	1,159	32	**2,286**
Translation adjustments	45	-	3	**48**	70	(6)	(3)	**61**
Changes in scope of consolidation	-	(9)	-	**(9)**	(4)	(47)	2	**(49)**
Current service cost	12	44	4	**60**	14	49	4	**67**
Interest cost on the defined benefit obligation	46	20	1	**67**	46	25	2	**73**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	(271)	7	-	**(264)**	(1)	1	-	**-**
▶ Past service cost due to curtailments of defined benefit plans	-	(14)	-	**(14)**	-	(1)	-	**(1)**
▶ (Gains) or losses on settlements of defined benefit plans	-	1	-	**1**	-	-	-	**-**
Benefits paid	(59)	(63)	(2)	**(124)**	(53)	(68)	(2)	**(123)**
Other items	-	(55)	-	**(55)**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	1	39	-	**40**	17	(57)	(3)	**(43)**
Present value of the obligations at the end of the year	**958**	**1,025**	**38**	**2,021**	**1,184**	**1,055**	**32**	**2,271**
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	**958**	**1,025**	**38**	**2,021**	**1,184**	**1,055**	**32**	**2,271**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**958**	**1,025**	**38**	**2,021**	**1,184**	**1,055**	**32**	**2,271**

USA

In 2016, the Pension and Benefit Board approved a plan amendment to move non-union Medicare eligible retirees from a Company-sponsored retirement offering to private Medicare exchanges. For this population, the plan will provide the following benefit improvements:

- Retiree Reimbursement Account (RRA) will be funded in the amount of $600 annually per retiree and eligible dependents through the AON Retiree Health Exchange to either reimburse Medicare, Medicare supplement and/or prescription drug premiums.
- Catastrophic retiree Reimbursement Account: If the retiree or dependent reaches the catastrophic drug coverage, he or she can receive reimbursement for the 5% out-of-pocket cost.

The plan amendment results in a significant decrease of the net defined benefit obligation, generating a negative past service cost of €271 million recognized as an operating income from non-recurring activities.

France

In 2016, a curtailment on the whole of the defined benefit plans in France, linked to the reorganization of the manufacturing engineering function and to the closure of a retreading facility in Clermont-Ferrand, has been recognized for an amount of €14 million as an income from non-recurring activities. At the same time, a provision for reorganizations and adaptation of activities has been recognized as an expense on the same line of the consolidated income statement and for an equivalent amount.

In 2016 the present value of "other defined benefit plans" decreased by €250 million, due to:

	2016	2015
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(48)	(61)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(40)	43
Difference between the costs (service cost and interest cost) and the benefits paid during the year	(3)	(17)
Changes in plan regulations	277	1
Changes in the scope of consolidation	9	49
Other items	55	-

The present value of the defined benefit obligation and experience adjustments are as follows for 2016 and the previous four periods:

(in € million)	2016	2015	2014	2013	2012
Defined benefit obligation	(2,021)	(2,271)	(2,286)	(1,993)	(2,252)
Experience adjustments to plan liabilities	16	25	65	86	5
Experience adjustments to plan liabilities *(in % of present value of the obligation (DBO)*	-0.79%	-1.10%	-2.84%	-4.32%	-0.22%

The main actuarial weighted average assumptions used to measure obligations for "other defined benefit plans" are as follows:

	December 31, 2016			December 31, 2015		
	North America	Europe	Other	North America	Europe	Other
Discount rate	4.02%	1.70%	6.47%	4.23%	1.99%	6.38%
Weighted average duration of the defined benefit obligation	10.7	12.1	10.2	12.9	11.7	10.9

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2016		December 31, 2015	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.96%	5.64%	8.00%	5.12%
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	2026	2028	2023	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 2016 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-5.52%	6.07%
Discount rate on the aggregate of current service cost and interest cost on the obligation	1.32%	-1.57%
Healthcare cost trend on the healthcare defined benefit obligation	1.65%	-1.52%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	1.59%	-1.46%

Net income and expenses recognized in the income statement are as follows:

(in € million)	Year ended December 31, 2016				Year ended December 31, 2015			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	12	43	4	**59**	14	46	4	**64**
Interest cost on the defined benefit obligation	46	20	1	**67**	46	25	2	**73**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	1	(1)	**-**	-	(5)	-	**(5)**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	(271)	7	-	**(264)**	(1)	1	-	**-**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	-	1	-	**1**
Effect of defined benefit plans settlements	-	1	-	**1**	-	-	-	**-**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(14)	-	**(14)**	-	(2)	-	**(2)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**(213)**	**58**	**4**	**(151)**	**59**	**66**	**6**	**131**

Group payments made under "other defined benefit plans" in 2016 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2016	59	63	2	**124**
Estimates of benefit payments to be made				
2017	61	60	2	**123**
2018	63	29	2	**94**
2019	64	45	2	**111**
2020	64	67	2	**133**
2021	64	81	2	**147**
2022-2026	302	353	9	**664**

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 2016, the contributions paid to defined contribution plans and expensed amounted to €213 million (2015: €187 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. as well as 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, modified at January 1, 2016, are based on years of service and 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:

	2016		2015	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**65.87**	**1,733,471**	**67.41**	**2,743,458**
Granted	-	-	-	-
Forfeited	85.79	(338,023)	66.68	(99,988)
Exercised	67.27	(723,420)	70.41	(909,999)
AT DECEMBER 31	**54.35**	**672,028**	**65.87**	**1,733,471**

672,028 of the 672,028 options outstanding as at December 31, 2016 are exercisable (2015: 1,592,445 exercisable out of a total of 1,733,471).

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2016		December 31, 2015	
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 2006	May 2010	May 2015	55.99	-	55.99	-
May 2007	May 2011	May 2016	87.85	-	87.85	596,721
May 2008	May 2012	May 2017	59.85	75,662	59.85	167,878
November 2009	November 2013	November 2018	51.16	317,554	51.16	541,785
May 2010	May 2014	May 2019	52.13	102,910	52.13	150,951
May 2011	May 2015	May 2020	66.00	93,288	66.00	135,110
June 2012	June 2016	June 2021	51.16	82,614	51.16	141,026
NUMBER OF STOCK OPTIONS OUTSTANDING				**672,028**		**1,733,471**

28.2 Performance share plans

Changes in the number of performance share rights are as follows:

	2016	2015
	Number of outstanding performance share rights	Number of outstanding performance share rights
At January 1	**732,406**	**1,007,798**
Granted	120,520	84,892
Forfeited	(61,027)	(132,795)
Shares delivered	(122,963)	(227,489)
AT DECEMBER 31	**668,936**	**732,406**

In November 2016, 120,520 rights to performance shares have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2020 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (share price on the market, industrial environmental performance, employee engagement level, increase in operating income) are met. The fair value of a right to a performance share is estimated at €66.41. 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 market performance condition has reduced the fair value of the performance share at grant date, according to the estimated probability that the condition is met. The total cost for the plans issued in 2016 is estimated at €6 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2016 Number of outstanding performance share rights	December 31, 2015 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	-	-
2012	2015	2016	2 years	None	61.87	59.46	-	178,632
2013	2017	2017	None	None	69.43	69.43	78,168	78,544
2014	2018	2018	None	None	63.05	63.05	279,864	283,670
2014	2018	2018	None	None	63.05	63.05	106,244	106,668
2015	2019	2019	None	None	82.24	82.24	84,140	84,892
2016	2020	2020	None	None	66.41	66.41	120,520	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**668,936**	**732,406**

The expense recognized in 2016 for the performance share plans amounts to €7 million (2015: €9 million) and is included in "Other operating income and expenses from recurring activities".

28.3 Employee share purchase plans

In 2016, 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 allowing employees to invest in Michelin shares at a discounted price. The shares acquired by the employees participating in the plan cannot be sold or transferred during a five-year period.

The share subscription price was set at €76.38, after a 20% discount on the reference price of €95.47, the latter being the average of the Michelin share's opening trading price of the last twenty trading days preceding the price fixing day. The employees were granted one free share for each share purchased capped to the first five. 657,366 shares were purchased during this share offer.

The global expense recognized in the income statement by the Group in relation to this plan amounts to €16 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 Group employees are as follows:

Maturity of the plan	5 years
Number of shares subscribed	657,366
Reference price *(in €)*	95.47
Subscription price *(in €)*	76.38
Five-year risk-free rate (1)	-0.28%
Five-year market participant rate (2)	5.30%
Dividend yield	2.99%
Cost of the lock-up period *(in % of the reference price)*	23.82%
Cost recognized *(in € per share)*	23.95

(1) The risk-free interest rate is based on the yield of French government bonds with the equivalent 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 €1,604 million (2015: €1,680 million) and include provisions for reorganizations and adaptation of activities and litigation provisions as well as other provisions and long-term liabilities.

Movements in provisions during the year:

(in € million)	Reorganizations and adaptation of activities	Litigation	Other provisions	Total
At January 1, 2016	**316**	**252**	**105**	**673**
Additional provisions	91	82	46	**219**
Provisions utilized during the year	(98)	(79)	(36)	**(213)**
Unused provisions reversed during the year	(21)	(6)	(8)	**(35)**
Translation adjustments	(14)	4	3	**(7)**
Other effects	-	-	-	**-**
AT DECEMBER 31, 2016	**274**	**253**	**110**	**637**

29.1 Reorganizations and adaptation of activities

At December 31, 2016, the remaining provisions for reorganizations and adaptation of activities relate to following countries:

	December 31, 2016	December 31, 2015
France	109	80
United Kingdom	76	110
Italy	42	50
Germany	21	34
Spain	3	15
Hungary	2	14
Other countries	21	13
TOTAL	**274**	**316**

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, 2016	December 31, 2015
Customers – Deferred rebates	969	971
Employee benefits	500	514
Social security liabilities	231	232
Reorganizations and adaptation of activities liabilities	3	5
Current income tax payable	188	126
Other taxes	195	190
Other	310	280
OTHER CURRENT LIABILITIES	**2,396**	**2,318**

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, 2016	Year ended December 31, 2015
Investment grants	(12)	(9)
Change in employee benefit obligations	(94)	(260)
Change in litigation and other provisions	(20)	2
Costs related to the reorganizations and adaptation of activities	(99)	(96)
Other	19	(3)
Operating income and expenses from non-recurring activities (cash) and change in provisions	**(206)**	**(366)**
Interest and other financial expenses paid	(210)	(198)
Interest and other financial income received	44	32
Dividends received	20	23
Cost of net debt and other financial income and expenses paid	**(146)**	**(143)**
Change in inventories	(83)	60
Change in trade receivables and advances	(319)	(66)
Change in trade payables and advances	72	(47)
Change in trade payables under factoring contracts	217	81
Change in other receivables and payables	(89)	(4)
Change in working capital, net of impairments	**(202)**	**24**
Purchases of intangible assets (note 13)	(158)	(135)
Purchases of PP&E (note 14)	(1,653)	(1,668)
Government grants received	21	11
Change in capital expenditure payables	(25)	18
Purchases of intangible assets and PP&E	**(1,815)**	**(1,774)**
Increase in other non-current financial assets	(6)	(23)
Decrease in other non-current financial assets	13	11
Net cash flows from cash management financial assets	(287)	109
Net cash flows from borrowing collaterals	2	(8)
Net cash flows from other current financial assets	(6)	(3)
Cash flows from other financial assets	**(284)**	**86**
Increase in non-current financial liabilities	115	843
Decrease in non-current financial liabilities	(92)	(62)
Repayment of finance lease liabilities	(13)	(10)
Net cash flows from current financial liabilities	(141)	(258)
Derivatives	112	(51)
Cash flows from financial liabilities	**(19)**	**462**
Details of non-cash transactions:		
▸ New finance leases (note 14)	42	55
▸ Increase/(Decrease) of liabilities to minority shareholders	-	16
▸ New emission rights	4	5

Some items of the "Cash flows from operating activities" section in the consolidated cash flow statement for the year ended December 31, 2015 have been reclassified to conform with the current period's presentation.

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, 2016	December 31, 2015
Within one year	220	196
Between one and five years	402	361
More than five years	101	89
TOTAL FUTURE MINIMUM PAYMENTS	**723**	**646**

Total operating lease rents recognized in the income statement in 2016 amounted to €381 million (2015: €381 million).

/ 32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2016, amounts to €457 million (of which €94 million is likely to be delivered from 2018).

/ 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 2017. 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 has given a guarantee to 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 of 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, 2016, 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 notice, in 2013 and 2016, from the administration in charge of social security contribution collections, to pay a total amount of €114 million (excluding late payments).

The claims not accepted for which a provision has not been set aside amount to €34 million, for which the Group has submitted for out-of-court or legal settlements. Despite the uncertainties inherent to this type of procedure, the Group believes it is more likely than unlikely that it will make its points of view prevail.

The risks related to other claims not accepted and for which the Group has submitted for out-of-court or legal settlements were fully taken into consideration in the consolidated financial statements as at December 31, 2016

/ 32.2.3. Tax audit in Germany

Following a tax audit covering the periods 2005 to 2009, a German subsidiary received during the year 2015 notifications of intended tax adjustments on a €305 million tax base. The tax authorities are contesting in the main (€286 million) the effects on the subsidiary of the transfer price policy applied by the Group. No significant new elements with regards to this claim have been identified in 2016.

The Group does not accept any of the positions taken by the German tax authorities and considers that:

- It is more unlikely than likely that the subsidiary will have to face a financial loss in connexion with these tax adjustments;
- Furthermore, it is not possible at this stage of the proceedings to reliably evaluate the potential financial risk related to these tax litigations.

In 2016 a new tax audit covering the periods 2010 to 2014 was instigated; no specific elements have been raised as at the date of the closing of the consolidated accounts.

/ 32.2.4 Legal claims in Brazil

In relation to an investment project at its Resende plant (State of Rio de Janeiro), a Brazilian subsidiary of the Group benefitted in 2010, by means of a decree issued by the State governor, from tax advantages taking the form of deferred tax payments on the importation of machines and raw materials, as well as access to a BRL1,092 million (around €300 million at 2016 closing exchange rate) credit line.

In 2013, a lawsuit was instigated against the subsidiary, the plaintiff pleading the unconstitutional nature of the decree by which the advantages had been given.

After having received a favorable ruling in 2015, the subsidiary was condemned on appeal in October 2016. The judgment only concerned the deferred tax payments relating to the importation of industrial machines for the Resende plant. The Group estimates that the amount of financial risk related to this litigation to be in the region of BRL35 million.

In November 2016, the Prosecutor of the State of Rio de Janeiro, based on the appeal ruling, started a new lawsuit against the subsidiary and demanded that it restitutes all of the advantages received following the decree.

The subsidiary opened legal proceedings to suspend the lawsuit, but its request was rejected by the judge who ordered the sequestration of the subsidiary's assets for an amount up to the level of the credit line granted.

The subsidiary, which has never made use of the credit line, entered an appeal for an immediate suspension and annulation of the decision. The request for a suspension was rejected and the appeal will be judged on the merits of the case in 2017.

At the date of the closing of the consolidated accounts, the preliminary decision concerning the sequestration of the company's assets, pronounced following the lawsuit initiated in November 2016, has not been put into effect.

The Group contests all of the positions expressed by the Brazilian legal authorities in the different lawsuits and considers that it is more likely than unlikely that it will make its points of view prevail.

/ 32.2.5 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 €34 million (2015: €28 million).

/ 32.3.2 Financial assets

Loans and deposits amounting to €77 million (2015: €80 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 raised from these programs amounts to €476 million (2015: €483 million). Since the Group has substantially retained 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, 2016 (2015: €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 December 15, 2016, the Group acquired Levneo, the holding of a group of companies producing and commercializing motorbikes and bicycle tires under the Levorin trademark. The company is specialized in the "commuting" segment and operates in the Brazilian market. This acquisition generated a cash outflow of €8 million. Price adjustments could occur, in particular once the final evaluation of the company's financial liabilities has been completed.

Furthermore, on December 20, 2016, the Group acquired, for a consideration of €4 million, the Spanish company "Reservas de Restaurantes, S.L.", operating in the online restaurant reservation business through its internet site "Restaurantes.com".

Given the acquisition dates of these two entities, it has not been possible to integrated them according to the acquisition method before the consolidated financial statements' finalisation and they are provisionally presented under the section "Non-current financial assets and other assets" of both the Consolidated Statement of Financial Position and the Consolidated Cash Flow Statement, as at December 31, 2016. Consolidation and purchase price allocation will be carried out during the accounting period beginning on January 1, 2017.

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)	2016	2015
Income statement		
Income for the sale of goods or supply of services	111	140
Expenses for the purchase of products or supply of services	(142)	(116)
Balance sheet		
Financial liabilities	(5)	(14)
Accounts payable	(5)	(7)
Accounts receivable	31	29

34.2 Senior Management and Supervisory Board

In 2016, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2015 net income and amounting to €1.3 million (2015: €0.8 million).

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 (2015: €1.4 million). The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.6 million (2015: €0.4 million). A provision of €2.2 million (social charges included) is recognized as at December 31, 2016 (2015: €1.7 million) based on the present value of the vested rights in a long term incentive bonus program.

The global compensation granted in 2016 to the 13 [1] members of the Group Executive Committee (2015: 12 members [1]) was €20 million (2015: €19 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2016	Year ended December 31, 2015
Short term benefits	14.0	14.4
Post-employment benefits	3.1	2.7
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	2.5	1.9
COMPENSATION GRANTED TO MEMBERS OF THE GROUP EXECUTIVE COMMITTEE	**19.6**	**19.0**

The attendance fees paid in 2016 to the Supervisory Board members for 2015 meetings were €0.4 million (2015: €0.3 million).

NOTE 35 EVENTS AFTER THE REPORTING DATE

The reported amounts of assets and liabilities at the date of the consolidated statement of financial position were adjusted, if needed, up to the date when the Managing Chairman authorized for issue the 2016 consolidated financial statements.

In January 2017, The Group reimbursed its convertible bond for an amount of €753 million (note 26.1 "Bonds and commercial paper").

In January 2017, the Group issued exclusively cash-settled five year convertible bonds with a total face value of 500 million US dollars. These bonds, which were issued at 100% of their face value, are redeemable at par (if they are not converted) and their coupon's interest rate is 0%.

In addition to that bond issuance, the Group subscribed to financial instruments with the same maturity, enabling it to fully cover its exposure to any positive or negative changes in the share price.

This set of transactions, which were covered by euro-denominated swaps, provides the Group with the equivalent of classic euro-denominated bond financing at an advantageous cost.

(1) Members of the Group Executive Committee as at December 31.

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	100.00
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Karlsruhe	Financial	100.00
Meyer Lissendorf GmbH & Co. KG International Trading	Goennersdorf	Miscellaneous	100.00
Ihle Baden-Baden AG	Baden-Baden	Miscellaneous	100.00
Tirecorp GmbH	Baden-Baden	Miscellaneous	100.00
Ihle International GmbH	Baden-Baden	Miscellaneous	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Denmark			
Euromaster Danmark A/S	Skanderborg	Commercial	100.00
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.80
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	100.00
Nex Tyres, S.L.	Lleida	Miscellaneous	50.00
Reservas de restaurantes, S.L.	Madrid	Miscellaneous	100.00
Finland			
Suomen Euromaster Oy	Pori	Commercial	100.00
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
Tyredating	Lyon	Commercial	100.00
Ihle France	Schiltigheim	Miscellaneous	100.00
Eurodrive Services and Distribution	Clermont-Ferrand	Commercial	100.00
GIE Michelin Placements	Clermont-Ferrand	Financial	100.00
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

Companies	Registered office	Nature	% of interest
The Netherlands			
Euromaster Bandenservice B.V.	Deventer	Commercial	100.00
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
Serbia			
Tigar Tyres d.o.o.	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Voluntari	Manufacturing & commercial	99.86
Euromaster Tyre & Services Romania S.A.	Voluntari	Commercial	100.00
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Birmingham	Commercial	100.00
Blackcircles.com Limited	Peebles	Commercial	100.00
LB Central Limited	London	Miscellaneous	100.00
Livebookings Holdings Limited	London	Miscellaneous	100.00
Sweden			
Euromaster AB	Varberg	Commercial	100.00
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Givisiez	Commercial	100.00
Nitor S.A.	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière Michelin, SCmA	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	Boksburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Commercial	100.00
Nigeria			
Michelin Tyre Services Company Ltd.	Lagos	Commercial	60.28
India			
Michelin India Private Limited	Chennai	Manufacturing	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
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
Levneo Participações Ltda	Guarulhos	Manufacturing & commercial	100.00
Chile			
Michelin Chile Ltda.	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Bogotá	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
Indonesia			
PT Michelin Indonesia	Jakarta	Commercial	100.00
PT Synthetic Rubber Indonesia	Jakarta	Manufacturing	55.00
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
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 Tire Taiwan Co., 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

NOTE 37 STATUTORY AUDITORS' FEES

The following table sets out the details of the fees charged in 2015 and 2016 by the Michelin Group auditors:

	PricewaterhouseCoopers		Deloitte		Total	
(in € thousand)	2016	2015	2016	2015	2016	2015
Audit fees	4,828	4,223	2,602	2,966	7,430	7,189
Non Audit fees	867	1,348	982	847	1,849	2,195
TOTAL	**5,695**	**5,571**	**3,584**	**3,813**	**9,279**	**9,384**

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