2014

REGISTRATION DOCUMENT

MICHELIN
A better way forward

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RFA

This pictogram indicates chapters and sections that are also included in the Annual Financial Report

REGISTRATION DOCUMENT

2014

AUTORITÉ DES MARCHÉS FINANCIERS

AMF

The original French version of this Registration Document was filed with the Autorité des marchés financiers (AMF) on March 5, 2013, in accordance with the provisions of Article 212-13 of the General Regulation of the AMF.
It may be used in connection with an Information Memorandum approved by the Autorité des marchés financiers.
It was prepared by the issuer and is the responsibility of the person whose signature appears therein.

INTERVIEW WITH Jean-Dominique Senard

Chief Executive Officer

▸ How would you describe 2014?

The year proved that Michelin's strategy is delivering results.

First of all, the even distribution of our business base allowed us to capture growth in expanding markets, especially in China and North America, where we made very strong gains. Elsewhere, the MICHELIN brand performed in line with the market, with much better results in the premium car segment.

Also, innovation, which is the strategy's core foundation, enabled us to launch a large number of new tire lines around the world, demonstrating the vitality of our research & development and the dedication of our teams.

As a result, consolidated operating income rose by €80 million compared with 2013, if we exclude the impact from exchange rates, which was fairly significant during the year.

In addition, for the past four years, we have demonstrated that our continuing operations are structurally generating free cash flow, which totalled a considerable €720 million before acquisitions in 2014.

The 2012-2016 competitiveness plan is delivering the expected outcomes, with more than €700 million in gains so far.

Lastly, we invested nearly €1.9 billion, or the equivalent of 10% of consolidated revenue. Of this, €1 billion was dedicated to driving growth. We also pursued the global project to transform our business processes and information systems.

These results have confirmed the strength of our fundamentals and the very robust nature of our balance sheet. This is why at the next Annual Meeting, we will ask shareholders to approve the payment of a dividend of €2.50 per share, representing a total payout of 41% of consolidated net income [(1)], which underscores our confidence in the future.

▸ What are your priorities?

First of all, we want to drive faster growth by activating a variety of levers.

In the auto market, we have until now focused on the MICHELIN brand, with an emphasis on large tires, a segment that accounted for 42% of the brand's sales volume in 2014. It also saw double-digit growth in original equipment certifications, to a new record high for the year.

In 2015, we're going to completely refresh our Tier 2 brand offering, in order to meet market expectations more effectively, strengthen our positions in retail channels with an attractive line-up in every segment, and counter the competition.

We completed this process in the truck tire market in 2014, with the successful introduction of intermediate brands in several growth markets in the Middle East, Asia and Africa.

We are pursuing an aggressive retail strategy, especially by expanding our TyrePlus franchise chain in the new markets. We are improving our supply chain to make it more responsive and flexible.

In the specialty markets, we will continue to differentiate ourselves with technologies and services that improve the performance and profitability of our customers' operations. We are maintaining our robust growth in the infrastructure market, while in the aircraft segment, we've won a major new contract to factory equip the new version of the world's best-selling airliner, the Boeing 737 MAX.

Lastly, we reaffirmed our ambitions in the promising digital mobility services market with the acquisition of Sascar, Brazil's leading fleet management company. Its expertise in small fleets, mostly in developing nations, fits very well with our own in managing large fleets, so we expect to see some very productive synergies with Michelin Solutions.

To support our growth objectives, we're stepping up our competitiveness plan and now aim to deliver €1.2 billion in total gains in 2016, or 20% more than before.

(1) Before non-recurring items.

"Moving forward in a changing world means keeping an open mind so that we can be pioneers, while constantly adapting to new circumstances and cultivating our agility so that we can quickly seize opportunities."

▸ You've made sustainable development a core component of your strategy. How have you improved in that area?

2014 was a highly eventful year, in terms of both initiatives and accomplishments.

Michelin Challenge Bibendum has become a permanent platform for thinking about and experimenting with the mobility of tomorrow. Its 12th world summit brought together more than 3,000 decision-makers and innovators in Chengdu, China.

Alongside these global forums, we structured our stakeholder dialogue across the Group and organized an initial seminar for Europe in Clermont-Ferrand. Others will follow. We deepened our operations' local roots by encouraging their community outreach programs. We also created a Michelin Corporate Foundation that, in particular, will support initiatives led by our employees, whose buy-in and engagement further improved during the year, to levels far exceeding our peers. That reflects the attention we pay to skills development and to the quality of everyone's working conditions with our Moving Forward Together program.

On the environmental front, in addition to the way our products and services help to reduce carbon emissions and improve energy efficiency, we are pursuing our eco-design programs and remain deeply involved in the development of bio-sourced materials and the circular economy, in order to recover and reuse end-of-life tires to make new ones.

We want to be the Company best able to secure its long-term growth, because it innovates, it's competitive, it offers solutions to support sustainable mobility and it's moving forward with stakeholders. By ranking Michelin Industry Best in six sustainability categories [2], the DJSI World Index has recognized our ability to transform commitments into results.

▸ What is the outlook for 2015 and beyond?

In 2015, demand should generally trend upwards, except in mining and agricultural tires. We expect to see volume growth in line with our markets.

We will drive new gains in competitiveness and continue managing our margins in a highly responsive way to preserve a positive balance between pricing policy and raw materials costs. We expect to see further improvement in operating income [3] excluding the currency effect and a more than 11% return on capital employed. We will invest €1.7-1.8 billion and our continuing operations should generate around €700 million in free cash flow.

Looking out to the longer term, I am confident that our industry enjoys a promising future. It is up to us to realize this fantastic potential by leveraging our strengths, while keeping an open mind so that we can be pioneers, constantly adapting to new circumstances and cultivating our agility so that we can quickly seize opportunities and move forward in a changing world.

(2) Management of innovation, the environment, risks, the climate strategy, health and safety, and products.
(3) Before non-recurring items.

1

MICHELIN AT A GLANCE

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1.1 COMPANY PROFILE

Since 1889, Michelin has constantly innovated to enhance the mobility of people and goods.

Today, it is setting the benchmark across every tire and travel-related services market, while leading a global strategy to drive sustainable, profitable growth.

In 2014, Michelin once again demonstrated its ability to structurally generate cash flow and create value, while maintaining a strong capital expenditure commitment. Operating income before non-recurring items stood at €2,170 million for the year, up €81 million at constant scope of consolidation and exchange rates.

- 112,300 employees (106,700 full-time equivalents).
- Net sales: €19.6 billion; operating income: €2.2 billion.
- 68 production facilities in 17 countries.
- Marketing operations in 170 countries, 14.0% of the global tire market. [(1)]

In addition, during the year, the Group continued to work toward the highly ambitious objectives set in 2013 for 2020, combining performance and responsibility.

1.1.1 A COMPREHENSIVE BRAND PORTFOLIO

- A global premium brand: MICHELIN.
- A primary brand dedicated to sports cars and SUVs: BFGoodrich®.
- Strong regional brands: Uniroyal in North America, Kleber in Europe and Warrior in China.
- Market-leading national brands.

MICHELIN			
BFGoodrich®	KLEBER	UNIROYAL	WARRIOR
Kormoran	RIKEN	TAURUS	TIGAR
SIAMTYRE			

1.1.2 PRODUCTS AND SERVICES YOU CAN TRUST

- **Tires** for cars, vans, trucks, farm machinery, earthmovers, motorcycles, scooters, bicycles, aircraft, subway trains and tramways, with innovative solutions tailored to widely varying expectations and conditions of use.

  178 million tires produced in 2014.
- **Dealerships and Service Centres:** the integrated Euromaster (Europe) and TCI (United States) dealership networks; TyrePlus franchises or brand partnerships for car tires in Asia, the Middle East, Russia, Australia and Mexico; Michelin Commercial Service Network franchises for truck tires in the United States; Michelin Truck Service Centre partnerships in Asia, the Middle East and Algeria, and exclusive truck service networks in Brazil, Mexico and Argentina. All of these networks set the market standard for expert advice and quality service.

  More than 3,800 integrated and franchised centres in 29 countries.
- **Truck driver assistance services** with Michelin Euro Assist.
- **Fleet tire advice, maintenance and management services** with Michelin Fleet Solutions in Europe and Michelin Business Solutions in North America.
- **Michelin Travel Partner:** MICHELIN maps and guides and ViaMichelin mobility assistance services:
  - more than 13 million maps and guides published in 2014;
  - 1.2 billion itineraries calculated by ViaMichelin in 2014.
- **Michelin Lifestyle products** developed in partnership with licensees: car and bike accessories, work, sports and leisure gear, and collectibles.

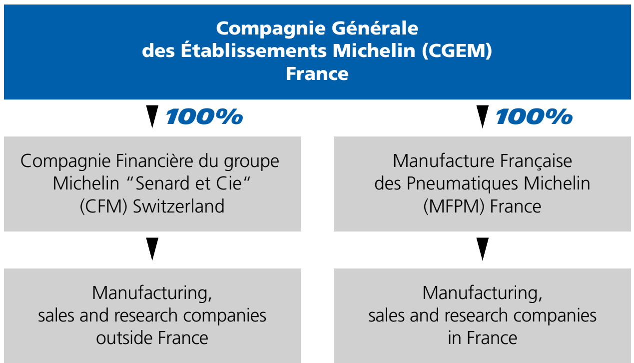
1.1.3 AN EFFICIENT ORGANIZATION

- **8 Product Lines,** each with its own marketing, development, production and sales resources: Passenger car and Light truck, Truck, Specialty product lines (Agricultural, Aircraft, Two-Wheel, Earthmover), Materials and Other businesses with Michelin Travel Partner and Michelin Lifestyle Limited.
- **A Technology Centre** in charge of research, development and process engineering, with operations in Europe, North America, South America and Asia.
- **7 Regions** that ensure the regional deployment of the Group's strategic vision and provide the resources needed to support the Product Lines: North America, South America, Europe, Eastern Europe, East Asia/Australia, China and Africa/India/Middle East.
- **2 integrated tire dealership networks:** Euromaster and TCI.
- **11 Corporate Departments** that ensure the consistency of the Group's policies.
- A **Progresss and Geographic Zones Departement** responsible for ensuring that improvement initiatives are aligned with the Group's strategy.

(1) Source: 2013 sales in US dollars published by Tire Business in September 2014.

1.2 SUMMARY ORGANIZATION CHART

(at December 31, 2014)



The Group's parent company is Compagnie Générale des Établissements Michelin (CGEM), which directly or indirectly owns all of its subsidiaries and associates. Its two main subsidiaries are:

- Manufacture Française des Pneumatiques Michelin (MFPM), a wholly-owned subsidiary that coordinates all of the Group's manufacturing, sales and research operations in France.
- Compagnie Financière du groupe Michelin "Senard et Cie" (CFM), a wholly-owned subsidiary that owns most of the Group's manufacturing, sales and research companies outside of France and coordinates their operations.

Services provided by CGEM and CFM to the operating companies are governed by contractual agreements.

They are delivered by MFPM, which bills the operating companies on a cost-plus basis.

Intra-group transactions involve sizeable volumes in such areas as intangible assets, a wide array of services, equipment, raw materials and semi-finished and finished products. The corresponding fees or prices are set using methods that vary by type of transaction. However, all of the methods are based on the arm's length principle as defined in the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

1.3 HISTORY AND DEVELOPMENT OF THE COMPANY

Compagnie Générale des Établissements Michelin traces its origins to Barbier, Daubrée et Cie, a partnership limited by shares set up on July 15, 1863 in Clermont-Ferrand, in the Puy-de-Dôme region of France. Michelin's history closely parallels the history of the pneumatic tire.

1832	Aristide Barbier and Édouard Daubrée open a factory to make farm machinery and rubber balls in Clermont-Ferrand.
July 15, 1863	Barbier, Daubrée et Cie is incorporated as a partnership limited by shares in Clermont-Ferrand, in the Puy-de-Dôme region of France.
1889	The Company is renamed Michelin et Cie. A patent is filed for the first pneumatic tire.
1891	Michelin develops the first removable bicycle tire.
1895	Michelin introduces Éclair, the first car to be fitted with pneumatic tires.
1898	Birth of Bibendum, the Michelin Man.
1900	The first Michelin Red Guide is published.
1906	Michelin opens its first plant outside France, in Turin, Italy.
1927	The first plant opens in the United Kingdom.
1929	Michelin invents the Micheline locomotive and the pneumatic tire for railway cars.
1931	The first plant opens in Germany.
1934	The first plant opens in Spain.
1935	Michelin acquires a controlling interest in French carmaker Citroën, which it will hold until 1975.
1940	Michelin et Cie is renamed Manufacture de Caoutchouc Michelin.
1946	Michelin files a patent for the revolutionary radial tire.
October 15, 1951	Manufacture de Caoutchouc Michelin transfers its manufacturing assets in France to the newly created Manufacture Française des Pneumatiques Michelin and changes its name to Compagnie Générale des Établissements Michelin (CGEM), which has no industrial operations of its own.
1952	Michelin adapts its radial technology to truck tires.
1959	Michelin introduces the first radial tire for earthmovers.
1960	The Group's foreign assets are transferred to a single holding, Compagnie Financière du groupe Michelin "Senard et Cie" (CFM), with its head office at Granges-Paccot, Canton of Fribourg (Switzerland). CFM is an intermediate holding company that also manages the Group's financing, sourced from banks and the financial markets.
1965	Inauguration of the Ladoux Testing and Research Center, north of Clermont-Ferrand.
1960s and 1970s	The Group's expansion gains new momentum with the construction of a large number of plants, first in France, then in other countries, and particularly in the Americas, beginning in the 1970s.
1980	The world's tenth largest tire manufacturer in 1960 and sixth largest in 1970, Michelin becomes the second largest, behind Goodyear, in 1980.
1981	Development of the Michelin X Air, the first radial aircraft tire. Start-up of operations in Brazil with two plants.
1984	Michelin develops the first radial motorcycle tire, which will be brought to market in 1987.
Beginning in 1985	Start-up of manufacturing operations in Asia through joint ventures.
1990	Acquisition of US tire manufacturer Uniroyal Goodrich, following Bridgestone's acquisition of Firestone in 1988.
1993	Michelin invents the new C3M tire manufacturing process.
1994	Launch of the fuel-efficient Energy tire lineup.
Beginning in 1995	Expansion in Eastern Europe.
2001	Positions strengthened in China with the creation of Shanghai Michelin Warrior Tire. Michelin develops the world's largest earthmover tire. Creation of the ViaMichelin travel assistance website.
2003	Introduction of the MICHELIN XeoBib, the first agricultural tire that operates at a constant low pressure.
2004	Michelin presents the Active Wheel.
2005	Michelin supplies tires for the first flight of the Airbus A380, introduces the first dual-compound motorcycle tire, the Michelin Power Race, and launches Michelin Durable Technologies, a package of innovations that revolutionize the performance and longevity of bus and truck tires.
2011	Launch of the "New Phase of Dynamic Growth".
2012	First Passenger car and Light truck tire produced at the Itatiaia plant in Brazil. First Truck tire produced at the new Shenyang 2 plant in China.
2013	First Passenger car and Light truck tire produced at Shenyang 2 in China. First Truck tire produced at the new Chennai plant in India.
2014	Michelin acquires Sascar, Brazil's leading digital fleet management company.

1.4 FACILITIES

Property, plant and equipment are described in note 14 to the Consolidated Financial Statements.

1.4.1 68 PRODUCTION FACILITIES IN 17 COUNTRIES

1.4.1 a) 56 Tire Production Facilities in 17 countries

▸ Europe

Country	Location	Products	Number of employees (1) (at December 31, 2014)	Maximum available capacity *(in tons/year)*
France	Avallon	Truck tires*	538	10,500
	Bourges	Aviation tires	495	4,500
	Cataroux (2)	Passenger car – Light truck tires	2,177	3,800
	Cholet	Passenger car – Light truck tires	1,149	68,700
	Combaude (2)	Truck tires*	983	12,000
	Gravanches (2)	Passenger car – Light truck tires	674	20,000
	La Roche-sur-Yon	Truck tires	616	71,700
	Le Puy-en-Velay	Earthmover tires	569	41,900
	Montceau-les-Mines	Earthmover tires	970	25,000
	Roanne	Passenger car – Light truck tires	836	47,300
	Troyes	Agricultural tires	815	54,300
Germany	Bad-Kreuznach	Passenger car – Light truck tires	1,255	84,600
	Bamberg	Passenger car – Light truck tires	783	67,100
	Homburg	Truck tires	1,147	83,800
	Karlsruhe	Truck tires	562	48,200
	Oranienburg	Truck tires*	199	4,000
Spain	Aranda	Truck tires	1120	143,200
	Lasarte	Two-wheel tires	543	14,000
	Valladolid	Passenger car – Light truck tires – Truck tires* – Agricultural tires	1,444	94,500
	Vitoria	Passenger car – Light truck tires – Earthmover tires	2,821	224,400
Italy	Alessandria	Truck tires	789	83,600
	Cuneo	Passenger car – Light truck tires	1,975	118,600
United Kingdom	Ballymena	Truck tires	804	76,100
	Dundee	Passenger car – Light truck tires	710	60,200
	Stoke on Trent	Truck tires*	336	7,200
Hungary	Budapest	Truck tires	534	36,300
	Nyiregyhaza	Passenger car – Light truck tires	931	24,700
Poland	Olsztyn	Passenger car – Light truck tires – Truck tires – Agricultural tires	4,126	199,200
Romania	Victoria	Passenger car – Light truck tires	1,029	36,700
	Zalau	Truck tires	1,124	44,600
Serbia	Pirot	Passenger car – Light truck tires – Two-wheel tires	2,472	66,100
Russia	Davydovo	Passenger car – Light truck tires – Truck tires*	650	18,500

(1) Full-time equivalent.
(2) Plant located in Clermont-Ferrand.
** Retread operations only.*

North America

Country	Location	Products	Number of employees (1) (at December 31, 2014)	Maximum available capacity (in tons/year)
United States	Anderson	Earthmover tires	168	6,100
	Ardmore	Passenger car – Light truck tires	1,887	139,400
	Asheboro	Truck tires*	215	30,600
	Columbia-Lexington	Passenger car – Light truck tires – Earthmover tires	2,179	273,100
	Covington	Truck tires*	150	30,700
	Dothan	Passenger car – Light truck tires	537	56,400
	Fort Wayne	Passenger car – Light truck tires	1,629	108,500
	Greenville 1	Passenger car – Light truck tires	1,020	120,400
	Greenville 2	Passenger car – Light truck tires	506	18,500
	Norwood	Aviation tires	439	7,000
	Spartanburg	Truck tires	1,079	134,500
	Tuscaloosa	Passenger car – Light truck tires	1,254	74,500
Canada	Bridgewater	Passenger car – Light truck tires	1,111	61,200
	Pictou	Passenger car – Light truck tires	764	25,400
	Waterville	Truck tires	1,272	117,300
Mexico	Queretaro	Passenger car – Light truck tires	365	21,100

South America

Country	Location	Products	Number of employees (1) (at December 31, 2014)	Maximum available capacity (in tons/year)
Brazil	Campo Grande	Truck tires – Earthmover tires	2,936	141,300
	Resende – Itatiaia	Passenger car – Light truck tires – Truck tires*	1,288	20,000

Asia (excluding India)

Country	Location	Products	Number of employees (1) (at December 31, 2014)	Maximum available capacity (in tons/year)
China	Shenyang 1 – 2	Passenger car – Light truck tires – Truck tires	3,446	93,000
	Shanghai	Passenger car – Light truck tires	2,313	74,300
Thailand	Laem Chabang	Passenger car – Light truck tires	1,937	86,200
	Nongkae	Truck tires – Aviation tires	1,774	61,700
	Phrapadaeng	Passenger car – Light truck tires – Truck tires – Two-wheel tires	1,309	38,000

Africa India Middle-East

Country	Location	Products	Number of employees (1) (at December 31, 2014)	Maximum available capacity (in tons/year)
India	Chennai	Truck tires	1,002	11,400

(1) *Full-time equivalent.*
* *Retread operations only*

Most of the above plants also manufacture components and/or semi-finished products.

1.4.1 b) 11 Semi-Finished Product and Component Plants in seven countries

Country	Location	Products	Number of employees [1] (at December 31, 2014)
France	Bassens	Synthetic rubber	383
	Golbey	Metal cables	491
	Tours	Membranes	483
	Vannes	Metal cables	476
Germany	Treves	Metal cables	91
Italy	Fossano	Metal cables	470
	Torino	Compounds	347
Romania	Zalau	Metal cables	297
United States	Anderson	Metal cables	223
	Louisville	Synthetic rubber	357
China	Shanghai	Metal cables	291
Thailand	Rayong	Metal cables	503

(1) *Full-time equivalent.*

The above list does not include:

- the natural rubber production units;
- the franchised RECAMIC and Michelin Retread Technologies (MRT) retreading plants.

1.4.2 OTHER MATERIAL PROPERTY ASSETS

1.4.2 a) Headquarters – Offices – Research Centres

Country	Location	Type
France	Carmes [1]	Headquarter
	Ladoux [1]	Research Centre
Japan	Ota	Research Centre
Spain	Almeria	Testing plant
United States	Greenville – HNA	Offices
	Greenville – MARC	Research Centre

(1) *Facilities located in Clermont-Ferrand.*

1.4.2 b) Other material property assets costs

Please refer to note 14 to the consolidated financial statements.

2 REPORT OF THE MANAGING PARTNERS

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2.1 AMBITIONS 2020: MICHELIN PERFORMANCE AND RESPONSIBILITY

Michelin is stepping up the pace of expansion to harness the vibrant growth in new markets and the expected increase in demand for more environmentally friendly tires – an area in which it is the world leader.

Combining performance and responsibility, the Group is embarking on a new phase of dynamic growth by helping to foster sustainable road mobility.

2.1.1 AMBITIONS 2020: BE RECOGNIZED AS ONE OF THE WORLD'S MOST INNOVATIVE, RESPONSIBLE AND HIGH-PERFORMANCE COMPANIES AS WELL AS A LEADER IN SUSTAINABLE MOBILITY

In its drive to be a company that is both high performance and responsible, in 2013, Michelin defined six major objectives for 2020, backed by measurable targets. Known as Ambitions 2020, these objectives have been expressed by commitments in the areas of financial performance, social responsibility and environmental stewardship. Each one is firmly focused on measurable performance and aligned with operating strategy. Deployed across our organization, these six ambitious objectives for 2020 are designed to make Michelin a global leader in sustainable mobility and one of the world's most innovative, responsible and high-performance companies in fulfilling its financial, environmental and social responsibility commitments.

1. Widen our lead in product performance
- Improve the overall performance of our products by at least 10% compared with 2010, while using fewer raw materials in their production.
- Save 3 billion litres of fuel over the lifespan of our tires and avoid emitting 8 million tonnes of CO_2 compared with 2010 thanks to product improvements.

2. Set the industry standard for responsible manufacturing
- Reduce the environmental impact of our sites, as measured by the Michelin sites Environmental Footprint (MEF) by 40%, notably by improving our energy efficiency by 25% in relation to 2010.
- Develop a responsible supply chain and reduce its CO_2 emissions by 10%.
- Assess the sustainable development performance of our top 400 suppliers and provide encouragement and support so that 70% of them are confirmed as compliant with our standards.

3. Secure our financial performance
- Deliver €1 billion in structural free cash flow per year as from 2020.
- Achieve at least a 15% return on capital employed (ROCE) as from 2020.

4. Demonstrate our commitment to the well being and development of our employees
- Further improve safety performance and achieve a Total Case Incident Rate (TCIR) of less than 2 for the entire Group.
- Achieve and maintain an 85% employee engagement rate for the entire Group.
- Ensure that 75% of all management positions are held by employees who come from within the Company, reflecting our ever-increasing diversity.
- Increase the percentage of women in all management [(1)] positions to 30%.
- Increase the percentage of local top managers in growth regions to 80%.

5. Strengthen ties with host communities
- Deploy a community involvement program in every plant, in line with the 2013 guidelines.
- Encourage employee involvement in initiatives that support the local community by donating 30,000 working days per year.
- Contribute to local employability through Michelin Development, with the creation 2,000 jobs each year.

6. Improve everyone's quality of life through sustainable mobility
- Reinforce our advocacy of road safety, with a strong focus on driver education in emerging countries.
- Promote energy-efficient, low-emissions mobility, particularly in cities.
- Contribute to the development of a circular economy by advocating renewable and recycled solutions.

Integrated into every project and cascaded to all our teams, these Ambitions 2020 objectives express our commitment to building growth over the long term and helping to address societal challenges by putting our values into practice.

(1) Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.

2.1.2 CHALLENGES: THE FUTURE SHAPE OF MOBILITY

In today's increasingly open world, freight transport is constantly on the rise, while people want to travel more often and more safely. The number of vehicles on the road could double by 2030, to more than 1.5 billion. At the same time, the automobile industry is undergoing a profound mutation to address the challenges of dwindling fossil fuels, climate change, environmental protection and urbanization (more than 60% of the projected 8.2 billion people on the planet in 2030 will live in cities). The challenge is to develop cleaner, safer, more fuel-efficient road mobility solutions that make the most of information and communication technologies (ICTs).

2.1.2 a) Safer mobility

Every year, 1.2 million people are killed and 50 million are injured in traffic accidents, which are the leading cause of mortality among young people. The statistics are particularly dramatic in developing nations.

2.1.2 b) Cleaner mobility

Road transport accounts for 18% of all fossil-based CO_2 emissions caused by human activity, with tires representing 4% from the fuel burned to overcome their rolling resistance. This is roughly the equivalent of one full tank out of every five for a car and one out of three for a truck. To limit the average increase in global temperatures to 2°C in 2100 (1), carbon emissions must be halved by 2050 (2), even though the number of vehicles on the road and total distances driven are expected to double by that time.

What's more, around the world, quality of life in big cities is under attack from the closely inter-related threats of congestion, noise and pollution.

2.1.2 c) More fuel-efficient, cost-effective mobility

More than 60% of the world's oil output is used in transportation. Increasingly rare and costly, oil is a major geo-strategic challenge, as are other non-renewable energy sources and raw materials. In 2014, the cost of raw materials used in production represented nearly 25% of Michelin's net sales. Optimizing their use is essential if tires are to remain affordably priced and if these resources are to be conserved over the long term. The challenge is to meet these goals without sacrificing tire performance.

2.1.2 d) Connected mobility

The time it takes to travel from one point to another mainly depends on traffic, the route, waiting times, the availability of a parking space and the speed of inter-modal connections. With a cell phone or onboard computer, travellers can access information to help them select the best options.

Information and communication technologies can also be used to transmit technical data that allow motorists to schedule servicing, drive more safely and use less fuel.

2.1.3 OUR CORE STRENGTHS

To meet the challenges of sustainable mobility, while embarking on a new phase of dynamic growth in every geography and strengthening its presence in the global marketplace, Michelin can count on its core strengths: the powerful MICHELIN brand, a global footprint, technological leadership, the market's broadest offering and a solid balance sheet.

2.1.3 a) The MICHELIN brand

With its promise of balanced performance and extraordinary capital of trust and affinity, the MICHELIN brand ranks among the world's greatest brands. For the public, the brand is associated with safety, reliability, durability, technology and innovation, expertise and services. This confidence stimulates the buy decision and nurtures customer loyalty, as seen in the brand's performance in every geography, even in the depths of the recession.

The MICHELIN brand has already demonstrated its power in Europe and North America, where the Group holds forefront positions, and its influence is growing in emerging markets, especially China. Around the world, it accounted for some 75% of the net sales in the Passenger car and Light truck tire segment in 2013, 85% in Truck tires and 95% in Specialty tires.

2.1.3 b) Solid technological leadership

Throughout its history, Michelin's development has been fuelled by technical innovation. With such technological breakthroughs as the radial tire and the fuel-efficient tire, we have been a key driver of progress in our industry and enjoy a recognized lead in the most demanding technical segments.

Thanks to its technical lead, its ability to develop the technologies carmakers want and the performance of its tires, which is widely recognized by specifiers around the world, Michelin acts as the benchmark in the global premium tire market, with particularly strong positions in high performance car and light truck tires.

2.1.3 c) A truly global leader

Very early on, Michelin developed an exceptionally broad geographical presence, to the extent that today, we manufacture tires in 17 countries and sell them in more than 170.

(1) Compared with the pre-industrial era.
(2) Compared with 2008.

As one of the few global tire manufacturers, we enjoy critical mass and synergies that help to foster innovation, productivity and fair, balanced relations with tire dealers. The geographical breakdown of net sales attests that this global presence is well balanced between Western Europe, North America, and the other markets. To fully leverage these strengths, extensive programs are underway to standardize processes and share best practices across the global organization.

2.1.3 d) A comprehensive range of tire solutions

Michelin is organized around three Product Lines – Passenger car and Light truck tires, Truck tires and Specialty businesses – that market the world's broadest portfolio of products and services.

The Group holds forefront positions in each segment, including passenger cars, vans, trucks, farm equipment, earthmovers and handling equipment, bicycles, motorcycles and aircraft. Because we partner original equipment manufacturers, pay close attention to every user, and operate in a wide array of distribution channels, we are particularly well positioned to understand customer expectations. This broad segment diversity means that we can pursue every market growth opportunity as it arises.

2.1.3 e) A robust balance sheet

In 2014, operating income excluding the currency effect increased to €2,251 million, Michelin created value for the fifth year in a row and free cash flow helped to keep consolidated net debt low. This solid underpinning is crucial for the future, in order to guarantee our independence and to support our ambition for development.

2.1.4 A POWERFUL CAPACITY FOR INNOVATION

Customer-focused innovation has long been a Michelin growth driver and a powerful vector of differentiation. The MICHELIN brand promise, as expressed in MICHELIN Total Performance, is to constantly innovate and deploy advanced technologies to deliver more performance in each of our solutions, instead of asking customers to choose between different areas of tire performance that may at first seem incompatible.

2.1.4 a) Innovation and differentiation

One of the main thrusts of Michelin's strategy is to leverage technology and innovation to differentiate its products and services, so as to consolidate its leadership and effectively meet the needs of tire users. For more than 20 years, our innovation programs have focused on delivering sustainable mobility solutions. Today, we are the world's leading manufacturer of fuel-efficient tires and a pioneering champion of the functional economy, which consists of selling a service or the use of a product rather than the product itself. For example, trucking companies and airlines can choose to be billed based on the number of kilometres travelled, the number of tonnes transported or the number of landings carried out using tires supplied and maintained by Michelin. We are committed to maintaining our solid lead in this new services-based economy by delivering targeted solutions combining product innovation and service innovation.

With an annual R&D budget of more than €600 million, 6,000 people and a patent portfolio that has tripled in 10 years, Michelin's innovation priorities are to:

- bring new tire ranges to market more quickly;
- continuously improve performance so that each new range outperforms the previous generation.
- develop breakthrough innovations to develop totally new solutions to mobility challenges.

2.1.4 b) The innovation governance system

A new innovation governance system that involves and empowers all of Michelin's leadership teams was set up in 2012 with the creation of the Group Innovation Committee, which can include people from outside the Group. This system ensures that our research units are extremely open to the outside world and to new technologies, in particular by working with academic institutions. Marketing and research teams cooperate seamlessly so that the products and services they create can be brought to market more quickly and efficiently without ever sacrificing quality.

2.1.5 OUR GROWTH STRATEGY

Built on a foundation of growth, competitiveness and commitment, Michelin's strategic vision is designed to deliver strong, diversified growth by capturing the full value of its products and services in mature markets and expanding more quickly in new markets. As we continue to make our organization more competitive and lower our cost base, the mutual commitment of the Company and its employees will enable us to successfully move forward together.

2.1.5 a) Driving faster growth

Michelin is investing more than ever in the MICHELIN brand, which expresses its commitment to quality and innovation.

MICHELIN brand sales are driving the growth strategy across every Product Line (Passenger car and Light truck tires, Truck tires and Specialty tires) and in every market. The benchmark premium brand, MICHELIN is widely recognized for the quality of its products and services, and will be enhanced by a multi-brand portfolio. Multiple brands enable us to serve retail networks that want to offer each customer just the right tire without leaving the Michelin Group brand universe.

Because these brands are also designed to help us reach our profitability targets, they will be initially focused on the fast growing segment of competitively priced tires for high-performance vehicles. The BFGoodrich®, KLEBER, UNIROYAL, TIGAR, KORMORAN, RIKEN, TAURUS, SIAMTYRE or WARRIOR brands will be used in their respective markets.

Another growth driver is the steady improvement in market access. We are strengthening our integrated dealer networks through acquisitions and stepping up our franchising operations in every market.

2.1.5 b) Maintaining capital expenditure

With €1.9 billion invested in 2014, Michelin is pursuing a sustained investment policy, led by three objectives:

- increase production capacity in fast growing markets;
- continue aligning plants in mature markets to keep pace with product developments and make them more competitive;
- develop the information systems needed to meet our operational excellence and quality of service targets.

Four new high-capacity plants are currently ramping up production: Itatiaia in Brazil for Passenger car and Light truck tires; Chennai in India for Truck tires; Shenyang 2, which is designed to significantly increase car and truck tire production capacity in China; and Anderson in the United States, which has launched production of tires for the mining industry.

2.1.6 IMPROVED COMPETITIVENESS

Since 2005, Michelin has been steadily progressing on the path to operational excellence, with the goal of becoming more competitive and reducing costs.

2.1.6 a) Competitive production plants in mature markets

The strategy pursued before the recession to strengthen manufacturing operations in mature markets has paid off. Thanks to the deployment of the Michelin Manufacturing Way (MMW), the commitment of capital expenditure to increase productivity and the consolidation of manufacturing operations at larger, more specialized facilities, we have assertively improved our ability to manage abrupt changes in market conditions and will have plants in Europe and North America that are highly competitive.

2.1.6 b) Making us more agile and competitive with the OPE business process management system

Michelin is introducing new standard, horizontal operating procedures and information systems in a commitment to increasing sales volumes by offering customers competitively differentiated services, enhancing the efficiency of its administrative processes and sharply improving the responsiveness of its supply chain.

At an annual cost of around €100 million over the next three years, this program will, by 2017, drive at least a €250-million reduction in inventory and at least a €200-million reduction in annual costs.

2.1.6 c) Improving competitiveness to drive growth

As the key source of improved competitiveness, operational excellence concerns every unit across the Group. Michelin is stepping up the 2016 competitiveness plan launched in 2012 and has raised the expected gains to €1.2 billion from €1 billion, before inflation and including avoided costs.

To lower production and transportation costs, and thereby drive a €600 million to €700 million reduction in the cost structure over the period, productivity improvement plans are being pursued and the production plants are being more quickly aligned with the best practices deployed as part of the Michelin Manufacturing Way.

At the same time, the quality and efficiency of corporate support services are being closely tracked with the goal of reducing overheads by €300 million to €400 million over the 2012-2016 period as part of the Efficiency program.

Lastly, the cost of raw materials used in production each year is expected to decline by €200 million to €300 million over the same period thanks to the ongoing optimization of raw material content and reduction in tire weight as part of the Design-to-Cost program.

2.1.6 d) An efficient manufacturing base

Europe	North America	Asia (excluding India)
15 Car and Light truck tire plants	10 Car and Light truck tire plants	4 Car and Light truck tire plants and 1 under construction
16 Truck tire plants	4 Truck tire plants	3 Truck tire plants and 1 under construction
9 Specialty tire plants	3 Specialty tire plants	2 Specialty tire plants
7 component and semi-finished product plants	2 component and semi-finished product plants	2 component and semi-finished product plants
	South America	**Africa/India/Middle East**
	1 Car and Light truck tire plant 2 Truck tire plants 1 Specialty tire plant	1 Truck tire plant

2.1.7 MOVING FORWARD TOGETHER

The Michelin corporate community is made up of more than 110,000 people, representing 120 nationalities. Their diversity is a valuable asset and source of creativity, while their professionalism and commitment are instrumental in driving the performance and development of a Group whose employee relationships are rooted in dialogue and mutual respect.

2.1.7 a) A mutual commitment

Michelin firmly believes that business performance and the professional success of its employees go hand in hand. The "Moving Forward Together" program reaffirms the values that guide us every day and expresses the mutual commitments that the Group has undertaken and that employees are expected to demonstrate. Michelin wants every employee to be able to find fulfilment in his or her job. That's why performance and potential are assessed with a view to the long-term, and training policies allow each employee to continue to grow throughout his or her career, while helping to drive the Group's development. As the same time, career management focuses on promoting from within and offering mobility opportunities.

Diversity is actively encouraged, to build teams that look like our host societies, and a structured equal opportunity process is in place to combat all forms of discrimination.

A large number of employees receive performance-based compensation, with different bonus systems adapted to each country and job function. The Group has also set up a stock option plan open to many employees and regularly carries out worldwide employee share issues.

2.1.7 b) Respect for people, the foundation of social cohesion

By making workplace safety a priority and a reality, we have made Michelin one of the world's safest manufacturers. Major programs are also in place to attenuate risks and improve outcomes in the areas of occupational health and quality of worklife.

When production has to be scaled back due to a falloff in demand, a wide range of solutions are deployed to limit short-time work, such as conducting preventive maintenance, bringing forward vacation or organizing training. Implementation of these measures is facilitated by initiatives to develop a sense of mutual responsibility and co-destiny, in a commitment to improving corporate performance and protecting jobs.

Whenever industrial reorganization measures have been necessary, the employees concerned have been offered inplacement opportunities and individual support if external solutions were preferred or inevitable.

2.1.7 c) A motivating corporate culture

Inspired by its founders, Michelin is dedicated to enhancing mobility through innovation and quality, by basing its development on the core values of Respect for Customers, Respect for People, Respect for Shareholders, Respect for the Environment and Respect for Facts.

Our sustainable development approach, embodied in the Michelin Performance and Responsibility (PRM) process, structures this corporate culture and coordinates our commitment to the principles of sustainable, balanced, responsible growth.

In 2013, the approach's governance system was modified to make it more efficient and to integrate it more effectively at every level and in every skills-set. The new Ambitions 2020 objectives are included in everyone's strategic plans and targets and deployed in every host country, plant and unit. They are quantified, tracked and measured.

At the Group level, an 11-member PRM Council chaired by Jean-Dominique Senard defines the targets. The PRM Operations Committee is in charge of seeing that they are met, across the organization. Each country has a PRM correspondent responsible for promoting sustainable development on a day-to-day basis and for reporting on the implementation of objectives defined by the PRM Council, as well as actions initiated locally. Action plan advances and outcomes are regularly measured.

This structured, global approach has made it possible to deploy our sustainable development approach in internal improvement initiatives and in our relations with partners and the community. The engagement of our employees and their ability to work together to drive fast improvement has been recognized by several corporate sustainable development rating agencies, whose issued opinions have encouraged employees to take the process even further.

2.1.8 PROGRESS TOWARD MEETING OUR AMBITIONS FOR 2020

	AMBITIONS FOR 2020	Key Performance Indicators (KPI)	Progress made in 2014
1 Widen our lead in product performance	Save 3 billion liters of fuel over the lifespan of our tires, thereby reducing CO_2 emissions by over 8 million tonnes compared with 2010	Total improvement in the rolling resistance of Passenger Car, Light Truck and Truck tires compared with 2010	The energy performance of Passenger Car, Light Truck and Truck tires improved in 2014 in line with Michelin's 2020 objectives
	Improve the overall performance of our products by at least 10% compared with 2010, while using fewer raw materials in their production	Percent improvement in the composite performance indicator compared with 2010	The energy performance of Passenger Car, Light Truck and Truck tires improved in 2014 in line with Michelin's 2020 objectives
2 Set the industry standard for responsible manufacturing	Reduce the environmental impact of our sites by 40%, as measured by the Michelin Environmental Footprint (MEF) Index, notably by improving our manufacturing energy efficiency by 25% compared with 2010	1) Michelin Environmental Footprint Index 2) Energy use per tonne of finished product	1) 7% improvement in the MEF compared with 2010 2) 7.3% improvement compared with 2010
	Develop a responsible supply chain and reduce its CO_2 emissions by 10% compared with 2010	CO_2 emissions per tonne of tires sold outside the Group	0.7% improvement compared with 2010
	Assess the sustainable development performance of our top 400 suppliers	Number of suppliers assessed by EcoVadis	355 as of end-2014
	Provide encouragement and support so that 70% of these suppliers are confirmed as compliant with our standards	Percentage of the 400 suppliers assessed by EcoVadis that are confirmed as compliant	51% as of end-2014
3 Secure our financial performance	Deliver €1 billion in structural free cash flow per year as from 2020	Free cash flow (cash flows from operating activities less cash flows used in investing activities) adjusted for the impact of raw materials and end-of-year volumes on working capital and for non-recurring items	717 in 2014
	Achieve a return on capital employed (ROCE) of at least 15%	Return on capital employed (ROCE)	11.1% in 2014
4 Work together to continuously improve employee well-being and personal growth	Further improve safety performance and achieve a Total Case Incident Rate (TCIR) of less than 2 for the entire Group	Total Case Incident Rate (TCIR)	2014 estimate for the Group: 2.84 (by extrapolation)
	Achieve and maintain an 85% employee engagement rate	The Groupwide employee engagement rate as measured by the annual “Moving Forward Together: Your Voice for Action” survey	74% in 2014
	Ensure that 75% of all management positions are held by employees who come from within the Company, reflecting our ever-increasing diversity	Percentage of management positions held by employees promoted through internal mobility	83% in 2014
	Increase the percentage of women in management and supervisory roles to 30%	Percentage of women among employees with a level of individual responsibility of A to N, according to the Hay method used by the Group	23.5% in 2014
	Ensure that 80% of the managers in fast-growing regions come from fast-growing regions	Percentage of managers coming from fast-growing regions	65% in 2014
5 Strengthen ties with host communities	Deploy a community involvement program in every site in line with the 2013 guidelines	Number of sites effectively implementing the new guidelines	100 plants and offices in the Group moved their programs into compliance with the guidelines in 2014
	Encourage employee involvement in initiatives that support the local community by donating 30,000 working days per year	Number of days that employees dedicate to local community involvement	23,942 in 2014
	Help to create 2,000 local jobs per year through Michelin Development	Number of jobs created with the help of Michelin Development	1988 in 2014
6 Improve everyone's quality of life through sustainable mobility	Reinforce our advocacy of road safety, with a strong focus on driver education in emerging countries	Number of awareness-building programs deployed and number of people reached with these programs	“The Best Young Driver” program in Brazil (26,000 young people reached), “Beyond the Driving Test” program in the US (8 million people reached on social media), “Crash Attack” program in Spain, training of school bus drivers in Turkey, educational comics in Asia
	Promote energy-efficient, low-emissions mobility, particularly in cities	Number of initiatives and ideas	Publication in 2014 of the Green Paper “Innovation in mobility at the heart of growth and urban well-being”
	Contribute to the development of a circular economy by increasing the percentage of renewable or recycled materials in our tires to 30%	Percentage of renewable or recycled tire materials in the tires we produce	The success of new production processes incorporating bio-sourced materials, explored through the TREC project with Protéus, SDTech and the CEA and the BioButterfly project (with Axens and IFPEN as well as with Braskem and Amyris), should enable the Group to meet its 2020 objectives

2.2 TIRE MARKETS

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

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

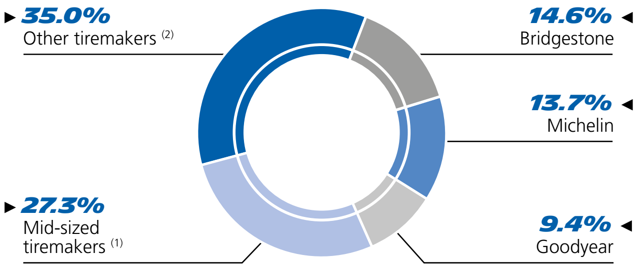
Over the long term, Michelin expects demand for tires to grow by 1-2% a year in mature markets and by 5-10% a year in the new markets.

New standards

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

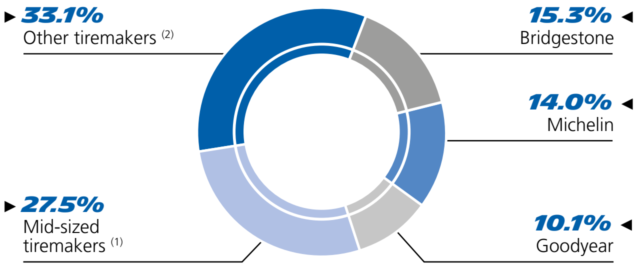
These trends are favourable to low rolling resistance tires, where Michelin sets the market standard. Original equipment sales of these tires are expected to increase by 200 million units between 2010 and 2020 to a total of 500 million.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2013



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

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2012



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

2.2.2 TIRE MARKETS IN 2014

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

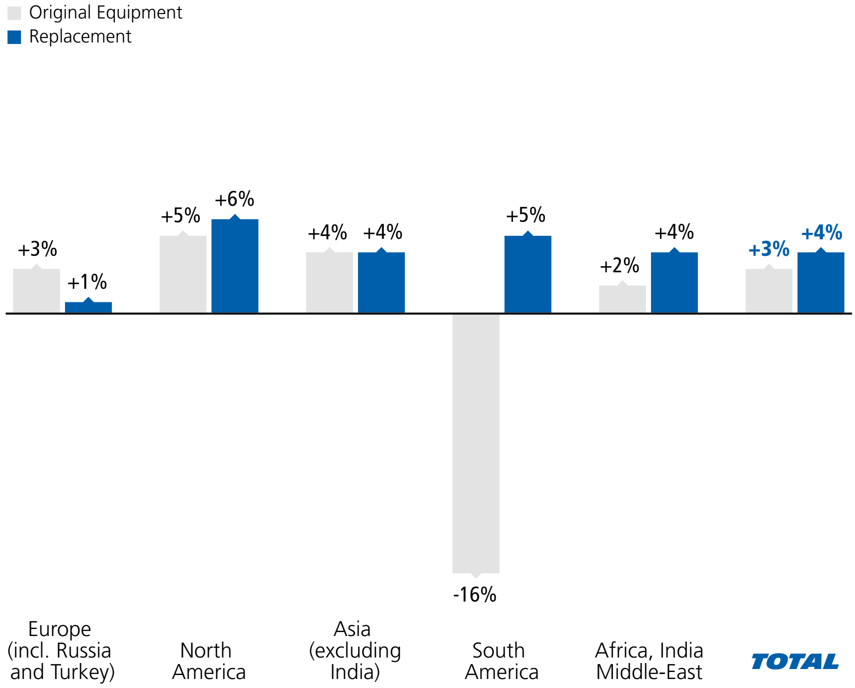
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number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

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

2.2.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2014

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

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



Michelin estimates.

2.2.3 a) Original equipment (OE)

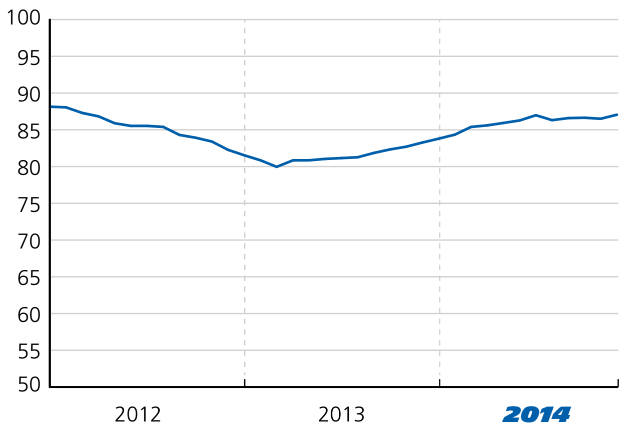
The global OE market grew 3%, with buoyant conditions in Western Europe, North America, China and Japan contrasting with narrower demand in the other regions (South America, Eastern Europe and Asia/Pacific).

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

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

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

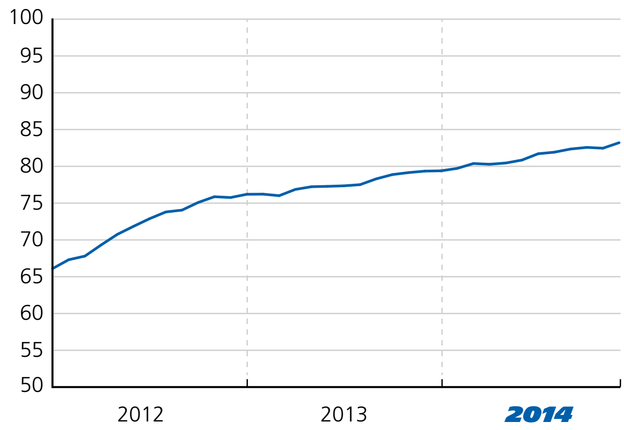
THE OE PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

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

THE OE PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN NORTH AMERICA
(in millions of tires – moving 12 months)



Michelin estimates.

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

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

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

2.2.3 b) Replacement

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

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

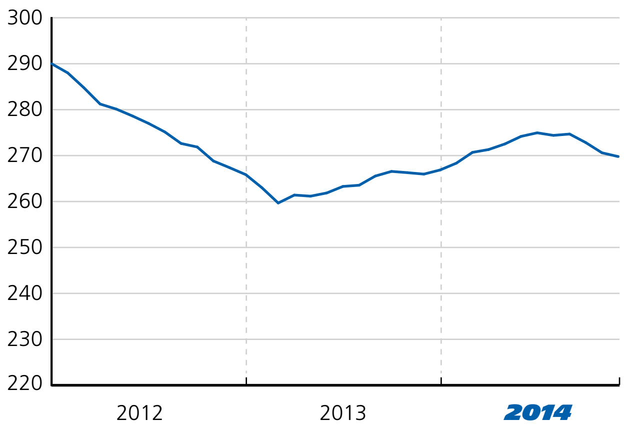
(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Source: Michelin estimates.

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

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

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

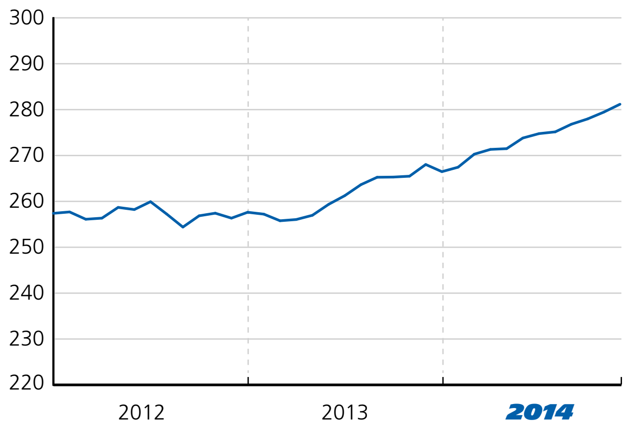
(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

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

(in millions of tires – moving 12 months)



Michelin estimates.

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

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

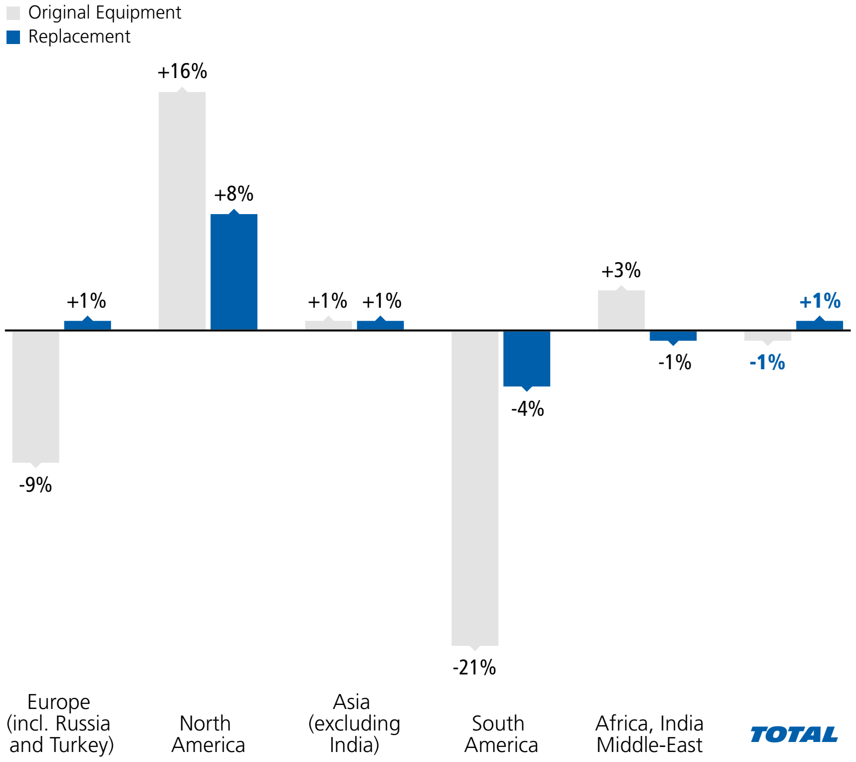
In **South America,** demand rose 5% led by Brazil and by the artificial stimulus provided by cut-price deals on unsold tires originally intended for the OE market.

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

2.2.4 TRUCK TIRE MARKETS IN 2014

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

THE GLOBAL TRUCK TIRE MARKET, 2014 VS. 2013



Source: Michelin estimates – new tire market only.

2.2.4 a) Original equipment

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

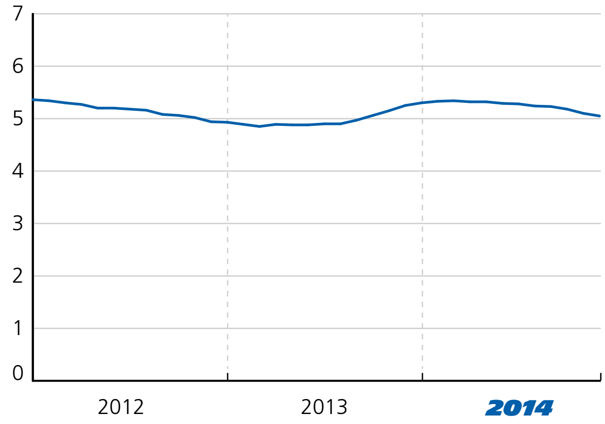
Truck tire markets* OE *(in millions of tires)*	2014	2013	2014/2013	2nd-Half 2014/2013	4th-Quarter 2014/2013	3rd-Quarter 2014/2013	1st-Half 2014/2013	2nd-Quarter 2014/2013	1st-Quarter 2014/2013
Europe (1)	5.8	6.4	-9%	-12%	-15%	-10%	-7%	-10%	-3%
North America (2)	5.9	5.1	+16%	+22%	+25%	+20%	+9%	+11%	+7%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

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

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

THE OE TRUCK TIRE MARKET IN EUROPE

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

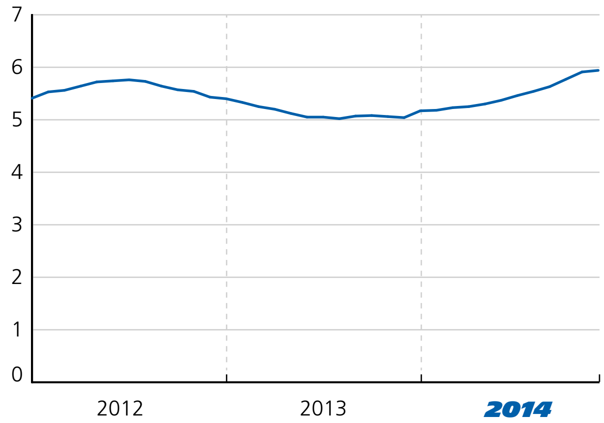


Michelin estimates.

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

THE OE TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

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

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

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

2.2.4 b) Replacement

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

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

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

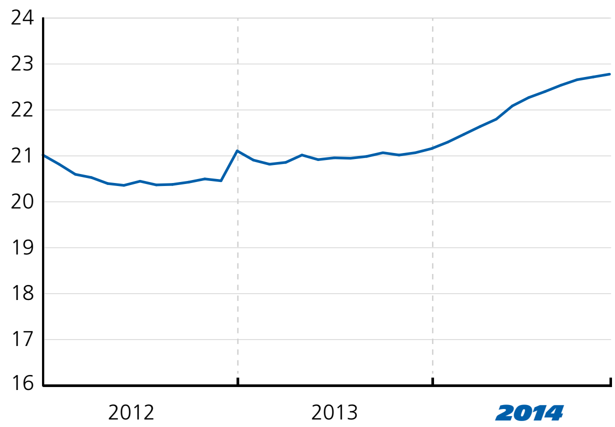
In **Europe,** the replacement market edged up 1% over the year. In Western Europe, 4% market growth was led by the transport segment, inventory building among dealers and a shortage of casings for re-treads. In Eastern Europe, the replacement tire market contracted by 2% over the year, with demand falling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

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

Michelin estimates.

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

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



Michelin estimates.

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

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

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

2.2.5 SPECIALTY TIRE MARKETS IN 2014

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

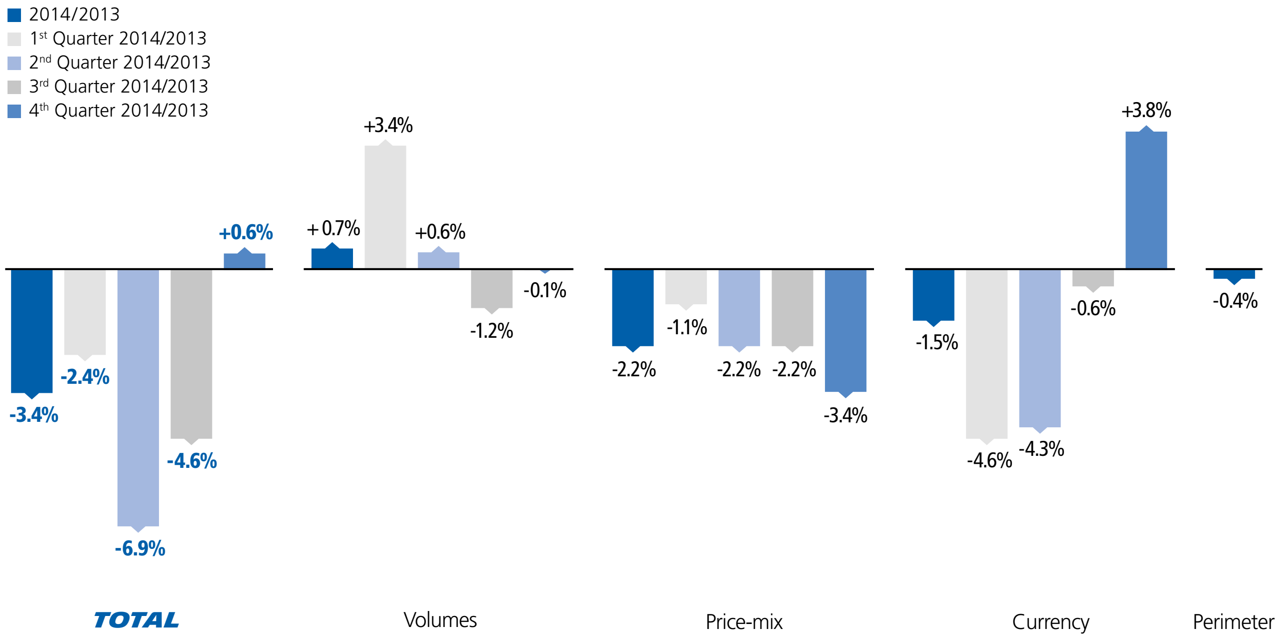
Agricultural tires: Global OE demand ended the year down sharply in mature markets, due to the extensive replacement sales of farm machinery in recent years, falling grain prices and the reduction in agricultural tax incentives in the United States. The replacement market in Europe was stable in 2014,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

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

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

2.3 NET SALES

2.3.1 ANALYSIS OF NET SALES



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

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

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

(in € millions and %)	2014	2nd-Half 2014	4th-Quarter 2014	3rd-Quarter 2014	1st-Half 2014	2nd-Quarter 2014	1st-Quarter 2014
NET SALES	**19,553**	**9,880**	**4,995**	**4,885**	**9,673**	**4,915**	**4,758**
Year-on-year change	**-694**	**-208**	**+30**	**-238**	**-486**	**-367**	**-119**
Volumes	+134	-66	-4	-62	+198	+32	+166
Price-mix	-449	-284	-168	-116	-169	-116	-53
Currency	-304	+158	+185	-27	-457	-225	-232
Scope	-75	NM	NM	NM	NM	NM	NM
Year-on-year change	**-3.4%**	**-2.1%**	**+0.6%**	**-4.6%**	**-4.8%**	**-6.9%**	**-2.4%**
Volumes	+0.7%	-0.5%	-0.1%	-1.2%	+1.9%	+0.6%	+3.4%
Price-mix	-2.2%	-2.5%	-3.4%	-2.2%	-1.6%	-2.2%	-1.1%
Currency	-1.5%	-5.4%	+3.8%	-0.6%	-4.5%	-4.3%	-4.6%
Scope	-0.4%	NM	NM	NM	NM	NM	NM

2.3.2 NET SALES BY REPORTING SEGMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.3.2 c) Specialty businesses – Analysis of net sales

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

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

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

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

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

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

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

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

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

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

Net sales break down as follows by currency:

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

2.3.4 NET SALES BY REGION

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

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

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

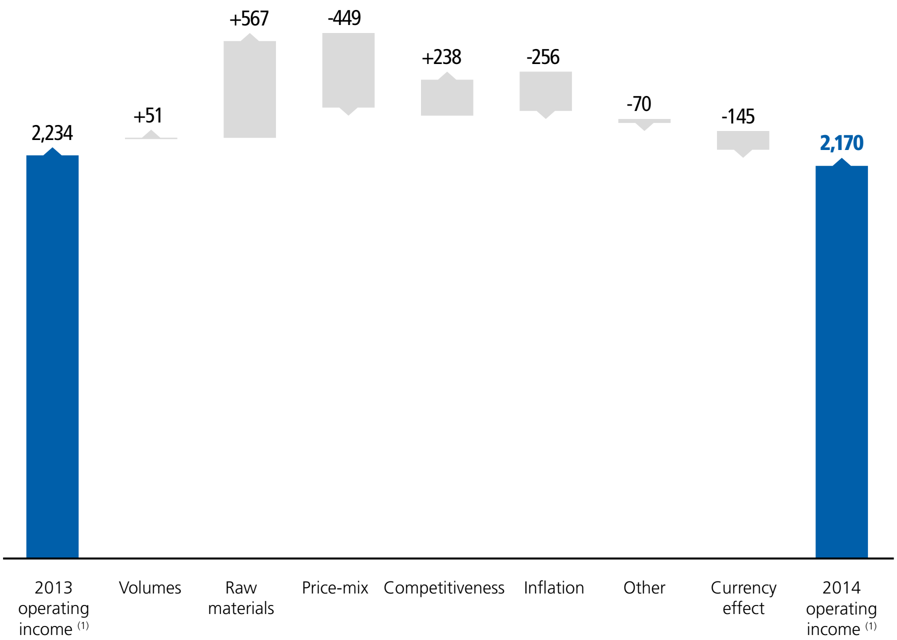
Nearly 60% of consolidated net sales were generated outside Europe and more than 90% outside France.

2.4 CONSOLIDATED INCOME STATEMENT REVIEW

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

2.4.1 OPERATING INCOME BEFORE NON-RECURRING ITEMS

(in € million)



(1) Before non-recurring items.

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

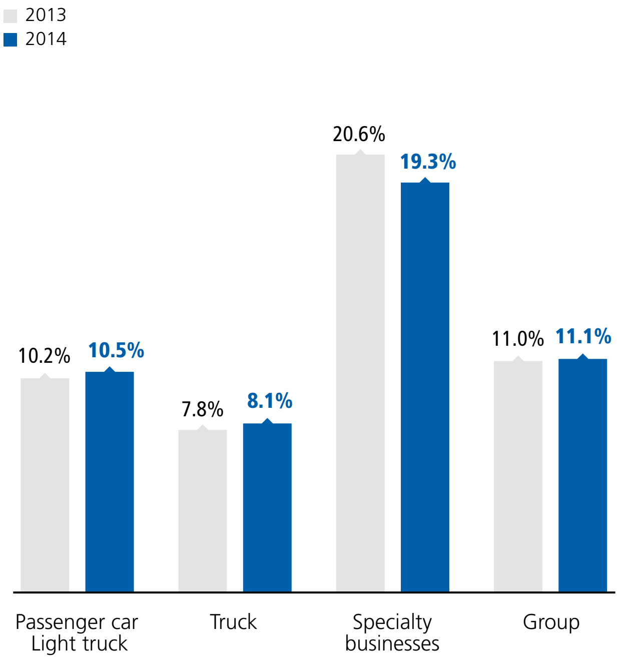
After taking into account the €145 million negative currency effect, adjusted operating income before non-recurring items rose by €81 million in 2014, at constant scope of consolidation and exchange rates. The increase breaks down as follows:

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

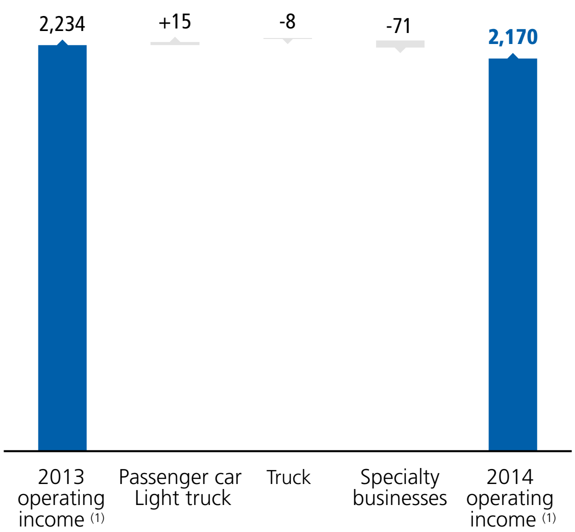
2.4.2 OPERATING INCOME BEFORE NON-RECURRING ITEMS BY OPERATING SEGMENT

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

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



(in € million)



(1) Before non-recurring items.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4.3 OTHER INCOME STATEMENT ITEMS

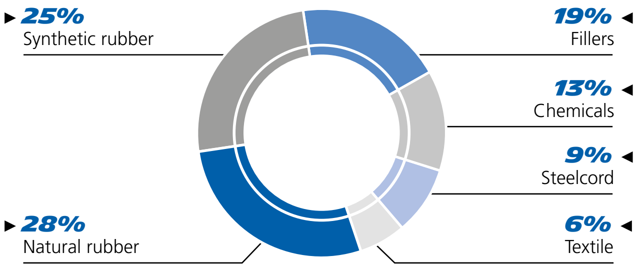
2.4.3 a) Raw materials

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

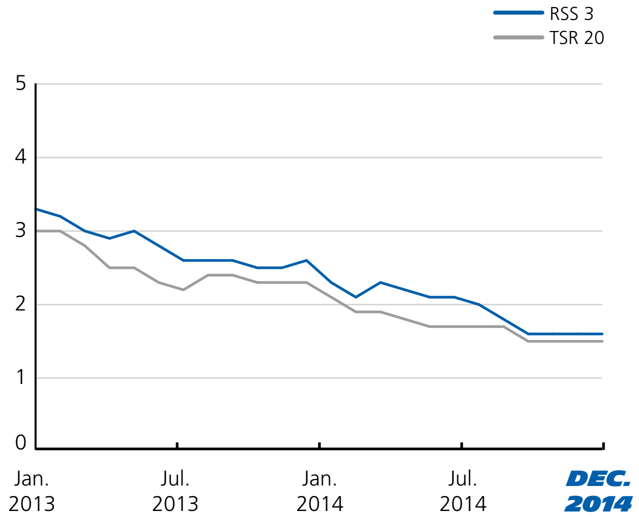
In 2014, raw materials costs recognized in cost of sales included the €567 million impact of lower prices, as well as the volume and currency effects.

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

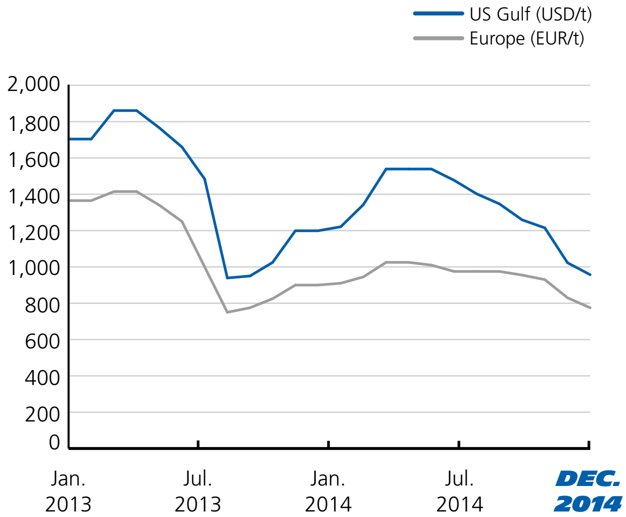
RAW MATERIALS RECOGNIZED IN 2014 COST OF SALES (€4,958 MILLION)



NATURAL RUBBER PRICES (SICOM)
(USD/kg)



BUTADIENE PRICES

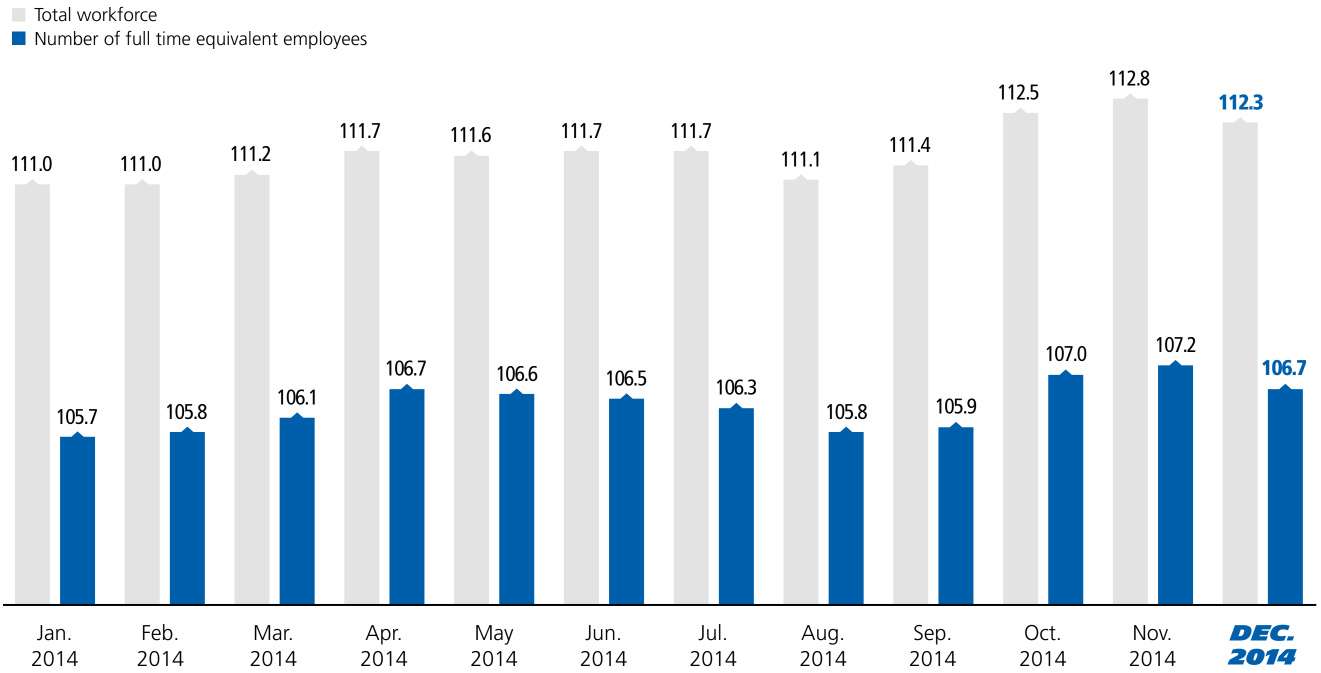


2.4.3 b) Employee benefit costs and number of employees

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

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

NUMBER OF EMPLOYEES
(in thousands)

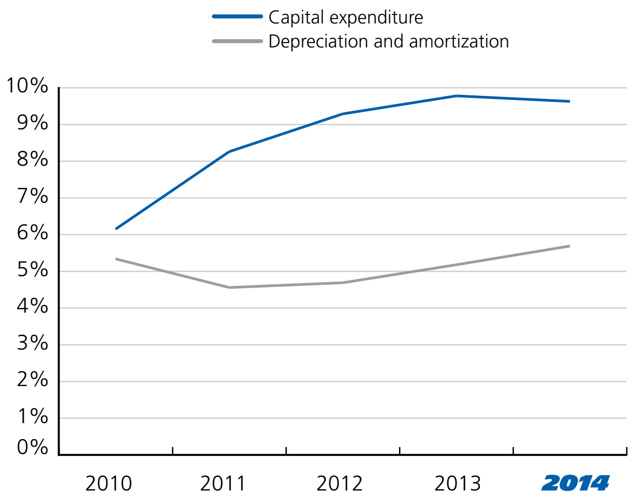


2.4.3 c) Depreciation and amortization

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

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

(as a % of net sales)



2.4.3 d) Transportation costs

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

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

2.4.3 e) Sales and marketing expenses

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

2.4.3 f) Research and development expenses

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

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

2.4.3 g) General and administrative expenses

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

2.4.3 h) Other operating income and expenses

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

2.4.3 i) Non-recurring income and expenses

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

2.4.3 j) Cost of net debt

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

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

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

2.4.3 k) Other financial income and expenses

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

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

2.4.3 l) Income tax

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

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

2.4.3 m) Consolidated net income and earnings per share

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

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

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

2.5 CONSOLIDATED BALANCE SHEET REVIEW

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

ASSETS

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

LIABILITIES AND EQUITY

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

2.5.1 GOODWILL

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

2.5.2 INTANGIBLE ASSETS

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

2.5.3 PROPERTY, PLANT AND EQUIPMENT

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

2.5.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

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

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

2.5.5 DEFERRED TAX ASSETS AND LIABILITIES

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

2.5.6 WORKING CAPITAL REQUIREMENT

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

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

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

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

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

2.5.7 CASH AND CASH EQUIVALENTS

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

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

2.5.8 EQUITY

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

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

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

2.5.9 NET DEBT

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

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

CHANGES IN NET DEBT

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

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

2.5.9 a) Gearing

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

2.5.9 b) Credit ratings

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

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

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

2.5.10 PROVISIONS

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

2.5.11 EMPLOYEE BENEFITS

CHANGE IN THE FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

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

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

The main factors underlying this increase are as follows:

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

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

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

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

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

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

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

2.6 CONSOLIDATED CASH FLOW STATEMENT REVIEW

2.6.1 CASH FLOWS FROM OPERATING ACTIVITIES

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

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

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

2.6.2 CAPITAL EXPENDITURE

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

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

Growth investments amounted to €1,043 million.

The main capital projects by Product Line were as follows:

Passenger car and Light truck tires:

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

Truck tires:

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

Specialty products:

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

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

2.6.3 AVAILABLE CASH FLOW AND FREE CASH FLOW

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

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

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

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

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

2.7 RETURN ON CAPITAL EMPLOYED (ROCE)

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

ROCE is measured as:

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

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

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

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

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

2.8 OUTLOOK

2.8.1 OUTLOOK

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

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

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

2.8.2 PROFIT FORECASTS OR ESTIMATES

No precise earnings or operating margin forecasts or estimates were issued for 2015.

In light of trend information provided in section 2.8.1, any previously published targets for 2015 do not take into account the current economic environment and are not achievable this year.

2.8.3 RECENT EVENTS

No significant events occurred after the year-end.

2.9 OPERATING HIGHLIGHTS

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

2.9.1 STRATEGY – PARTNERSHIPS – INVESTMENTS

Michelin Challenge Bibendum

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

A Laboratory Dedicated to Tomorrow's Mobility

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

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

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

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

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

Michelin completes Sascar acquisition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Production to continue at Pictou County site

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

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

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

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

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

Continued investment in Canada

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

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

Michelin plans to reconfigure production base in Hungary

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

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

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

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

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

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

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

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

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

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

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

TREC Regeneration

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

TREC Alcohol

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

Engaging with stakeholders in mobility and sustainable development issues

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

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

Dealerships: 1,000th TYREPLUS Unit Opens in China

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

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

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

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

2.9.2 PRODUCTS – INNOVATIONS – SERVICES

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

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

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

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

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

2.9.2 b) Truck tires and Related Distribution

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

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

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

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

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

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

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

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

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

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

2.9.2 c) Specialty businesses

▸ Earthmover tires

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

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

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

Agricultural tires

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

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

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

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

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

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

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

Aircraft tires

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

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

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

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

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

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

2.9.3 RACING

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

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

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

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

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

2.10 RISK FACTORS

2.10.1 INTRODUCTION

In today's constantly evolving economic, competitive and technological environment, anticipating and managing risks are central to the success of Michelin's corporate strategy. Our geographic reach and leadership position in the global tire market, as well as the diversity of our business activities, mean that we are exposed to a variety of risks, both endogenous and exogenous. Strategic, financial, industrial, commercial, environmental and people-related risks have been clearly identified and are being managed in ways that minimize their occurrence and impact.

For Michelin, a risk corresponds to the possibility of an event occurring whose consequences could impact its objectives, particularly as concerns its financial position and reputation.

To ensure that risks are rigorously and consistently managed, a global risk management process is in place that complies with the most exacting international professional standards such as ISO 31000, COSO 2 and the reference framework of the French securities regulator, the AMF. This process, which is continuously updated to reflect the latest regulatory changes and risk management best practices, is described in detail in the report of the Chairman of the Supervisory Board on the Company's internal control and risk management procedures, on page 116 below.

As part of its risk mapping procedure, Michelin has reviewed the risks that could have a material adverse effect on its operations, financial position or earnings. The Group does not currently consider that it is exposed to any significant risks other than those presented herein. However, it is possible that other risks not described below or which have not been identified to date could also have a negative impact on its earnings, objectives, reputation or share price.

As part of this global process, certain procedures are in place to manage cross-functional risks. Two of these are described below as examples.

Insurance coverage

Some risks can be transferred to insurance companies in line with the Group's insurance strategy, with different solutions used depending on the frequency of the risks concerned.

▸ High-frequency risks

To cover high-frequency risks, integrated global insurance programs have been arranged, to the extent possible, in the insurance and reinsurance markets. These mainly concern property & casualty/business interruption and liability insurance.

- The property and casualty/business interruption insurance program provides combined total coverage of €1.5 billion, except for natural disasters or business interruption due to machinery breakdown for which the coverage limit may be lower.
- The liability insurance program comprises three key coverage areas:
  - product liability for the manufacturing companies;
  - general liability, offering direct coverage in European Union countries and umbrella coverage in excess of local cover in all other countries;
  - environmental liability coverage for all Group companies.

▸ Medium-frequency risks

To reduce costs by pooling medium-frequency risks, the Group has set up a captive insurance and reinsurance company to provide coverage primarily in the following areas, with limits commensurate with its resources:

- property and casualty risks, with a €50 million limit per claim;
- product liability in the United States and Canada, with limits of US$20 million per claim and US$40 million per year;
- product recall expenses, with limits of US$25 million per claim and US$50 million per year.

Aggregate premiums amounted to €58.3 million in 2014, including premiums paid to the captive insurance and reinsurance company.

Crisis management

A second cross-functional process concerns crisis management.

Given its size, the nature of its manufacturing and commercial activities and its environmental and social responsibility, Michelin is exposed in the course of its operations to the risk of crises that could affect its business and, potentially, its reputation. To foresee, anticipate and effectively respond to any such events, the Group has set up a crisis management system, which is overseen by the Group Audit and Risk Management Department. The system's underlying processes are regularly updated to ensure maximum effectiveness and responsiveness.

2.10.2 RISKS RELATED TO THE GROUP'S OPERATIONS AND STRATEGY

2.10.2 a) Market risk

▸ Risk factors

Michelin's principal business operations consist in selling, to vehicle manufacturers, dealer networks and end-users, tires for cars, vans and trucks as well as Specialty tires for earthmovers, farm machinery, mining equipment, aircraft, scooters, motorcycles and bicycles.

Around 75% of the car, van and truck tire business involves replacement sales, which are shaped by a wide variety of factors, including consumer tire demand, the number of kilometres driven, average vehicle speeds, fuel prices, dealer inventory policies and weather conditions for winter tires.

The original equipment business, which represents around 25% of car, van and truck tire sales, depends on automotive demand in our host markets and on automaker production programs. Over the long term, the replacement tire business has been relatively stable and much less cyclical than the original equipment business.

The Specialty tire markets primarily depend on raw material prices in the mining, oil and agriculture sectors.

More generally, business activity is also influenced by such economic factors as the business environment, the availability of credit, consumer confidence, raw material prices and government programs to support the automobile industry.

▸ Risk management response

On the operations side, the Chief Executive Officer and the Group Executive Committee are responsible for determining strategy and leading the Group. They are assisted in these tasks by analyses provided by the Corporate Development, Market Intelligence and Financial Control Departments. From time to time, the Chief Executive Officer submits major projects to the Supervisory Board for consideration, *i.e.* projects aimed at ensuring the Group can grow in a sustainable and responsible way over the long term. The strategic decisions related to these projects are approved by the Supervisory Board and implemented under the responsibility of the line managers. The Group's strategic plan is regularly reviewed over the medium term by the Chief Executive Officer and the Group Executive Committee.

The Group's broad global footprint offers a significant advantage in responding to any volatility in demand for particular products or in a particular geographic market.

2.10.2 b) Innovation risk

▸ Risk factors

To retain the technological leadership that supports its ambitious growth objectives, Michelin invests heavily in research and innovation, as manifested in the portfolio of projects overseen by the Technology Centers.

In this regard, the Group is exposed to two distinct types of innovation risk. First is the risk of losing its technological leadership, which would expose it to increased competitive pressure. For example, changes in technologies or the regulatory environment could result in our products becoming obsolete or less appealing to customers. Similarly, our technological lead could be lessened if we experienced delays in new product development.

The second type of innovation risk involves the development of innovative products that are not as successful as hoped in the marketplace.

▸ Risk management response

Innovation is a core component of corporate strategy, having been identified as one of the principal contributors to meeting our growth objectives. Each year, the Group dedicates more than €600 million in investment and nearly 6,000 employees to its innovation commitment.

To ensure that the innovation process is effectively managed, a specific governance framework has been put in place.

It is designed to involve and empower all of our executive teams, in particular by ensuring that:

- the R&D teams are highly receptive to the outside world and new technologies, notably by working in collaboration with universities;
- marketing teams and researchers work in close cooperation, to bring their creative products or service concepts viably to market as quickly as possible, while meeting the highest quality standards.

The process is supported by our Advanced Marketing Department, which performs marketing and profitability studies prior to every new product launch.

2.10.2 c) Competition risk

▸ Risk factors

Michelin is exposed to increasingly aggressive global competition, particularly from Asian tiremakers, which is being driven by the fast pace of technological change, rising capital expenditure, sustained price pressure from certain competitors, temporary overcapacity and steadily improving manufacturing competitiveness.

If this situation persists it could have a negative impact on our revenue, financial position and earnings.

▸ Risk management response

Our strategy to counter competition risk is to continuously innovate, expand more quickly in high-growth markets and improve our competitiveness. In tandem, we are taking steps to bolster our specific strengths such as our global footprint, our premium positioning, our leadership in Specialty businesses and the power of the MICHELIN brand.

2.10.2 d) Risk of default by dealers

Risk factors

Michelin's channel strategy is based mainly on the development of external dealership networks.

Substantially all of these dealers are independent and the integrated dealer networks – Euromaster in Europe and TCI in North America – make only a limited contribution to sales volumes. The TyrePlus network, which is currently being developed in new markets, is also made up of independent sales outlets, most of which are franchised.

In connection with these retail activities, the Group is exposed to the risk of default by its dealers and independent import companies.

Risk management response

The credit network, which reports to the Group Finance Department, tracks distribution risk on a daily basis. A monthly reporting process ensures the effective monitoring and management of payment periods, customer risk and credit portfolio quality. Bad debts written off in the annual financial statements have not been material for a number of years.

2.10.2 e) Raw materials risk

Risk factors

Michelin is exposed to fluctuations in raw material and energy prices.

Raw materials, which represented 40% of all Group purchases in 2014, include both commodities traded directly on organized markets, such as natural rubber, and manufactured products, like butadiene, styrene, metal cables and textiles, whose prices are negotiated with producers.

On the basis of estimated 2014 production volumes, the sensitivity of cash purchasing outlays to fluctuations in natural rubber and oil prices is as follows:

- a US$0.10 per kg decrease in natural rubber prices would feed through to around an US$80 million decrease in full-year purchasing costs;
- a US$1.00 per barrel decrease in oil prices would feed through to a US$12.5 million decrease in full-year purchasing costs.

Raw materials costs for 2012, 2013 and 2014	2012	2013	2014
In € million	6,479	5,668	4,958
As a % of net sales	30.2%	28.0%	25.4%
Of which:			
Natural rubber	36%	33%	28%
Synthetic rubber	27%	25%	25%
Reinforcing agents	15%	17%	19%
Chemicals	10%	12%	13%
Metal cables	7%	8%	9%
Textiles	5%	5%	6%

Risk management response

The impact of changes in raw materials prices is tracked and managed by analyzing:

- changes in the cost of raw materials used, as recognized in the income statement;
- the impact on working capital requirement.

The impact of increases in raw materials prices is estimated using internal models that take into account actual changes in the cost of raw materials used in production, production volumes, the time required to transform the raw materials – from delivery and storage to manufacturing – and changes in exchange rates.

Michelin has long been committed to managing selling prices in such a way as to maintain a favourable net effect between changes in prices and changes in raw materials costs. In 2014, the decrease in the cost of raw materials used in production had a €567 million positive impact, which resulted in a €29 million unfavourable net effect after deducting the €596 million negative price effect.

Margins on certain fixed-price sales contracts have been protected using short-term futures. At December 31, 2014, these futures had a positive fair value of €1 million, recorded in assets. This compares with the €5 billion cost of raw materials used in production during the year (see note 16.3 to the consolidated financial statements on page 228).

2.10.2 f) Reputational risk

Risk factors

Michelin has an excellent brand image, both in terms of its products and as a company. However, like any other well-known multinational corporation, it is exposed to events and circumstances that could damage its brands and/or reputation.

In addition, the recent steady development of social media means that we are exposed to online reputational risk, at a time when information is being openly and rapidly circulated, in particular on the Internet.

▸ Risk management response

It is vital to safeguard our reputational equity, which is a major asset for the Group. A dedicated corporate department, Communication and Brands, therefore leads a full array of measures to ensure that our brands and reputation are protected.

Among these efficient measures is a continuous and systematic intelligence process that analyzes the different media, particularly online, to identify any initiatives or comments that could spiral out of control and lastingly damage the Group's image.

The crisis management system also helps control reputational risk.

2.10.3 OPERATIONAL RISKS

2.10.3 a) Ethical risk

▸ Risk factors

Michelin pays particular attention to the risk of ethics violations and expects every employee to consistently act with integrity and to respect the internal and external standards that have underpinned our corporate culture for over a century. Any conduct that runs counter to these values could jeopardize the integrity of the entire Group.

▸ Risk management response

Michelin is committed to conducting business in an ethical manner in every host country, in line with our firm belief that the way we achieve our results is just as important as the results themselves.

This is why a dedicated ethics and compliance system has been put into place:

- A Code of Ethics has been prepared and distributed.

  This Code defines the behavioural standards applicable to our business activities and presents guidelines to help employees make decisions about the following 15 ethical issues:
  - legal and regulatory compliance;
  - conflicts of interest;
  - gifts and invitations;
  - governmental relations and anti-corruption measures;
  - confidentiality;
  - fair competition;
  - insider trading;
  - protecting Group assets;
  - fraud;
  - supplier relations;
  - sales and international trade;
  - true and fair financial reporting;
  - health and safety;
  - discrimination and harassment;
  - protecting employee privacy.
- Training programs dedicated to ethical issues have been developed and are currently being deployed, notably through a purpose-designed educational game.
- A governance structure has been set up comprising:
  - a Group Ethics Committee, meeting three or four times a year and comprising the Heads of the Legal Affairs, Finance, Purchasing, Safety and Security, Quality, Audit and Risk Management Departments;
  - a dedicated Ethics Committee in each region;
  - a reporting process at both Group level and in each region to help swiftly relay any violations of the Code of Ethics.

Lastly, in every host region, an ethics hotline enables employees to report any suspected cases of fraud or unethical behaviour.

2.10.3 b) Health and safety risks

▸ Risk factors

Michelin directly employs 112,300 people worldwide and also uses temporary employment agencies and subcontractors. These people work in a wide variety of environments involving the use of machines and equipment that range from manual to fully automated, depending on the type of product manufactured and the age of the machines.

Given the nature of our business, employees are exposed to:

- risks related to on-site equipment and logistics (mechanical and electrical risks; ergonomic risks), risks related to the general working environment (heat, working at heights, psychosocial risks, and exposure to country-specific risks such as political instability, terrorism or kidnappings);
- risks related to exposure to chemicals as well as risks of industrial accidents and natural disasters.

Occupational risks can have an impact on the health, the well-being, and even the physical integrity of our employees and other people who work at our sites.

▸ Risk management response

To anticipate and minimize potential risks to the health of both our employees and third parties, a specific procedure is in place to analyze, manage and attenuate health and safety risks for everyone.

Training programs, for example, encourage all of our employees, temporary workers and subcontractors to get personally involved in reducing these risks.

At the same time, managers ensure that our working methods, guidelines and practices are correctly applied in order to avoid the occurrence of any risks relating to health and safety.

The design and upgrades of machines and equipment are continuously improved so as to prevent most of these risks. Progress is tracked through management indicators such as the frequency and severity of workplace accidents, while the methods, guidelines and practices in place are assessed using internal control procedures.

For further information on health and safety risks see section 6.1.3 on page 154 below, as well as the 2014 Annual and Sustainable Development Report.

2.10.3 c) Environmental risk

▸ Risk factors

Tires are non-biodegradable and are made of both natural and synthetic materials such as rubber, petroleum derivatives, chemicals and metals. They become worn through use and have a limited lifespan. As the only point of contact between a vehicle and the road, their use requires the burning of fuel and therefore the emission of greenhouse gases. This means that more than 90% of a tire's lifecycle environmental impact comes from their use.

The production processes use energy, electricity and water as well as steam generated internally in gas, coal or oil-fired boilers.

The tire manufacturing process can likewise potentially lead to environmental risks. The land and sea transport both of semi-finished products among the various plants and of manufactured products to dealerships in 170 countries across the globe gives rise to CO_2 emissions.

Lastly, the Group is exposed to the risk of legal or financial consequences if its operations cause soil or air pollution or if it fails to comply with the applicable local, national or international environmental regulations and standards.

▸ Risk management response

Michelin's assertive commitment to shrinking its environmental footprint has led to the launch of a number of initiatives.

First, the rolling resistance of our tires is being steadily reduced in order to improve their fuel efficiency. Since 1992, we have developed five generations of more fuel-efficient tires for cars and three for trucks. Furthermore, consumption of rubber and synthetic products has been considerably reduced in recent years thanks to R&D investments, which have enabled the production of lighter tires that last longer and can carry heavier loads.

Second, we are actively attenuating the environmental impact of the tire manufacturing process, with a substantial reduction in energy and water use and in VOC and CO_2 emissions. We have also scaled back as far as possible the amount of waste produced. At the same time, end-of-life tires are recycled in all of our host countries, with the recycling rate reaching 95% in the European Union.

Progress in our environmental responsibility performance is measured annually, and in 2014 the Michelin sites Environmental Footprint indicator was 34.9% lower than in 2005.

For further information on environmental risks see section 6.3 on page 178, as well as the 2014 Annual and Sustainable Development Report.

2.10.3 d) Risk related to the safety and performance of products and services

▸ Risk factors

The tire is an important vehicle safety component. Michelin's brand image is inextricably linked to the innovative features, quality, reliability and safety of its products, which are also an important factor in vehicle safety. Every year, we manufacture over 178 million tires worldwide to equip everything on wheels, including cars, trucks, buses, aircraft, scooters, motorcycles, earthmovers, farm tractors and subway trains.

The regulatory environments in our operating markets vary widely and our tires are used in a broad range of conditions. Consequently, Michelin's exposure to product risk can arise from weather conditions (temperature and humidity), from the quality and type of pavement (motorways, highways and runways), from the unusually extreme use of our tires in some geographic regions (in terms of load or speed), from counterfeit tires that do not offer customers the same safety guarantees, and from highly specific uses that push the boundaries of current technological capabilities.

▸ Risk management response

Tire quality, reliability and safety are part of our corporate DNA and the primary concern of every employee. This corporate culture is demonstrated in operations by strict procedures and processes that guarantee optimal quality at each stage in a tire's service life, from specifications and design to process engineering, manufacture, distribution and use. To effectively anticipate and manage potential risks related to the use of our products, their in-situ behaviour is constantly monitored to detect even the slightest indication and to swiftly implement any requisite corrective measures.

2.10.3 e) Accounting and financial risks

Organization of financial risk management

The Corporate Financing Department controls, measures and supervises financial risks for each company and region, as well as at Group level. These tasks are overseen by the Group Financial Department, to which the Corporate Financing Department reports.

One of the Corporate Financing Department's ongoing missions is to define the rules for applying financial risk management policies, which are 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 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.

The Financial Risks Committee is responsible for defining and approving financial risk management policies, identifying and assessing risks, and approving and monitoring hedges. It meets on a monthly basis and comprises representatives from the Group Financial Department and the Corporate Financing Department.

Liquidity risk

▶ 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.

▶ Risk management response

The Corporate Financing Department is responsible for ensuring that the Group has the financing and liquidity it needs at the lowest possible cost. The Group raises financing on the capital markets through long-term financial instruments (bond issues), as well as through bank facilities (loans and credit lines), commercial paper programs and receivables securitization programs. The Group has also negotiated committed back-up credit lines and maintains cash reserves that are calibrated in order to ensure the refinancing of 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 Compagnie Financière du groupe Michelin, "Senard et Cie" (CFM), which acts as the financing hub for the Group.

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

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

Short-term financing for subsidiaries that do not participate in the cash pool 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 strives to ensure that its financial contracts do not include hard covenants or "material adverse change" clauses that could restrict its ability to utilize credit lines or accelerate its repayments. At December 31, 2014 no such clause featured in the Group's loan agreements. With regard to default and acceleration clauses, there is only a very low probability that the related triggering events will actually occur, and any potential impact on the Group's financial position would not be material. For further information on the Group's liquidity risk see note 4.2.1 to the 2014 consolidated financial statements on page 213.

Currency risk

▶ 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 exchange rate fluctuations between the date when these monetary assets and liabilities are recorded in the accounts and the date when they are recovered or settled.

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

▶ Risk management response

Foreign currency transaction risk

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

Each Group company continually calculates 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 net exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts. The structural exposure is hedged using long-term instruments (with a life of up to five years) and the operational exposure is hedged using short-term instruments (generally expiring within three months). Currency risk monitoring and hedging is based on Group internal standards and procedures. A currency transaction risk alert system is implemented throughout the Group under the responsibility of the Corporate Financing Department. These exposures are tracked on a monthly basis *via* a detailed management report.

Foreign 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 parent company's foreign exchange position.

Interest rate risk

▸ Risk factors

The Group's income statement may be affected by interest rate risk. An unfavourable change in interest rates may adversely affect future finance costs and cash flows. The Group is in a net debt position and is exposed to the risk of an increase in interest rates on its variable rate debt. 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. It is also exposed to interest-rate risk on its financial investments and the related yields.

▸ Risk management response

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

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

The interest rate position is centralized by currency by the Corporate Financing Department which 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, notably taking into consideration the Group's gearing (as hedging requirements evolve in line with the relative weighting of debt).

For further information on the Group's interest rate risk see note 4.2.3 to the 2014 consolidated financial statements on page 214.

Equity risk

▸ 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.

▸ Risk management response

The Group Investments Committee, which comprises representatives from the Finance, Legal Affairs and Corporate Development Departments, is responsible for ensuring that investment management and monitoring rules are properly applied. To this end, the Committee reviews investments each year to assess the degree of risk involved and the results obtained compared with the stated objectives.

For further information on the Group's equity risk see note 4.2.4 to the 2014 consolidated financial statements on page 215.

Counterparty risk

▸ 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.

▸ Risk management response

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 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 asset value of derivative instruments used for hedging purposes. These amounts and their distribution by banks are tracked weekly by Group Treasury and monitored monthly by the Financial Risks Committee.

To limit counterparty risk on hedging instruments, the Group enters into two-way collateral agreements with its main banks.

For further information on the Group's counterparty risk see note 4.2.5 to the 2014 consolidated financial statements on page 215.

Credit risk

▸ 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.

▸ Risk management response

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 managing and collecting trade receivables. The main policies and procedures are defined by the Group and are monitored and controlled at both regional and Group level. A monthly credit risk reporting system has been set up to monitor these risks.

For further information on our major customers see note 4.2.6 to the 2014 consolidated financial statements on page 215.

2.10.3 f) Business interruption risk

Risk factors

The Group's tires are produced in two stages. First, semi-finished products are manufactured for use as components, and then the semi-finished products are processed and assembled to produce the finished products that make up the different types of tires we sell. Consequently, any business interruption incident at a semi-finished product facility could have a serious impact, given that its output may be used by several different finished product plants.

There are a variety of external and internal factors that can give rise to business interruption risk for both of these types of production facility.

External risk factors include (i) supply shortages, which could jeopardize the output of semi-finished products and have a serious knock-on effect on the production of finished products, (ii) natural disasters, particularly in high-risk regions such as the United States (tornadoes) and Asia (flooding), and (iii) regulatory or geopolitical changes.

Internal sources of business interruption risk are fire, IT failures and other technical problems.

Risk management response

To effectively anticipate and manage business interruption risk, Michelin has set up a specific plan focused on the following three action areas:

1. Prevention, by stepping up training for plant staff, conducting technical inspections, securing component supply, strengthening fire safety measures, and strategically selecting plant locations;
2. Protection, by keeping buffer inventory of replacement parts for critical equipment, performing regular maintenance, multi-sourcing finished-product inputs, developing multi-sourcing among component suppliers, and striking the right balance between insourcing and outsourcing of component production;
3. Management, notably by deploying a Business Continuity Management process for all production activities. This process enables us to respond swiftly in the event of a crisis, by quickly transferring a production line to another plant and identifying critical products so that strategic decisions can be made ahead of time.

2.10.3 g) Supply continuity risk

Risk factors

Every year Michelin purchases over €11 billion worth of goods and services from around 60,000 different suppliers. These purchases can be broken down into three different types:

1. Raw materials, divided into eight categories: natural rubber, monomers, elastomers, fillers, chemicals, oils and resins, textile reinforcements and metal reinforcements;
2. Industrial purchases, mainly engineering services for building new plants and improving existing facilities;
3. Services, primarily logistic, financial, advertising, consulting and industrial services.

The Group is therefore exposed to three different types of risk factors related to supply continuity:

- any imbalance between supply and demand can lead to tighter markets, which in turn can create supply difficulties for rare, high-demand or single-source raw materials;
- the scarcity of certain components can make the Group dependent on their suppliers. For example, consolidation in commodity markets can exert pressure on the supply chain;
- certain regulatory constraints – such as the recent tightening of environmental regulations in Europe, the United States and a number of emerging countries – can impact the operations of some suppliers.

The Group is also exposed to the risk that one or more of its suppliers may cease trading, which can happen for a wide variety of reasons including financial difficulties, a deliberate decision to withdraw from an insufficiently profitable business, termination of production following acquisition by a competitor, or the closure of a production facility as a result of a fire, explosion, natural disaster or geopolitical event.

Risk management response

To more effectively anticipate, prevent and manage supply continuity risks, procedures have been introduced to centralize purchasing across the globe. The procedures are also designed to anticipate and manage risks more effectively.

In general, several categories of risk management measures have been put in place Group-wide to deal with all types of supply risk. These include raising employee awareness of these issues to improve risk planning, conducting audits of critical suppliers' business continuity plans, signing multi-year contracts with the main suppliers, looking for new suppliers, maintaining strategic buffer inventory for critical products and seeking substitute products when certain commodities become scarce.

2.10.3 h) Property security risk

▸ Risk factors

The main property security risk is fire, both in production processes and in storage areas for raw materials and finished products. However, very few significant fire incidents have been reported Group-wide.

▸ Risk management response

To manage this risk, Michelin developed the proprietary High Protected Risk Michelin (HPRM) standard, which covers prevention, protection, early detection and rapid response. A corporate team of risk management experts oversees a network of on-site correspondents to ensure that the standard is properly applied. In addition, existing facilities are currently being upgraded to HPRM standards. All new projects are audited by an Environmental and Prevention expert for HPRM-compliance using a proprietary application. Feedback and best practices are systematically shared across the organization and formally documented. Thanks to effective application of this standard, in the past decade no fire or other industrial accident at any of Michelin's sites worldwide has caused serious injury to employees, damage to Group or third-party assets, or an adverse environmental impact.

2.10.3 i) Knowledge retention risk

▸ Risk factors

One of Michelin's competitive advantages stems from the ability to sharply differentiate its products and services thanks to continuous, sustained innovation. Consequently, protecting its knowledge, expertise and any and all trade secrets is a key factor in maintaining its leadership and driving its future growth.

The Group is exposed to risks in its cooperation with external stakeholders, including consumers, suppliers, partners, subcontractors and academic institutions. Likewise, it is dependent on the information systems used to store and share sensitive information.

Michelin is also exposed to risks relating to a fast-changing business environment, in which security breaches and piracy are becoming increasingly sophisticated and require constant vigilance and responsiveness from the IT teams. In addition, the Group has to take into account the growing use of social networks and the resulting risk of information leakage.

Sensitive information mainly concerns products, services, materials, procedures, equipment, techniques and methods, as well as design, testing and manufacturing data. However, information about production, research, marketing and other business strategies, as well as consumer and supplier databases, also risk being lost or stolen.

▸ Risk management response

To prevent the risk of Michelin know-how and/or expertise being disclosed or lost, the Group safeguards its intellectual property by protecting its trade secrets, in the broadest sense of the term, and by filing patent applications when possible or appropriate. Operating markets are therefore closely monitored to ensure that our intellectual property rights are not infringed. In the last decade, for example, the patent portfolio has tripled to more than 2,000 active patents. Sensitive information and assets are also protected by physical and logical security systems.

2.10.3 j) Human resources risk

▸ Risk factors

Michelin's strategy for the coming years is based on four core objectives: drive strong, diversified growth, become more competitive, deliver sustainable business and financial performance, and foster mutual commitment between the Group and its people.

With this in mind, we need to refresh and adapt our capabilities both to support our growth in emerging markets and to replace employees who are nearing retirement age, especially in the mature markets. This means upgrading current skills-sets, incorporating new ones, transferring knowledge and expertise, and encouraging employee mobility, both geographically and across businesses. For these reasons, maintaining our appeal as an employer and enhancing our induction, training and skills development initiatives for new hires, will act as key enablers over this period.

Moreover, in a fast-moving competitive environment, being unable to attract and retain talent worldwide or effectively transfer our culture and expertise represents a significant risk that could prevent us from meeting our objectives.

▸ Risk management response

To refresh and sustainably nurture its capabilities, Michelin has undertaken a large number of initiatives to attract the best talent and ensure the effective transfer of knowledge and expertise among employees. In addition, mobility among units, job-tracks and countries is strongly encouraged. The Group has a network of experienced in-house trainers. In 2014, the percentage of training hours per total hours worked was 4.1%.

Concerning employee benefits, defined benefit pension plans have been set up, primarily for employees in North America and the United Kingdom. These plans represent a long-term benefit payment obligation for the Group. Michelin's total obligation for pension plans and other employee benefits amounted to €10.7 billion as of December 31, 2014, including €7.5 billion in partially or fully funded commitments. At the same date, the related plan assets totalled €6.1 billion.

The main factors that affect the amount of the employee benefit obligation are returns on plan assets, actuarial assumptions (including the discount rate), experience adjustments, changes in legislation and plan amendments. An adverse change in one or more of these factors could result in a significant increase in the amount of the obligation and consequently require the Group to make additional contributions to make up for the funding shortfall.

For further information on the financing of employee benefits see note 27 to the consolidated financial statements, which gives a breakdown of provisions for employee benefit obligations.

2.10.3 k) Legal and tax risks

▸ Risk factors

By virtue of its size, industry, global footprint and diverse business lines and processes, Michelin faces a certain number of legal and tax risks.

As well as the legal risks that affect all international manufacturing companies, the Group is exposed to the following:

- **antitrust risks:** due to the size of our market share, we have to be particularly vigilant about our position vis-à-vis the competition;
- **product liability risks,** reflecting the safety issues associated with our products;
- **intellectual property risks:** in view of the important role that innovation plays in our business model, our knowledge and expertise have to be protected by carefully and diligently managing our trade secrets and by filing patent applications where appropriate.

▸ Risk management response

The Group Legal Affairs Department constantly monitors the regulatory landscape to identify any changes or developments.

More specifically, it supports the contract management process by systematically reviewing sale and purchase agreements. It has also devised an internal program aimed at ensuring compliance with antitrust laws and has set up product liability insurance coverage.

Meanwhile, the Tax Department, which reports to the Group Financial Department, has put in place its own system for tracking changes in tax legislation.

Lastly, Michelin believes that as of the date this document was prepared there were no non-recurring events or governmental, legal or arbitration proceedings either in progress or impending that would be likely to have or had in the past 12 months a material impact on the Group's financial position, results, operations or assets.

2.10.3 l) Information technology and information systems risks

▸ Risk factors

Michelin's business relies on state-of-the art information technology, systems and infrastructure (datacenters, servers and networks).

Over the past 10 years, we have extensively overhauled our information technology and systems, building both on legacy assets and those of the successive companies acquired. Our broad geographic footprint and highly diverse business base, product ranges and procedures all make for a complex environment, with the result that our information system has several thousand applications, a thousand or so main servers and around one hundred datacenters.

To cite just a few of the major changes, management of IT infrastructure (servers, networks and datacenters) has been outsourced, partnerships have been formed to develop applications, and data hosting sites have been centralized. As a result, we are becoming more dependent on our partners for deploying and maintaining our IT infrastructure and software and are particularly exposed to the risk of a service interruption by a key provider. Other IT risk factors may include security breaches, piracy, theft of knowledge, expertise or confidential information, the shutdown of one or several systems due to an IT failure, obsolescence of an information system component (*e.g.* an application or server), and regulatory changes, notably concerning the Internet (licenses, copyright, personal data protection, etc.).

▸ Risk management response

To deal with the above-described IT and information systems risks, multi-year action plans have been prepared based on the following measures: (i) closely tracking contractual terms and conditions to be able to respond in the event of service provider default, (ii) reinforcing the physical and logical security of IT systems, (iii) systematically reviewing IT continuity needs and putting in place IT recovery plans, and (iv) replacing obsolete components with new ones or a solution combining several applications. The internal auditors periodically monitor and analyze these measures to ensure that they are effective and are being correctly applied.

2.10.3 m) Project management risk

▸ Risk factors

In view of the tire market's medium- to long-term structural growth prospects, Michelin plans to maintain its capital expenditure commitment in coming years, investing between €1.5 billion and €1.8 billion a year depending on the outlook of its host markets.

There are three types of major projects.

The first are growth projects, which are mainly focused on manufacturing facilities and aimed at increasing production capacity. Examples include the ramping up of four large-scale plant construction projects in Itatiaia (Brazil), Shenyang 2 (China), Chennai (India) and Anderson (United States) and the project for the construction of a new synthetic elastomer plant in Indonesia.

The second are business transformation projects, which have been consolidated into two priority programs: the OPE Business Management System – intended to create an integrated reporting and information sharing system to enhance the Group's management and performance – and the Efficiency Program, designed to streamline and optimize the support function processes.

The third are technological innovation projects to support the development of new components or new products. Examples include the production of the material for the Selfseal® technology and the MICHELIN® X® TWEEL® airless radial tires.

Michelin is therefore exposed to a number of risks that may arise when implementing major projects, such as the risk of a project falling out of alignment with corporate strategy or even failing after not meeting its milestone or budget targets.

Risk management response

To effectively control the risks that may arise on major projects, an annual process is in place to allocate the necessary resources for their management. In addition, to ensure consistent implementation, standard project management methods defined by the Group Quality Department are used Group-wide. Each major project has its own governance framework, with responsibilities allotted among the project owner, the project manager and the project contributors. Coaches are also assigned to major projects to support project managers in leading the project and managing change.

Lastly, quality controls are performed to ensure that any potential risks have been identified and addressed in line with Group practices. In addition, major projects are audited by the Group Audit and Risk Management Department.

2.11 MATERIAL CONTRACTS

There are no material contracts other than those concluded in the ordinary course of business.

2.12 CHANGE OF CONTROL

Because the Company is organized as a *société en commandite par actions* (partnership limited by shares), any shareholder gaining control of the capital and corresponding voting rights could not exercise control over the Company without the approval, in accordance with the bylaws, of the Non-Managing General Partner and/or, as the case may be, all of the General Partners and/or the Supervisory Board, which would be required to make the following decisions:

- election of new Managing Partners;
- amendment of the bylaws;
- election of new General Partners.

2.13 INFORMATION CONCERNING SUPPLIER PAYMENTS

(Provided in compliance with Articles L. 441-6-1 and D. 441-4 of the French Commercial Code)

	Past due		Due within 60 days		Due beyond 60 days		Total trade payables	
Trade payables *(including tax, in € thousands)*	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Foreign suppliers:								
Group	0	0	11,236	9,503	0	0	11,236	9,503
Non-Group	0	0	505	785	0	0	505	785
French suppliers:								
Group	0	0	125,465	102,286	0	0	125,465	102,286
Non-Group	0	0	78	239	0	0	78	239
TOTAL	**0**	**0**	**137,284**	**112,813**	**0**	**0**	**137,284**	**112,813**

Trade payables totalled €137 million at December 31, 2014 and €113 million at December 31, 2013. They are reported under "Other liabilities" which, including other payables, amounted to €282 million at year-end 2014 and €219 million at year-end 2013.

2.14 MATERIAL CHANGES IN THE COMPANY'S BUSINESS OR FINANCIAL POSITION

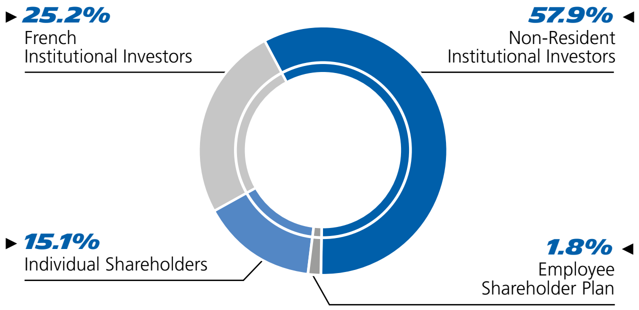
There were no material changes in the Company's business or financial position between February 9, 2015 (the date of the Statutory Auditors' Report) and the date on which this Registration Document was filed with the *Autorité des Marchés Financiers.*

2.15 OWNERSHIP STRUCTURE AND VOTING RIGHTS

At December 31, 2014, Michelin's share capital amounted to €371,452,400, represented by 185,726,200 ordinary shares, all fully paid up, with a total of 244,308,764 voting rights.

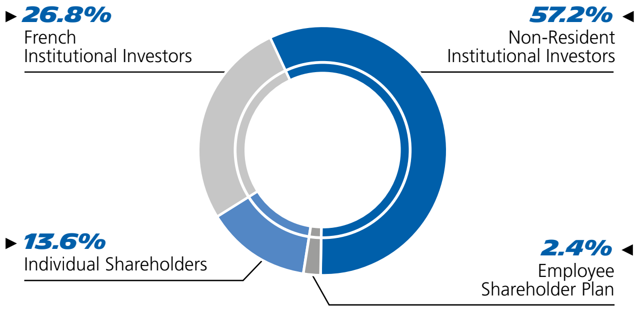
SHARE OWNERSHIP

(at December 31, 2014)



VOTING RIGHTS

(at December 31, 2014)



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

At December 31, 2014, 185,726,200 shares were held by the public, corresponding to 100% of the voting rights.

At the date of filing and to the best of the Company's knowledge:

- on February 25, 2014, Franklin Resources, Inc. held 6.5% of the capital and 5% of the voting rights;
- no other shareholder directly or indirectly holds more than 5% of the capital and voting rights;
- there are no shareholders' agreements or pacts.

There has been no material change in the Company's ownership structure over the last three years.

2.16 INFORMATION DISCLOSED IN COMPLIANCE WITH FRANCE'S GRENELLE 2 ACT

The 2014 social, societal and environment information disclosed in compliance with Article 225 of the Grenelle 2 Act, as well as the Auditors' review report, may be found in Section 6, "2014 Employee, Societal and Environmental Information".

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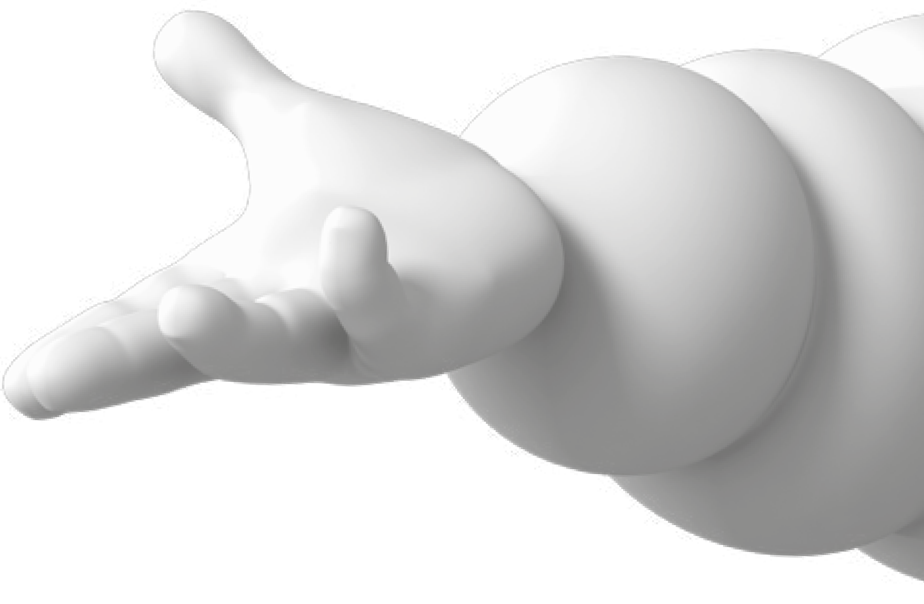
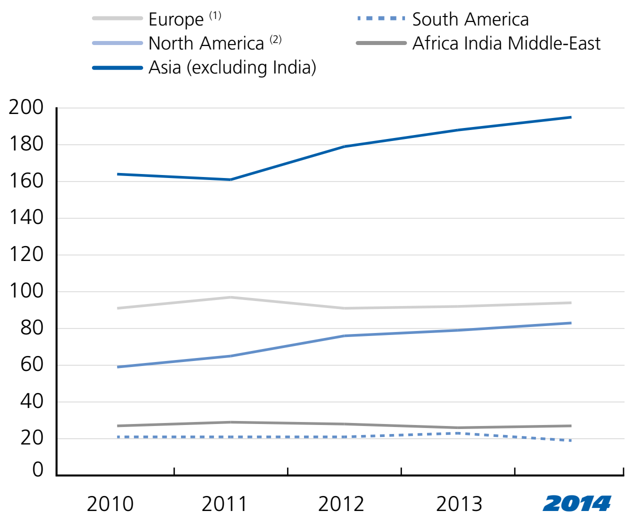


3.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

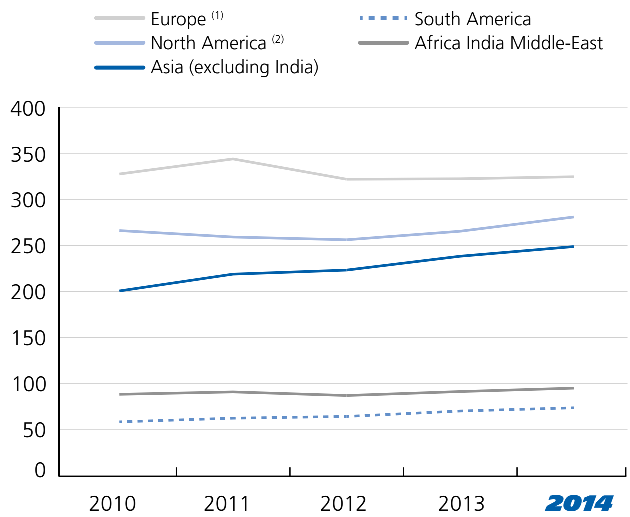
(in millions of tires)



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

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

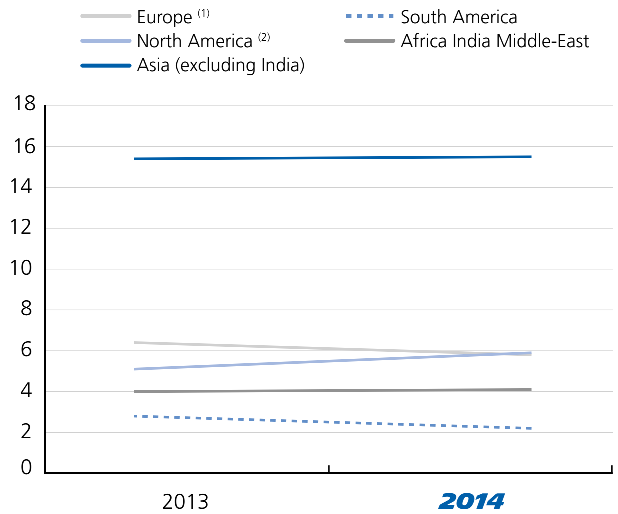
(in millions of tires)



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

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

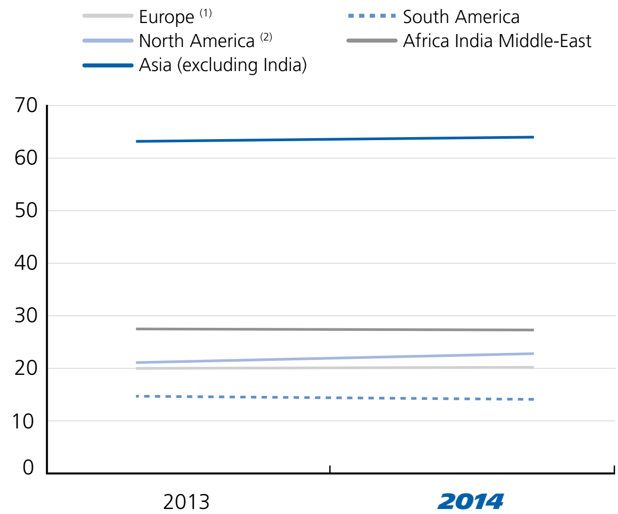
(in millions of new tires)



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

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

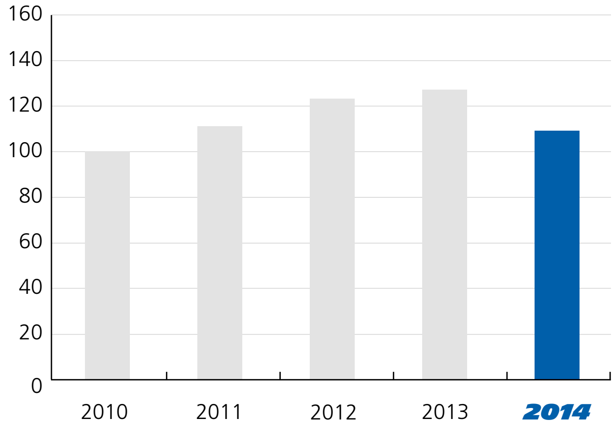
(in millions of new tires)



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

THE EARTHMOVER MINING TIRE MARKET

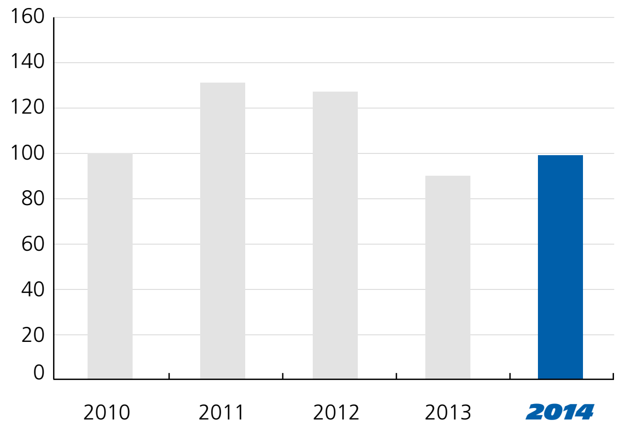
(base 100 in 2010 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

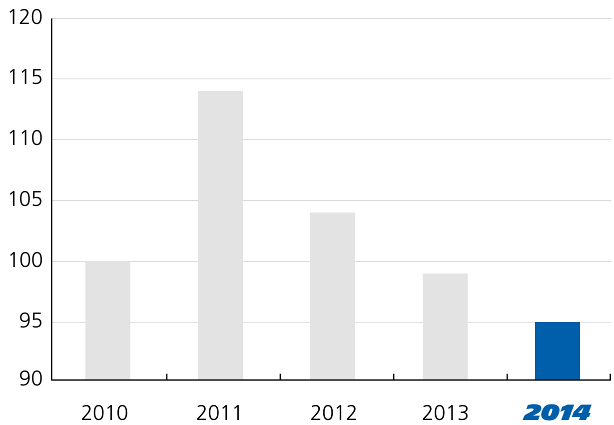
(base 100 in 2010 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

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

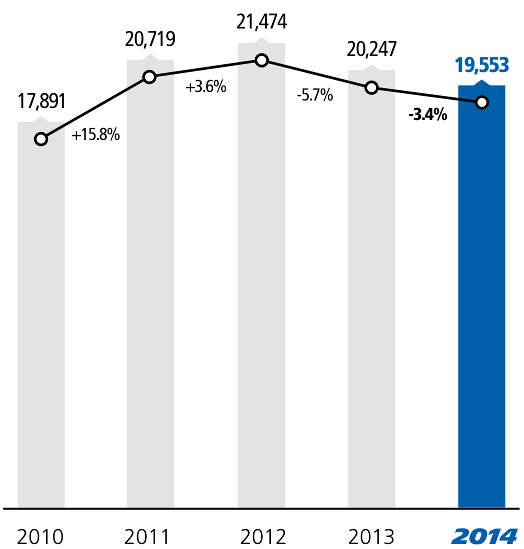


Michelin estimates.

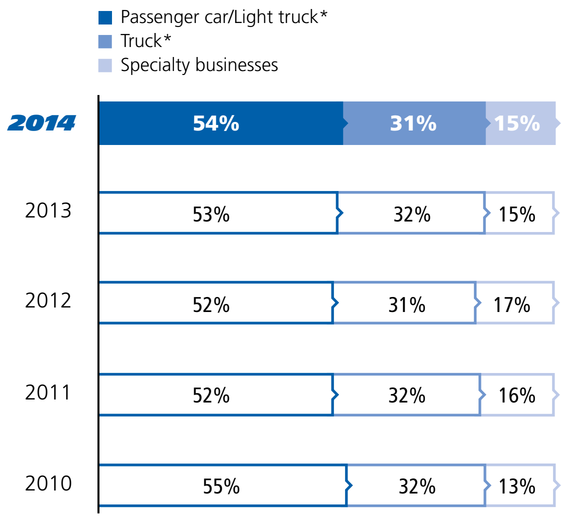
3.2 SALES

UNIT SALES
(in tons)

NET SALES
(in € million)



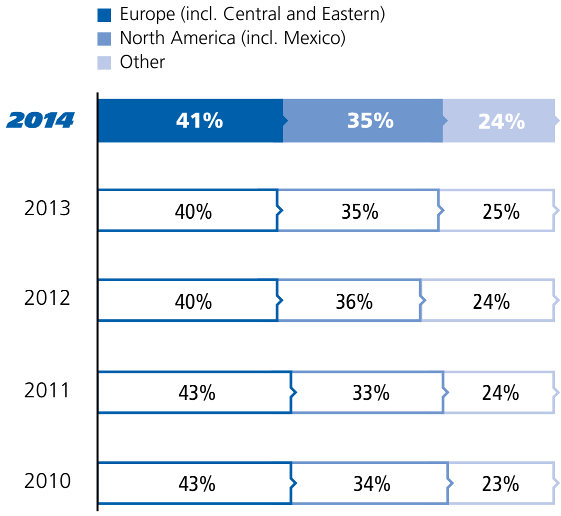
NET SALES BY REPORTING SEGMENT – BREAKDOWN
(in value)



* *And related distribution.*

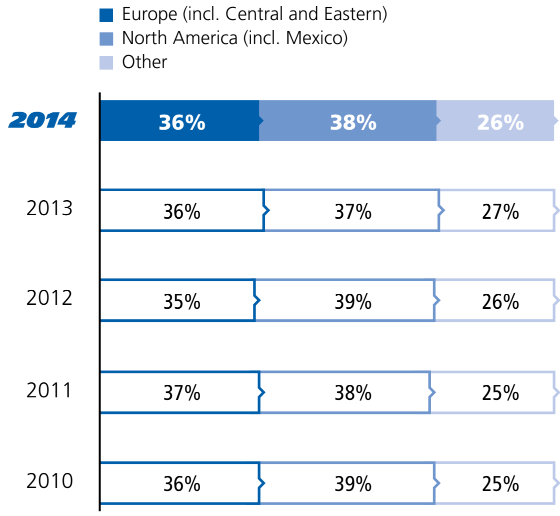
NET SALES BY REGION – BREAKDOWN

(in value)



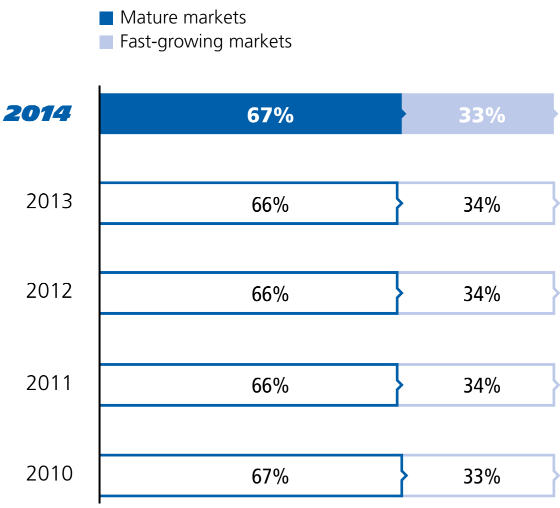
SALES BY REGION – BREAKDOWN

(in tons)



BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

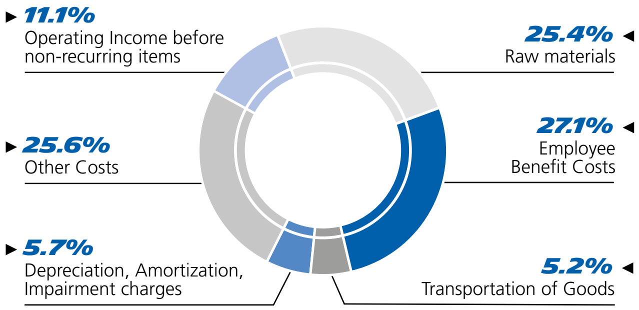


* *Mature markets: United States, Canada, Western Europe and Japan.*

3.3 EARNINGS

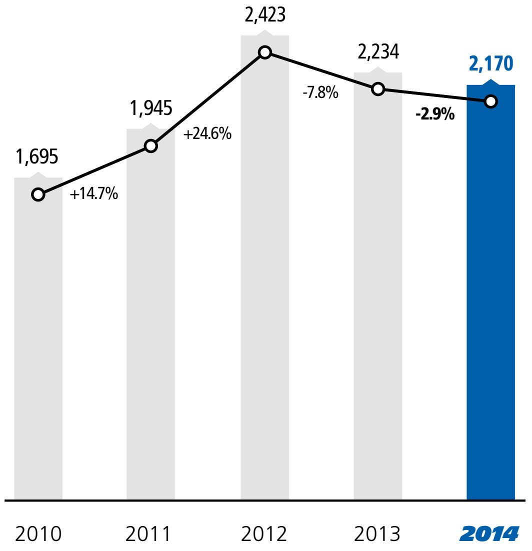
ANALYSIS OF OPERATING EXPENSES

(as a % of 2014 net sales)



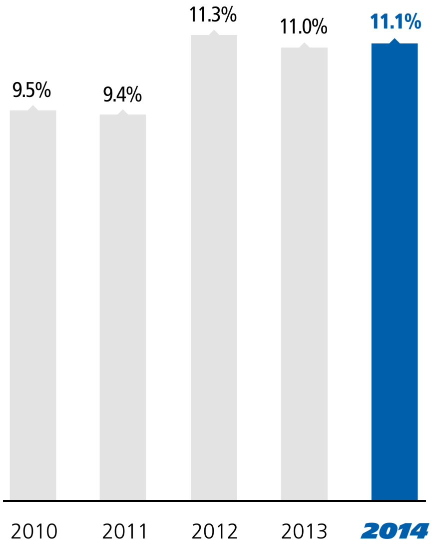
OPERATING INCOME BEFORE NON-RECURRING ITEMS

(in € million)

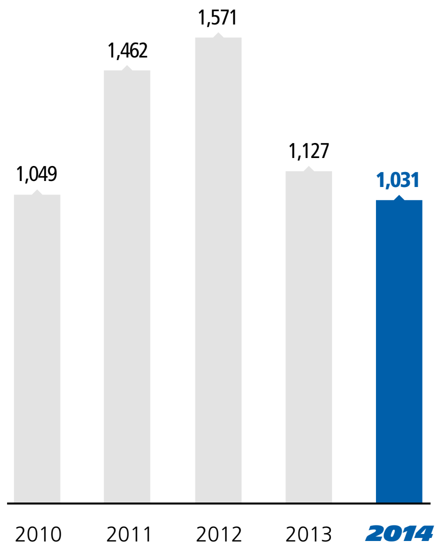


OPERATING MARGIN BEFORE NON-RECURRING ITEMS

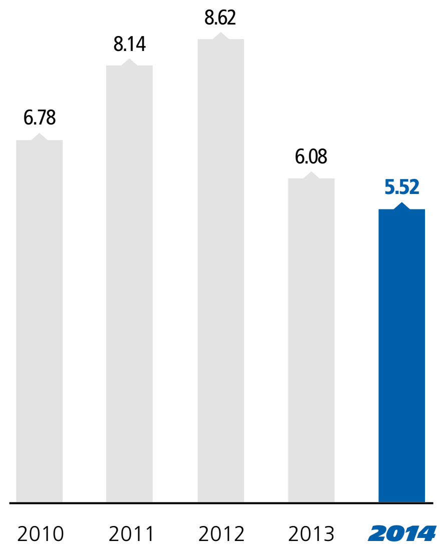
(as a % of net sales)



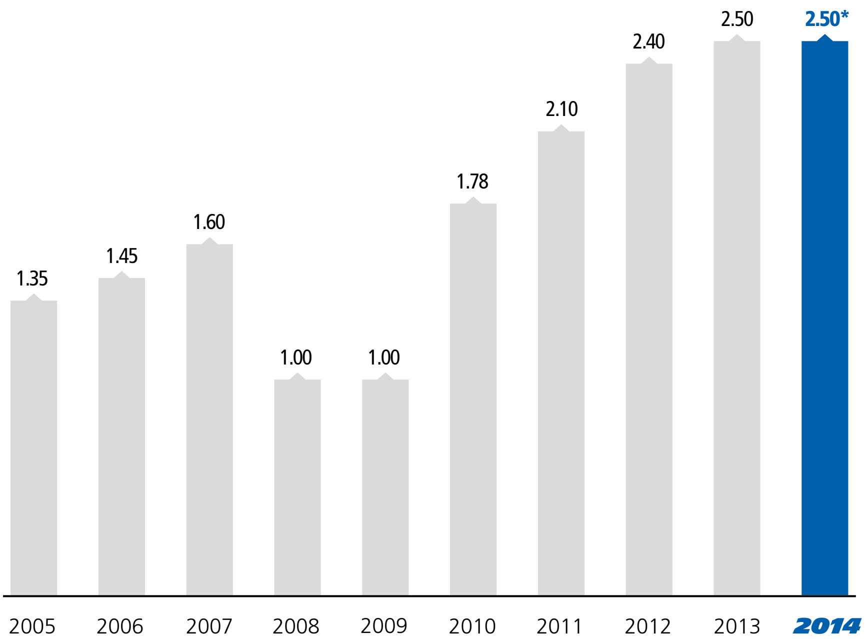
NET INCOME
(in € million)



BASIC EARNINGS PER SHARE
(in €)



DIVIDEND PER SHARE
(in €)

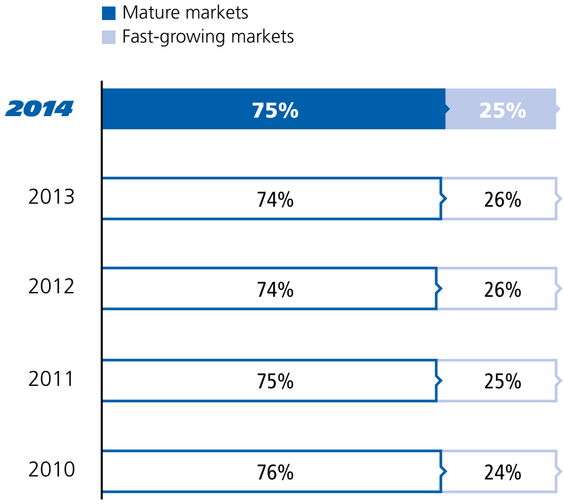


* *Subject to approval at the Annual Shareholders Meeting on May 22, 2015.*

3.4 REPORTING SEGMENTS

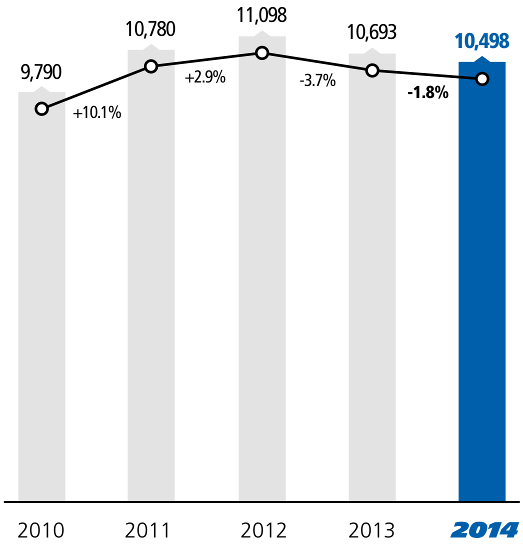
3.4.1 PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

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

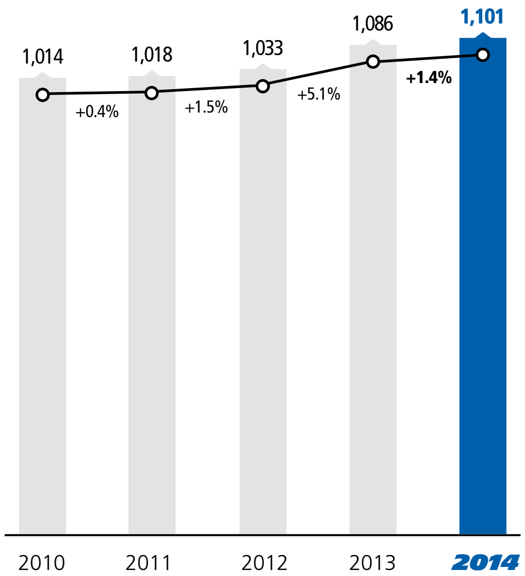


* *Mature markets: United States, Canada, Western Europe and Japan.*

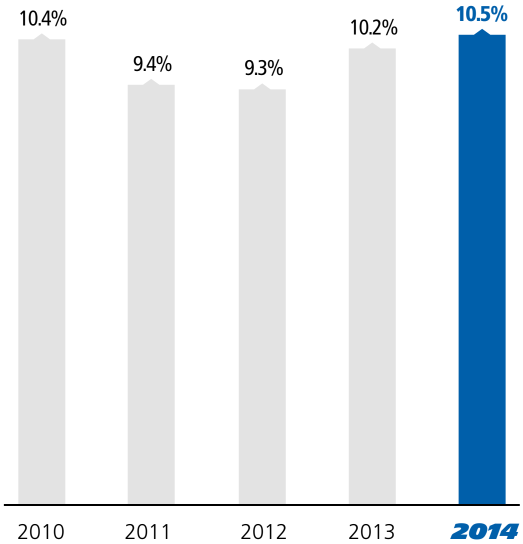
NET SALES
(in € million)



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

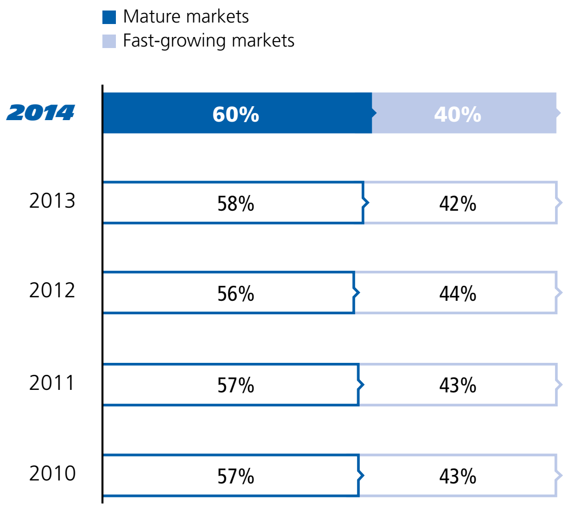


OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)



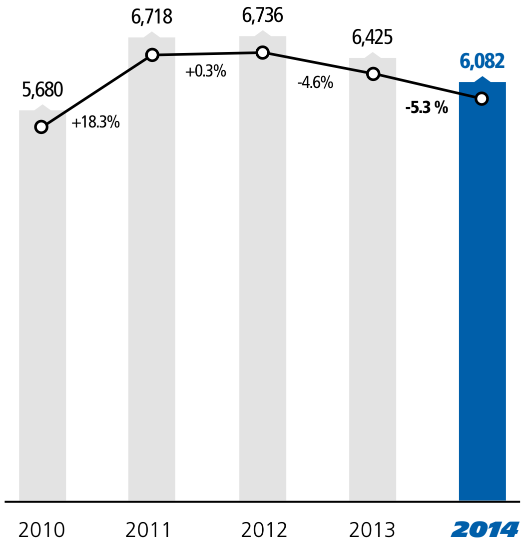
3.4.2 TRUCK TIRES AND RELATED DISTRIBUTION

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

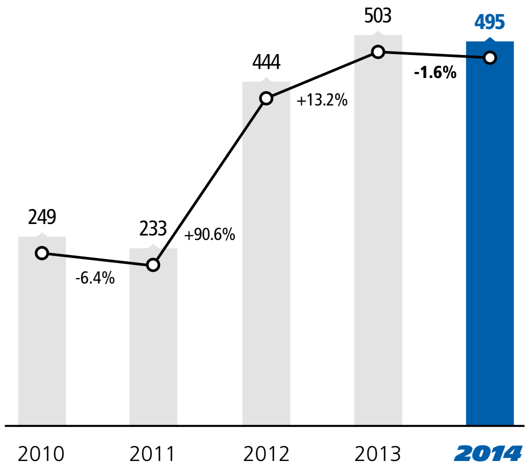


* Mature markets: United States, Canada, Western Europe and Japan.

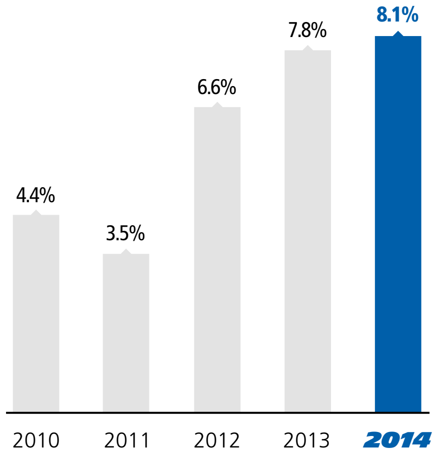
NET SALES
(in € million)



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



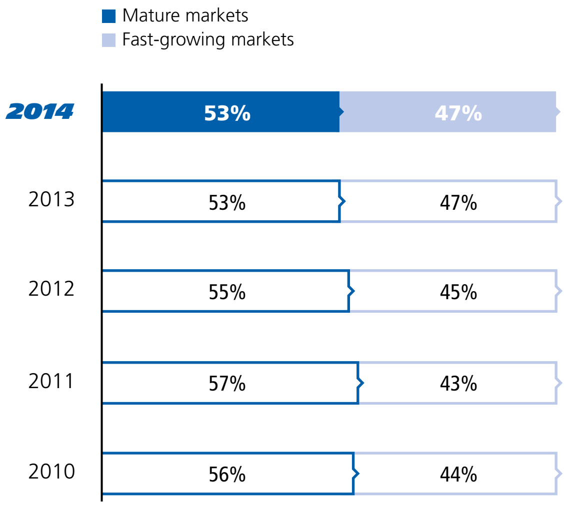
OPERATING MARGIN BEFORE NON-RECURRING ITEMS
(as a % of net sales)



3.4.3 SPECIALTY BUSINESSES

BREAKDOWN OF SPECIALTY TIRE SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

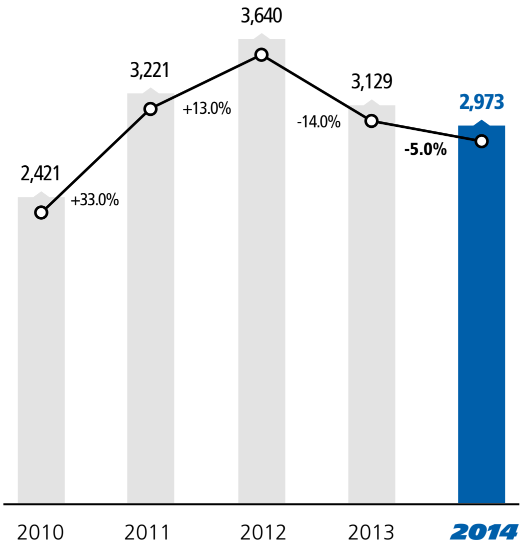
(in tons)



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

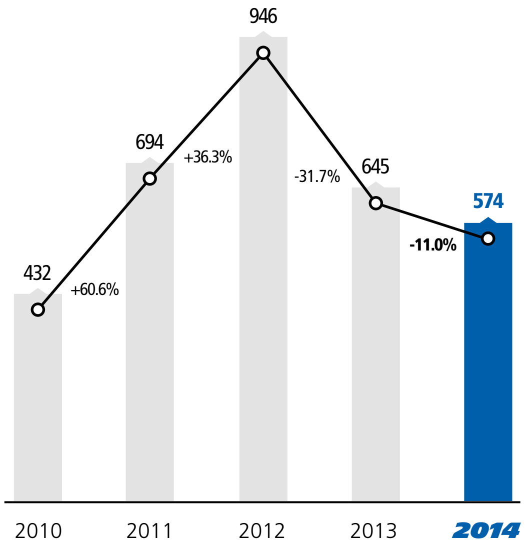
NET SALES

(in € million)



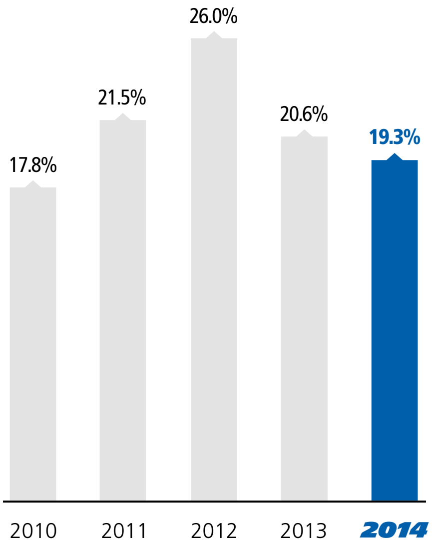
OPERATING INCOME BEFORE NON-RECURRING ITEMS

(in € million)



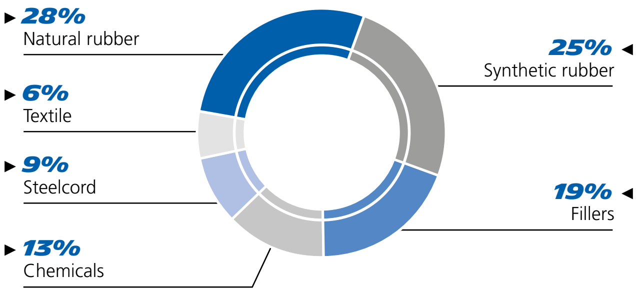
OPERATING MARGIN BEFORE NON-RECURRING ITEMS

(as a % of net sales)

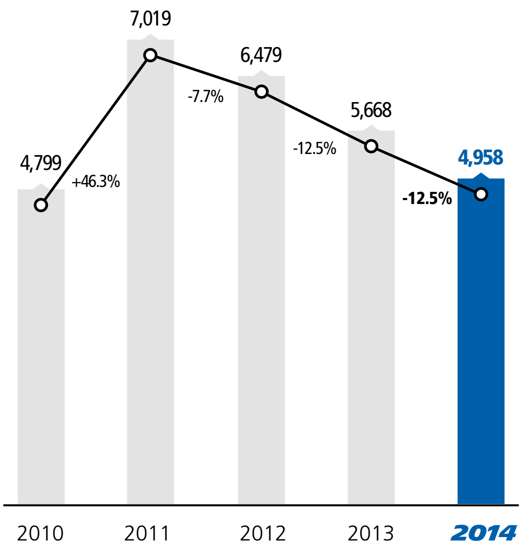


3.5 COST STRUCTURE

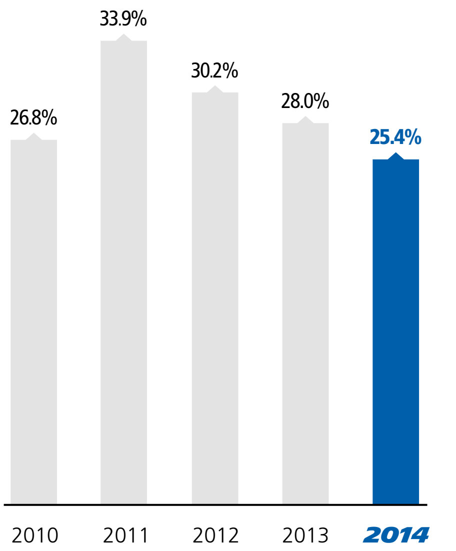
2014 RAW MATERIAL COSTS
(in €)



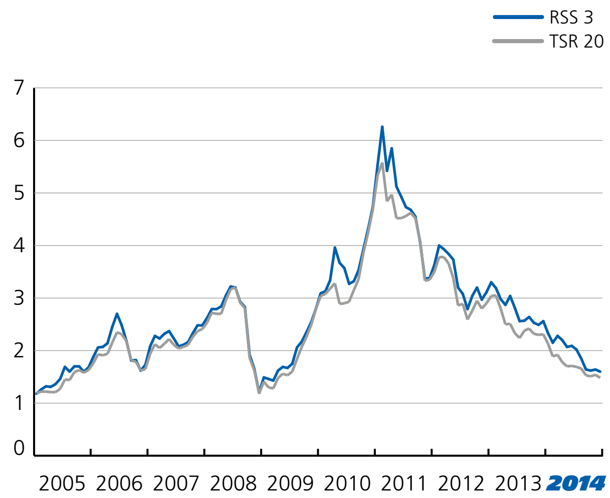
RAW MATERIAL COSTS
(in € million)



RAW MATERIAL COSTS
(as a % of net sales)

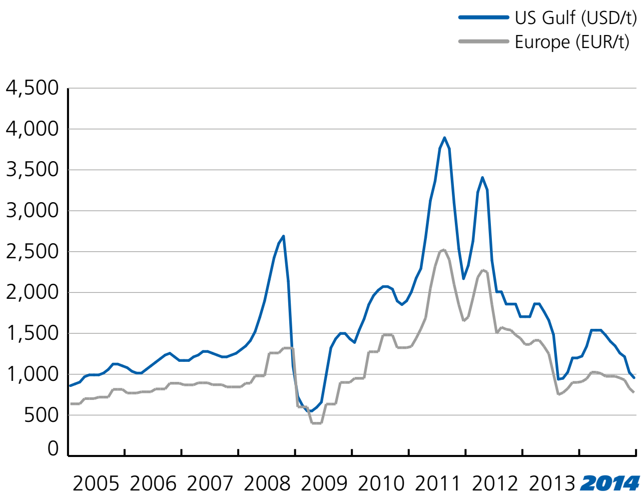


NATURAL RUBBER PRICES*
(in USD/kg)



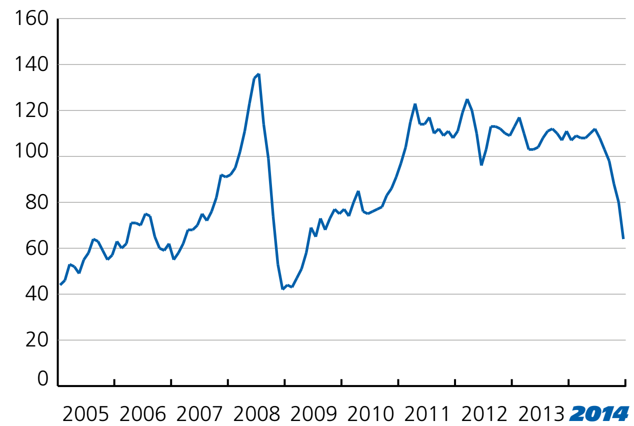
* *Monthly average.*

BUTADIENE PRICES*



* *Monthly average.*

BRENT OIL PRICES*
(in $/bbl)

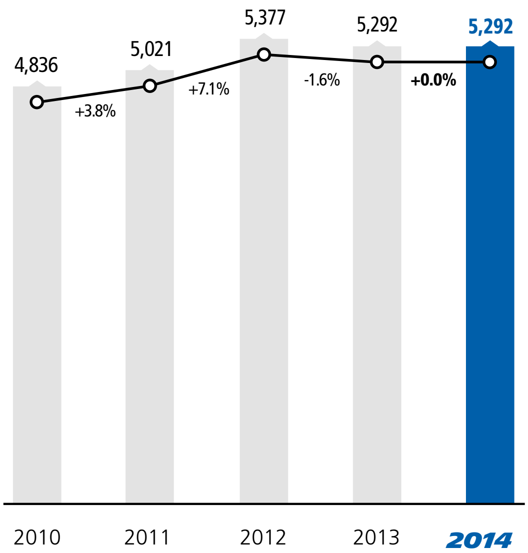


* *Monthly average.*

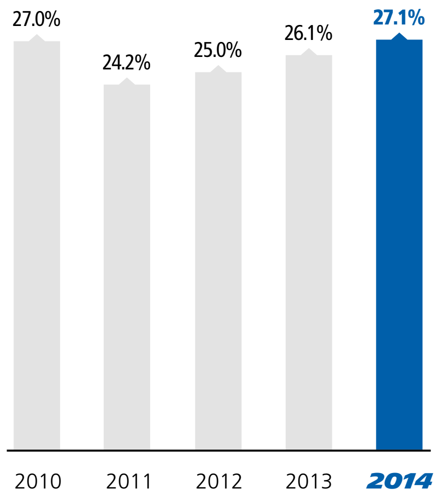
STYRENE PRICES*
(in €/ton)

* *Monthly average.*

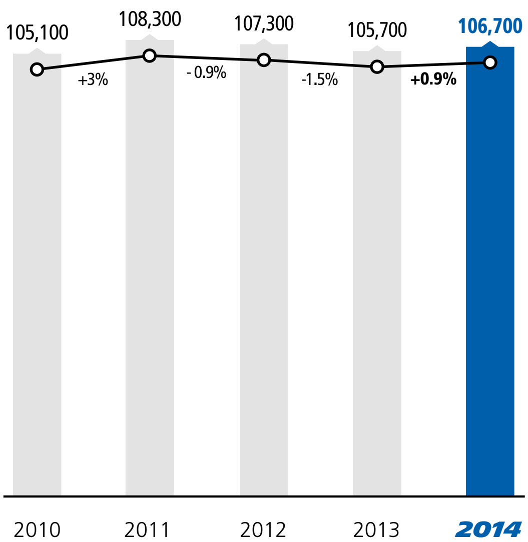
EMPLOYEE BENEFIT COSTS
(in € million)



EMPLOYEE BENEFIT COSTS
(as a % of net sales)



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



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

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

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

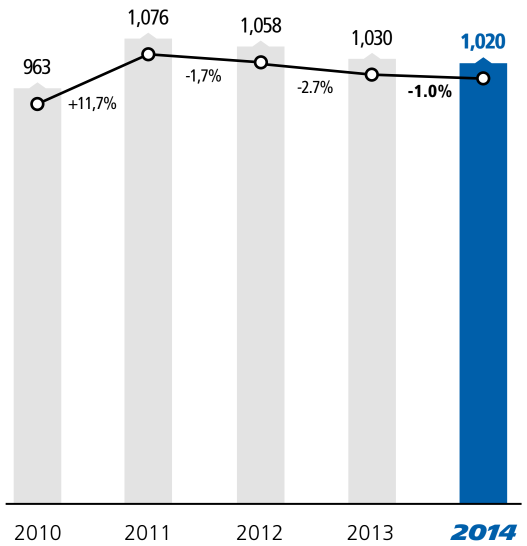
EMPLOYEES BY JOB CATEGORY

(full-time equivalent employees at December 31)

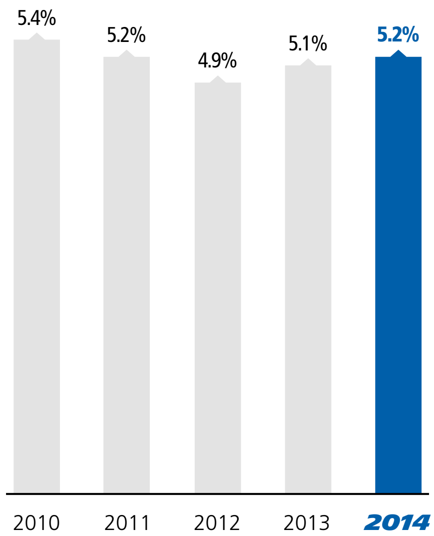
	2014	2013	2012	2011 [1]	2010 [1]
Production workers	62.4%	61.4%	63.1%	63.6%	64.5%
Administrative and technical staff	30.0%	30.9%	30.1%	30.0%	29.2%
Managers	7.6%	7.7%	6.8%	6.4%	6.3%

(1) Excluding distribution.

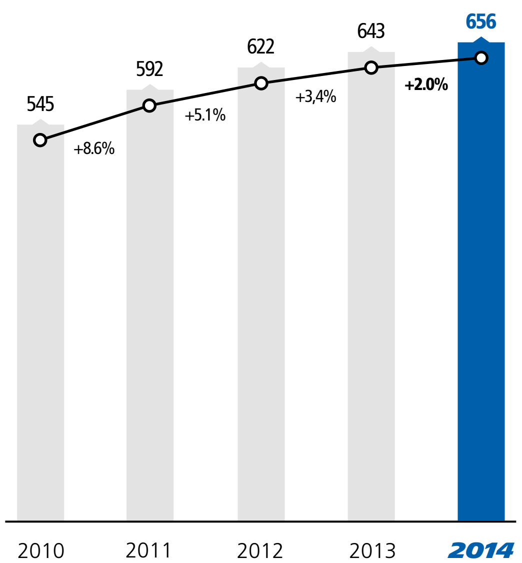
TRANSPORTATION COSTS
(in € million)



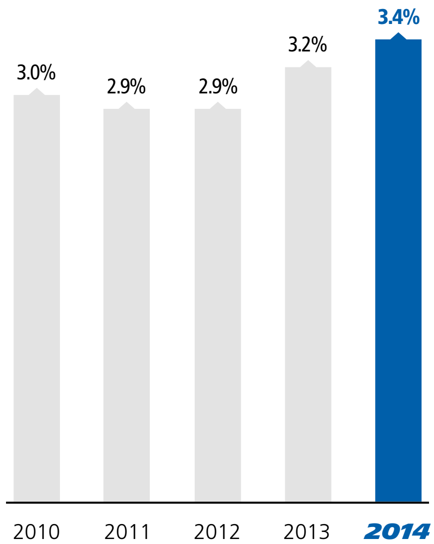
TRANSPORTATION COSTS
(as a % of sales)



RESEARCH AND DEVELOPMENT COSTS
(in € million)

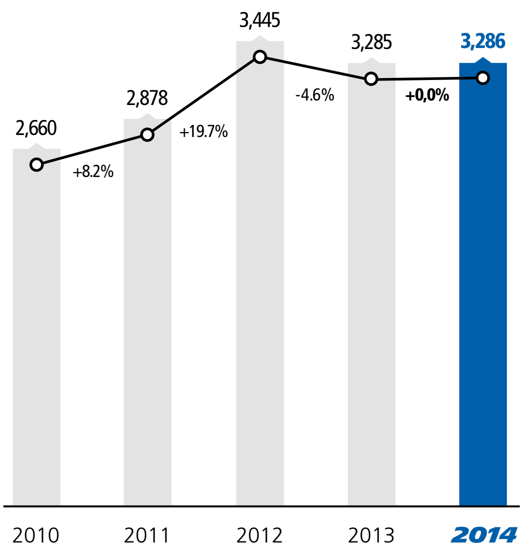


RESEARCH AND DEVELOPMENT COSTS
(as a % of sales)

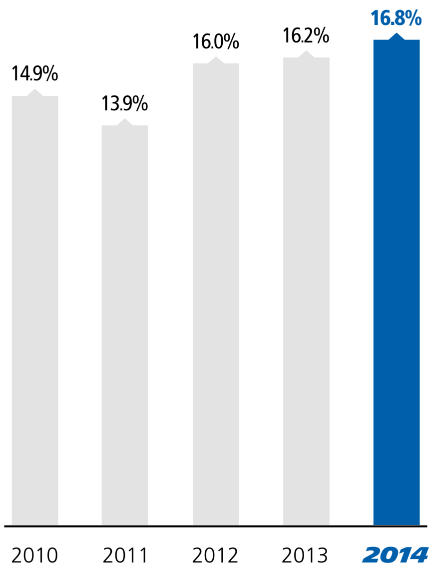


3.6 CASH FLOW AND BALANCE SHEET

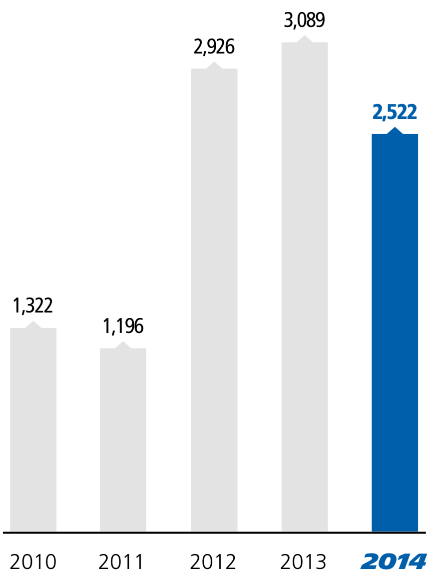
EBITDA BEFORE NON-RECURRING INCOME AND EXPENSES (1)
(in € million)



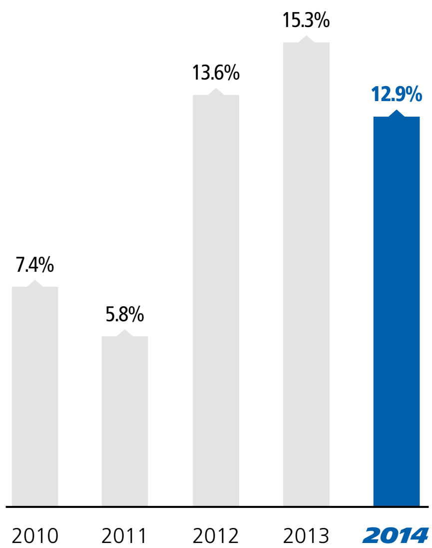
EBITDA BEFORE NON-RECURRING INCOME AND EXPENSES (1)
(as a % of net sales)



CASH FLOWS FROM OPERATING ACTIVITIES
(in € million)

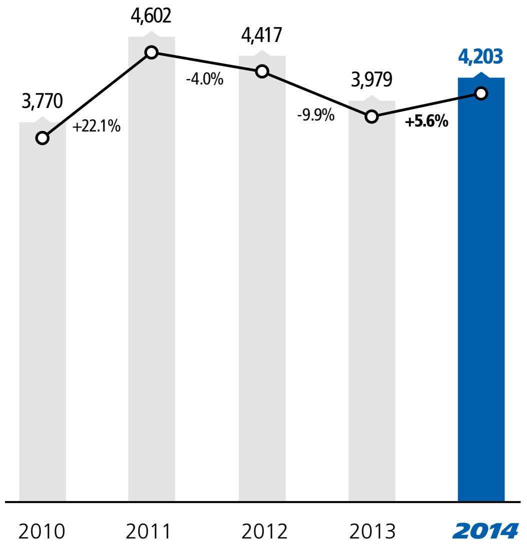


CASH FLOWS FROM OPERATING ACTIVITIES
(as a % of net sales)

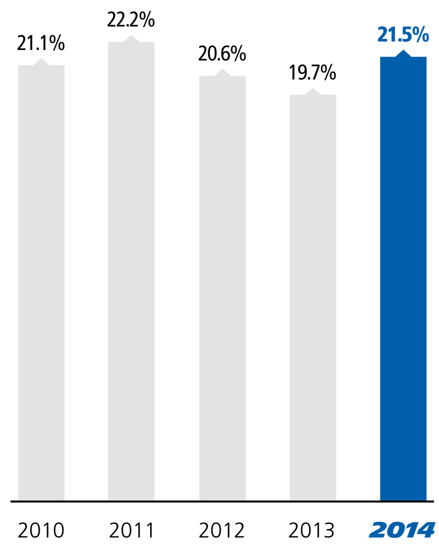


(1) This indicator is defined in note 3.7.2 to the consolidated financial statements.

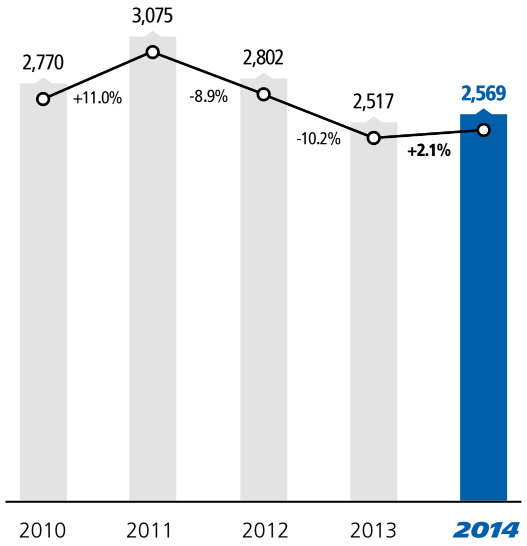
INVENTORIES
(in € million)



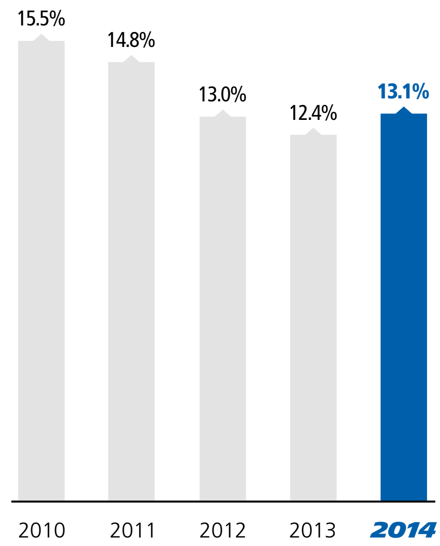
INVENTORIES
(as a % of net sales)



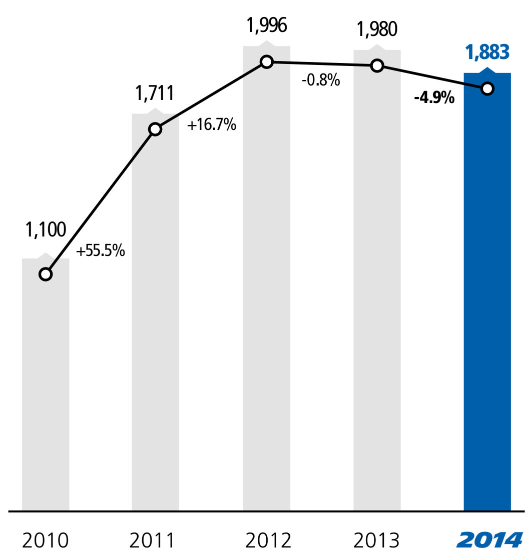
TRADE RECEIVABLES
(in € million)



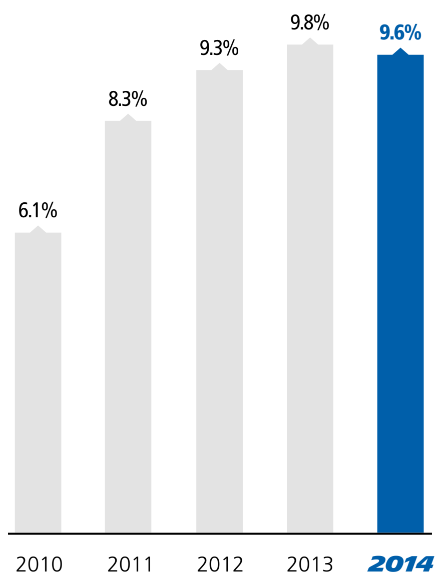
TRADE RECEIVABLES
(as a % of net sales)



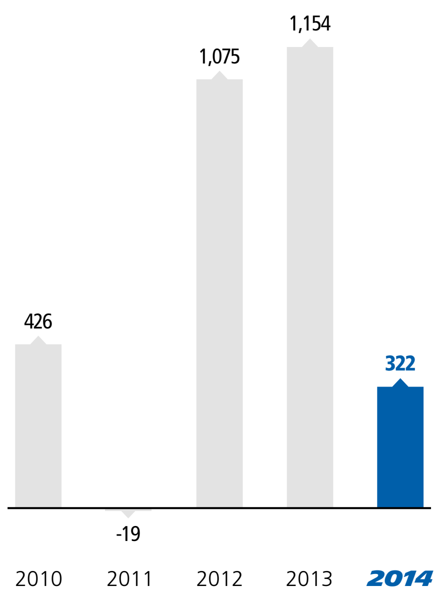
CAPITAL EXPENDITURE
(in € million)



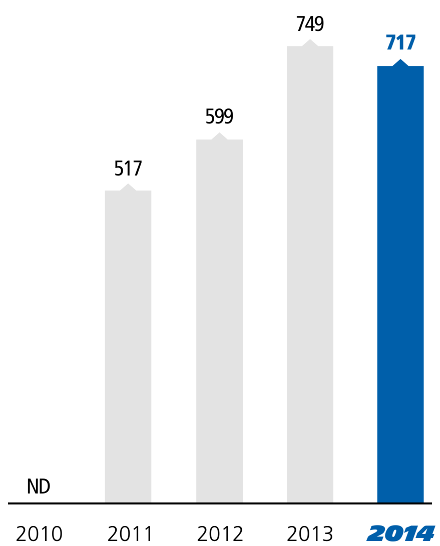
CAPITAL EXPENDITURE
(as a % of net sales)



FREE CASH FLOW (1) (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)
(in € million)

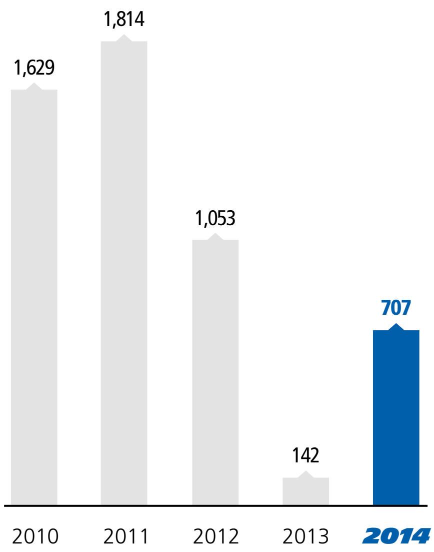


STRUCTURAL FREE CASH FLOW (1)
(in € million)

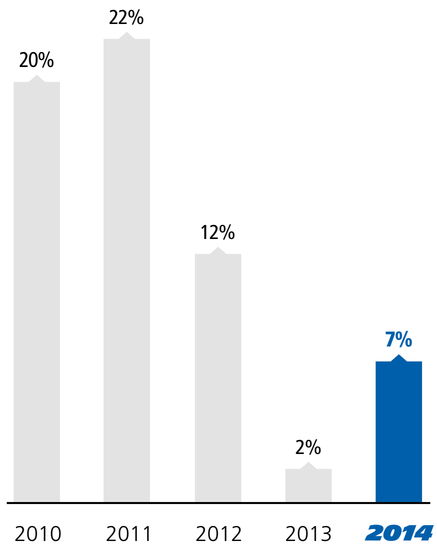


(1) This indicator is defined in section 3.5.3 of the present document.

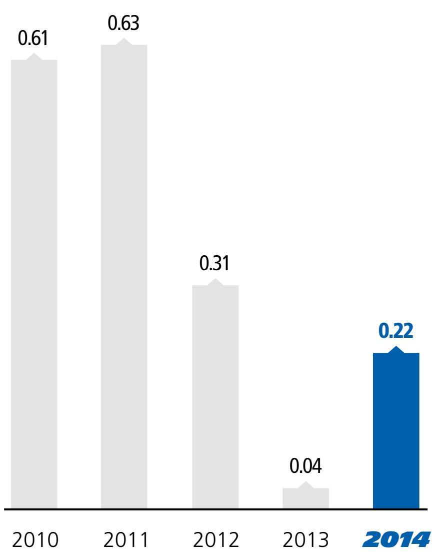
NET DEBT [(1)]
(in € million)



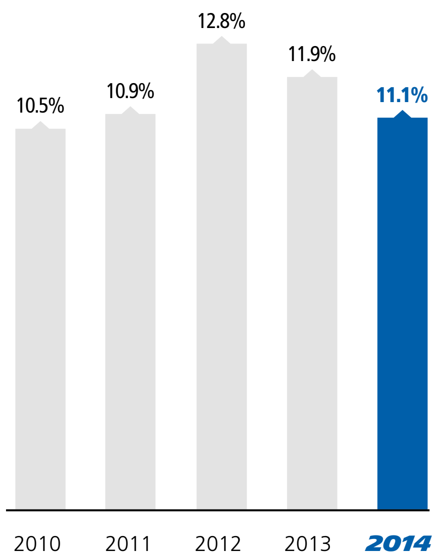
NET DEBT [(1)]-TO-EQUITY RATIO



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



RETURN ON CAPITAL EMPLOYED [(3)]
(after tax)



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

3.7 CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2014	2013	2012	2011	2010
Net sales	19,553	20,247	21,474	20,719	17,891
% change	-3.4%	-5.7%	+3.6%	+15.8%	+20.8%
Total employee benefit costs	5,292	5,292	5,377	5,021	4,836
as a % of sales	27.1%	26.1%	25.0%	24.2%	27.0%
Number of employees *(full time equivalent)*	106,700	105,700	107,300	108,300	105,100
Research and development expenses	656	643	622	592	545
as a % of sales	3.4%	3.2%	2.9%	2.9%	3.0%
EBITDA before non-recurring income and expenses [(1)]	3,286	3,285	3,445	2,878	2,660
Operating income before non-recurring income and expenses	2,170	2,234	2,423	1,945	1,695
Operating margin before non-recurring income and expenses	11.1%	11.0%	11.3%	9.4%	9.5%
Operating income	1,991	1,974	2,469	1,945	1,695
Operating margin	10.2%	9.7%	11.5%	9.4%	9.5%
Cost of net debt	130	94	155	206	236
Other financial income and expenses	(43)	(15)	(22)	236	10
Income before taxes	1,651	1,702	2,307	1,996	1,498
Income tax	620	575	736	534	449
Effective tax rate	37.5%	33.8%	31.9%	26.8%	30.0%
Net income	1,031	1,127	1,571	1,462	1,049
as a % of sales	5.3%	5.6%	7.3%	7.1%	5.9%
Dividends [(2)]	464	438	378	314	147
Cash flows from operating activities	2,522	3,089	2,926	1,196	1,322
as a % of sales	12.9%	15.3%	13.6%	5.8%	7.4%
Gross purchases of intangible assets and PP&E	1,883	1,980	1,996	1,711	1,100
as a % of sales	9.6%	9.8%	9.3%	8.3%	6.1%
Net debt [(3)]	707	142	1,053	1,814	1,629
Equity	9,523	9,256	8,501	8,101	8,127
Gearing	7%	2%	12%	22%	20%
Net debt [(3)]/EBITDA [(1)]	0.22	0.04	0.31	0.63	0.61
Cash flows from operating activities/Net debt [(3)]	NM	NM	NM	65.9%	81.2%
Operating income before non-recurring items/Net interest charge [(4)]	16.0	15.7	14.2	9.2	9.1
Free cash flow [(5)]	322	1,154	1,075	(19)	426
ROE [(6)]	10.8%	12.2%	18.5%	18.1%	12.9%
ROCE [(7)]	11.1%	11.9%	12.8%	10.9%	10.5%
Per share data *(in €)*					
Net assets per share [(8)]	51.3	49.8	46.6	45.9	46.0
Basic earnings per share	5.52	6.08	8.62	8.14	6.78
Diluted earnings per share	5.45	5.98	8.41	7.97	6.64
Price-earnings ratio [(9)]	13.6	12.7	8.3	5.6	7.9
Dividend for the year	2.50	2.50	2.40	2.10	1.78
Pay-out ratio [(10)]	40.6%	35.0%	28.7%	30.0%	30.0%
Yield [(11)]	3.3%	3.2%	3.4%	4.6%	3.3%
Share turnover rate [(12)]	101%	99%	129%	180%	188%

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

4 CORPORATE GOVERNANCE

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4.1 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES, AND SENIOR MANAGEMENT

4.1.1 SENIOR MANAGEMENT

Michelin is led by Jean-Dominique Senard, Chief Executive Officer and General Partner.

	Directorships and other positions held
JEAN- DOMINIQUE SENARD Born in 1953 10,581 shares owned as of December 31, 2014 First elected: May 13, 2011 *(Managing General Partner)* **Experience:** Graduate of HEC business school, MA in Law. From 1979 to 1996, held various management positions in finance and operations at Total then Saint-Gobain. Joined Pechiney in 1996 as Chief Financial Officer and member of the Executive Committee, then Director, Primary Aluminium Division, until 2004. Subsequently appointed as a member of Alcan group's Executive Committee and Chairman of Pechiney S.A. Joined Michelin in 2005 as Chief Financial Officer and member of the Executive Council, becoming Non-General Managing Partner in 2007. **Business address:** 23, place des Carmes-Déchaux 63000 Clermont-Ferrand France	**Chief Executive Officer** **2010 – 2011** Non-General Managing Partner of CGEM* *(until May 2011)* Director of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) Director of Groupe SEB* **2012 – 2013** Managing Partner of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) Director of Groupe SEB* *(until May 2013)* Director of Saint-Gobain* **2014** Managing Partner of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) Director of Saint-Gobain*

* *Listed company.*

4.1.2 SUPERVISORY BODIES

4.1.2 a) Membership of the Supervisory Board as of December 31, 2014 [(1)]

As of December 31, 2014, the Supervisory Board comprised eight members (six of whom were qualified as independent), who were elected for a four-year term.

	Directorships and other positions held
OLIVIER BAZIL Born in 1946 – French national 1,010 shares owned as of December 31, 2014 First elected: May 17, 2013 Current term expires: 2017 **Experience:** Olivier Bazil is a Director of Legrand* and a Member of the Board's Strategy Committee and Nominating and Compensation Committee. He has spent his entire career with Legrand*, which he joined in 1973 as Deputy Company Secretary before becoming Chief Financial Officer (1979), a Director (1989), Deputy Chief Executive Officer and a Member of the Executive Committee (1994), and then Vice Chairman of the Board of Directors and Chief Operating Officer. He is a graduate of HEC and holds an MBA from Harvard Business School. **Business address:** Legrand 128, avenue de Lattre de Tassigny 87000 Limoges France	**Independent Member** **Chairman of the Audit Committee** **2010** Vice Chairman of the Board of Directors and Chief Operating Officer of Legrand **2011 – 2014** Director of Legrand* and a Member of the Board's Strategy Committee and Nominating and Compensation Committee. Director of Firmenich International S.A. and Chairman of its Audit Committee Member of the Supervisory Board of Société Civile du Château Palmer Chairman of Fritz S.A.S. Director of Vallourec* and Chairman of its Audit Committee

* *Listed company.*

(1) *As explained in the 2013 Registration Document (see page 86), Louis Gallois, a member of the Supervisory Board since May 16, 2008, tendered his resignation on February 11, 2014. Mr. Gallois indicated that changes in his activities had resulted in a workload that prevented him from pursuing his commitment to Michelin as intensely as he would like.*

	Directorships and other positions held
PAT COX Born in 1952 – Irish national 491 shares owned as of December 31, 2014 First elected: May 20, 2005 Current term expires: 2018 **Experience:** Pat Cox is a former Member of the Irish Parliament and of the European Parliament. He served as President of the European Parliament from January 2002 to June 2004. He is President of *Fondation Jean Monnet pour l'Europe,* European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, Chairman of the KPMG Ireland Public Interest Committee, Chairman of the Board of Limerick National City of Culture and Chairman of the Board of *Alliance Française* Dublin. **Business address:** 7 Maretimo Gardens East Blackrock County Dublin Ireland	**Independent Member** **Member of the Compensation and Appointments Committee** **2010 – 2011** President of the European Movement International Member of the Board of Trustees of Friends of Europe Director of UCD Michael Smurfit Graduate School of Business Member of the President's Consultative Board, University College Cork Patron of the Blue Box Creative Learning Centre Member of the Microsoft European Advisory Council **2012** Member of the Board of Trustees of Friends of Europe Director of UCD Michael Smurfit Graduate School of Business Member of the President's Consultative Board, University College Cork Patron of the Blue Box Creative Learning Centre President of the European Parliament Former Members Association **2013** Member of the Board of Trustees of Friends of Europe Director of UCD Michael Smurfit Graduate School of Business Member of the President's Consultative Board, University College Cork Patron of the Blue Box Creative Learning Centre President of the European Parliament Former Members Association **2014** Member of the Board of Trustees of Friends of Europe Patron of the Blue Box Creative Learning Centre
BARBARA DALIBARD Born in 1958 – French national 485 shares owned as of December 31, 2014 First elected: May 16, 2008 Current term expires: 2015 **Experience:** Barbara Dalibard is Chief Executive Officer of the SNCF's Voyageurs Division. Before joining SNCF, she was a member of the France Telecom group Management Committee, in charge of enterprise communication solutions and prior to that she held various management positions within France Telecom and Alcatel. **Business address:** SNCF Direction Générale Voyageurs 2, place aux Étoiles 93210 La Plaine-Saint-Denis France	**Independent Member** **2010 – 2011** Chief Executive Officer of SNCF Voyages Chairman of Voyages-SNCF.com S.A.S. Chairman of VFe Commerce S.A.S. Chairman of SNCF Voyages Développement S.A.S. Director of Nuovo Trasporto Viaggiatori S.p.A. (NTV) Member of the Supervisory Board of Wolters Kluwer **2012 – 2013** Chief Executive Officer of SNCF Voyages Chairman of VSC group Director of Nuovo Trasporto Viaggiatori S.p.A. (NTV) Member of the Supervisory Board of Wolters Kluwer Director of Eurostar International Limited **2014** Chief Executive Officer of SNCF Voyageurs Chairman of VSC group Director of Nuovo Trasporto Viaggiatori S.p.A. (NTV) Member of the Supervisory Board of Wolters Kluwer Director of Eurostar International Limited

* *Listed company.*

	Directorships and other positions held
ANNE-SOPHIE DE LA BIGNE Born in 1960 – French national 903 shares owned as of December 31, 2014 First elected: May 17, 2013 Current term expires: 2016 **Experience:** Since 2008, Anne-Sophie de La Bigne has been Vice President in charge of civil affairs in the Public Affairs Division, France, at Airbus group. Anne-Sophie de La Bigne began her career in 1983 as a financial controller with the Matra group before joining the Strategy & Business Development Department of the Lagardère group, where she worked from 1985 to 1999. She subsequently became Head of the Strategic Analysis Department at Aerospatiale Matra/EADS, a position she held until 2001. Between 2001 and 2006, she served as Vice President, Strategy and European Affairs, at GIFAS *(Groupement des Industries Françaises Aéronautiques et Spatiales)* and, from 2006 to 2007, she was responsible for international corporate relations in the EADS' Public Affairs Division. **Business address:** Airbus group 37, boulevard de Montmorency 75016 Paris France	**Independent Member** **Member of the Audit Committee** **2010 – 2014** No other directorships
JEAN-PIERRE DUPRIEU Born in 1952 – French national 510 shares owned as of December 31, 2014 First elected: May 17, 2013 Current term expires: 2016 **Experience:** Jean-Pierre Duprieu is Executive Vice President of the Air Liquide group*. He has been a Member of Air Liquide's Executive Management team since 2010, in charge of supervising the group's European and Healthcare activities as well as corporate functions, including information systems and Efficiency/Purchasing programs. **Business address:** Air Liquide 75, quai d'Orsay 75006 Paris France	**Independent Member** **Member of the Audit Committee** **2010 – 2012** Executive Vice President of the Air Liquide group* Director of Air Liquide Santé International Chairman of the Board of Directors of Air Liquide Eastern Europe *(since May 2012)* **2013** Executive Vice President of the Air Liquide group* Director of Air Liquide Santé International Chairman of the Board of Directors of Air Liquide Eastern Europe Director of Air Liquide Welding *(since June 2013)* **2014** Executive Vice President of the Air Liquide group* Director of Air Liquide Santé International Chairman of the Board of Directors of Air Liquide Eastern Europe Director of Air Liquide Welding
LAURENCE PARISOT Born in 1959 – French national 521 shares owned as of December 31, 2014 First elected: May 20, 2005 Current term due to expire in 2018 (resignation effective as of July 24, 2015) **Experience:** Laurence Parisot was Chief Executive Officer of the *Institut Louis Harris France* polling organization from 1986 to 1990, and Chairman of Optimum from 1990 to March 2006. She has been Chairman and Chief Executive Officer of *Institut Français de l'Opinion Publique* (IFOP) since 1990. Laurence Parisot was also President of France's Employers Federation (MEDEF) from July 2005 to July 2013. **Business address:** Groupe IFOP Immeuble Millénaire 2 35, rue de la Gare 75019 Paris France	**Independent Member** **Chairman of the Compensation and Appointments Committee** **2010 – 2012** Vice Chairman of the Management Board of IFOP Director of BNP Paribas* Director of Coface S.A.* President of MEDEF **2013** Vice Chairman of the Management Board of IFOP Director of BNP Paribas* Director of Coface S.A.* Honorary Chairman of MEDEF *(since July 2013)* Member of the Supervisory Board of FIVES *(since June 2013)* **2014** Vice Chairman of the Management Board of IFOP Director of BNP Paribas* Director of Coface S.A.* Director of EDF* *(since November 21, 2014)* Honorary Chairman of MEDEF Member of the Supervisory Board of FIVES

* *Listed company.*

	Directorships and other positions held
CYRILLE POUGHON Born in 1975 – French national 24 shares owned as of December 31, 2014 First elected: May 16, 2014 Current term expires: 2018 **Experience:** Cyrille Poughon has 19 years' experience with the Michelin group, where he has worked successively as a sales assistant in several Group companies, a technician in the Agricultural Tires business and then Export Manager with Manufacture Française des Pneumatiques Michelin. He served as Secretary of Michelin's European Works Council until October 2014. He is currently participating in the "Workplace Quality of Life" component of the Ambitions 2020 PRM program. **Business address:** Michelin 23, place des Carmes-Déchaux 63040 Clermont-Ferrand France	**Non-independent member (non-executive)** **2010 – 2014** Secretary of the Michelin European Works Council
MICHEL ROLLIER Born in 1944 – French national 23,281 shares owned as of December 31, 2014 First elected: May 17, 2013 Current term expires: 2017 **Experience:** Michel Rollier is Chairman of the *Plateforme de la Filière Automobile* and Member of the AFEP/MEDEF High Committee on Corporate Governance. He began his career at Aussedat-Rey (a Member of the International Paper Group) in 1971, initially occupying the post of Financial Controller before going on to head up a business unit. He then held the position of Chief Financial Officer between 1987 and 1994 and subsequently Deputy Chief Executive Officer from 1994 to 1996. He joined Michelin in 1996 as Vice President, Financial & Legal Affairs and then served as Chief Financial Officer and a member of the Executive Council from 1999 to 2005. He was elected Managing General Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as Managing General Partner in May 2012. **Business address:** Michelin 27, cours de l'Île-Seguin 92100 Boulogne-Billancourt France	**Chairman of the Supervisory Board** **Member of the Compensation and Appointments Committee** **Non-independent member (non-executive)** **2010 – 2012** Managing General Partner of Compagnie Générale des Établissements Michelin* *(until May 2012)* Managing Partner of Compagnie Financière du groupe Michelin "Senard et Cie" (CFM) *(until June 2012)* Director of Lafarge* Director of Moria S.A. **2013** Director of Lafarge* Chairman of the Board of Directors of Siparex Associés Chairman of the Supervisory Board of Somfy* Member of the AFEP/MEDEF High Committee on Corporate Governance *(from October 8, 2013)* **2014** Director of Lafarge* Chairman of the Board of Directors of Siparex Associés Chairman of the Supervisory Board of Somfy* Member of the AFEP/MEDEF High Committee on Corporate Governance Chairman of the Board of Directors of *Association Nationale des Sociétés par Actions* (ANSA) *(since October 9, 2014)*

* *Listed company.*

4.1.2 b) Terms of office of Supervisory Board members at December 31, 2014

Name	First elected/ re-elected (1)	Current term expires (2)	Independent (3)
Olivier Bazil	May 17, 2013	2017	yes
Pat Cox	May 20, 2005	2010	
	May 7, 2010	2014	
	May 16, 2014	2018	yes
Barbara Dalibard	May 16, 2008	2013	
	May 17, 2013	2015	yes
Anne-Sophie de La Bigne	May 17, 2013	2016	yes
Jean-Pierre Duprieu	May 17, 2013	2016	yes
Laurence Parisot (4)	May 20, 2005	2010	
	May 7, 2010	2014	
	May 16, 2014	2018	yes
Cyrille Poughon	May 16, 2014	2018	no
Michel Rollier (Chairman)	May 17, 2013	2017	no

(1) At the Annual Meeting of May 15, 2009, shareholders voted to reduce the term of Supervisory Board members from five years to four.
(2) At the Annual Meeting of May 17, 2013, shareholders voted to elect Supervisory Board members for terms of two, three or four years, so that their terms do not all expire at the same time.
(3) Based on the criteria set in the Supervisory Board's internal rules which, since 2013, correspond to those recommended in the AFEP/MEDEF Corporate Governance Code for listed companies.
(4) Ms. Parisot has tendered her resignation with effect from July 24, 2015 (see section 4.5.1.a).

4.1.3 STATUTORY AUDITORS

Please refer to section 9.2 – Statutory Auditors.

4.1.4 NON-MANAGING GENERAL PARTNER

In application of CGEM's bylaws, Société Auxiliaire de Gestion (SAGES) is a Non-Managing General Partner of CGEM and consequently has unlimited liability for the Company's debts.

The Chairman, Jacques d'Armand de Chateauvieux, is the only executive director.

JACQUES D'ARMAND DE CHATEAUVIEUX
Born February 13, 1951
No CGEM shares held directly
231,053 shares held by SAGES
Chairman of SAGES since April 2011

Experience:
Jacques d'Armand de Chateauvieux is a graduate of *Institut Supérieur de Gestion* de Paris and holds an MBA from Columbia University, New York. As Chairman of BOURBON since 1979, he was instrumental in converting the company from a diversified conglomerate into an international group specialized in offshore oil and gas marine services.

Business address:
BOURBON
33, rue du Louvre
75002 Paris
France

2010
Chairman and Chief Executive Officer of BOURBON
Chairman of Cana Tera S.A.S.
Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg)
Chairman of Sapmer S.A.
Director of AXA
Director of Sinopacific Shipbuilding Group (China)
Director of Sinopacific Offshore and Engineering (China)
Director of Innodis Ltd (Mauritius)
Director of Piriou S.A.S.
Director of Eitzen Ethylene Carriers (Norway)
Non-voting director of CBo Territoria S.A.

2011
Chairman of BOURBON
Chairman of Cana Tera S.A.S.
Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg)
Chairman of Sapmer S.A.
Director of AXA
Director of Sinopacific Shipbuilding Group (China)
Director of Sinopacific Offshore and Engineering (China)
Director of Piriou S.A.S.
Director of Evergas (Denmark)
Non-voting director of CBo Territoria S.A.

2012
Chairman of BOURBON*
Chairman of Cana Tera S.A.S.
Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg)
Chairman of Sapmer S.A.
Chairman and a Director of Greenship Holdings (Singapore)
Director of Sinopacific Shipbuilding Group (China)
Director of Piriou S.A.S.
Non-voting director of CBo Territoria S.A.

2013 – 2014
Chairman of BOURBON*
Chairman of Cana Tera S.A.S.
Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg)
Chairman of Sapmer S.A.
Chairman and a Director of Greenship Holdings (Singapore)
Director of Sinopacific Shipbuilding Group (China)

** Listed company*

4.1.5 STATEMENTS

There are no family relationships between Michelin's Chief Executive Officer, any Supervisory Board members and the Chairman of SAGES (CGEM's Non-Managing General Partner).

To the best of the Company's knowledge, neither Michelin's Chief Executive Officer nor the Chairman of SAGES nor any Supervisory Board member, has, in the past five years, been (i) convicted of fraud, (ii) associated with a bankruptcy, receivership or liquidation, (iii) the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Neither Michelin's Chief Executive Officer nor the Chairman of SAGES nor any Supervisory Board member has a service contract with the Company or any of its subsidiaries.

There are no:

- arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which they were selected as a Chief Executive Officer or as a member of the Supervisory Board or as Chairman of SAGES;
- conflicts of interest between the duties to the Company of the Chief Executive Officer, the Supervisory Board members or the Chairman of SAGES and their private interests and/or other duties;
- restrictions accepted by these persons on the disposal within a certain period of time of their Michelin shares, except for those resulting from insider dealing rules and the specific rules applicable to the Chief Executive Officer.

4.2 PRACTICES OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

Tire manufacturing is a capital-intensive industry in which the pace of technological innovation is relatively slow. It is therefore essential to be able to devise long-term plans and follow them through.

Throughout its history, Compagnie Générale des Établissements Michelin (CGEM), the Group's parent company, has been organized as a partnership limited by shares (SCA).

This partnership model offers three main advantages:

- it aligns Group management decisions with shareholder interests;
- it guarantees clear segregation of management and supervisory powers;
- it fosters direct ties with each shareholder, as all shares must be registered.

There are two partner categories:

- the limited partners or shareholders, who provide capital, elect the members of the Supervisory Board and the Managing Partners and approve the financial statements presented by Management. Their liability is limited to the amount of their investment. All Michelin shares are registered, which enables the Group to better understand the expectations of its shareholders, who receive a return on their investment in the form of a dividend;
- the General Partners, who have unlimited personal liability for the Company's debts. They can be relieved of this liability only by decision of the shareholders in an Extraordinary Meeting. The General Partners may be shareholders, but may not take part in any votes to elect Supervisory Board members or appoint Statutory Auditors. The General Partners receive a share of the Company's profits in accordance with its bylaws, subject to shareholder approval at the Annual Shareholders' Meeting.

Since May 11, 2012, Michelin has had two General Partners: Jean-Dominique Senard, General Managing Partner (Chief Executive Officer), and Société Auxiliaire de Gestion (SAGES), Non-Managing General Partner.

4.2.1 AN EXPERIENCED, STABLE AND RESPONSIBLE MANAGEMENT TEAM

4.2.1 a) Members

Michelin is managed by a General Managing Partner – Jean-Dominique Senard [1] – who holds the position of Chief Executive Officer in accordance with the bylaws.

General Managing Partners must each hold at least 5,000 shares in the Company.

At the Annual Shareholders' Meeting on May 13, 2011, on the recommendation of the General Partners, the shareholders voted to amend the Company's bylaws in order to establish a four-year term for Managing Partners elected for the first time by the Annual Shareholders' Meeting on the recommendation of the Supervisory Board.

The shareholders also decided that this four-year term would be renewable at the initiative of the Non-Managing General Partner (SAGES [2]), with the agreement of the Supervisory Board of CGEM.

Previously, the only restriction on a Managing Partner's term was an age limit of 72.

In accordance with these rules, on October 6, 2014 SAGES, in its capacity as Non-Managing General Partner, decided to ask the Supervisory Board to approve the renewal of Jean-Dominique Senard's term as General Managing Partner for a period of four years.

(1) For biographical details about Jean-Dominique Senard, please refer to section 4.1.1.
(2) For details about SAGES, please refer to section 4.1.4.

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

Consequently, the term of office as General Managing Partner of Jean-Dominique Senard has been renewed for four years, and will expire at the close of the Annual Shareholders' Meeting to be called in the first half of 2019 to approve the financial statements for 2018. This decision was announced in a press release published on November 3, 2014.

The Company's bylaws stipulate that the General Managing Partner may resign provided that the decision is announced at least six months before the next Annual Shareholders' Meeting. However, his resignation will be effective only when it has been formally accepted by an Extraordinary Shareholders' Meeting held on the same day as the Annual Meeting.

Furthermore, the General Managing Partner may be removed from office according to the same procedure as that applicable for the renewal of his appointment.

4.2.1 b) Role and responsibilities

The Chief Executive Officer is responsible for administering and managing the Company.

As such, his core responsibilities are to:

- define and implement the Group's strategy;
- lead the Group's business;
- establish internal control and risk management procedures and oversee their implementation;
- approve the financial statements of the Company and the Group;
- define financial information policies;
- prepare the various reports to shareholders.

He fulfils these responsibilities under the oversight of the Supervisory Board.

Michelin set up a new organizational structure in 2014 to align all of its resources more closely with its priorities, accelerate the decision-making process and increase flexibility and responsiveness.

The Group's operating activities are headed by a General Operations Department and organized into four product lines that are dedicated to bringing products and services to their markets worldwide. The product lines each define their own strategy and are responsible for their results. They include:

- Passenger Car – Light Truck Product Line
- Truck Product Line
- Specialty Product Line including the Earthmover, Agricultural, Two-Wheel and Aircraft tire lines
- Materials Product Line

The Corporate Departments ensure the consistency of the Group's policies. They provide specialized assistance to the product lines, lending expertise as appropriate and guaranteeing process effectiveness and efficiency. The Corporate Departments include:

- Purchasing
- Digital Operations, mainly overseeing Michelin Solutions and Sascar
- Corporate Development
- Distribution, overseeing Euromaster, TCI, franchising and wholesaling
- Finance
- Legal
- Brands and External Relations, notably supervising the operations of Michelin Travel Partner (travel services) and Michelin Lifestyle (non-tire licensed products under the MICHELIN brand)
- Personnel
- Quality, Audit and Risk Management
- Research and Development
- Information Systems

The Progress and Geographic Zones Department is responsible for ensuring that improvement initiatives are aligned with the Group's strategy while developing suitable progress methods for the Group's various units. It leads the product line support functions in the Group's seven host regions (Geographic Zones), which have been identified based on their specific features. These regions are: Africa-India-Middle East, North America, South America, East Asia and Australia, China, Europe, and Eastern Europe.

The Chief Executive Officer is assisted by an Executive Committee that has comprised the following twelve members since January 1, 2015:

- **Yves Chapot,** Executive Vice President, Distribution.
- **Thierry Chiche,** Executive Vice President, Passenger Car and Light Truck Product Line.
- **François Corbin,** Executive Vice President, Progress and Geographic Zones.
- **Claire Dorland-Clauzel,** Executive Vice President, Communication, Brands and External Relations.
- **Terry Gettys,** Executive Vice President, Research and Development.
- **Jean-Christophe Guérin,** Executive Vice President, Materials Product Line.
- **Jean-Michel Guillon,** Executive Vice President, Personnel.
- **Marc Henry,** Chief Financial Officer and Executive Vice President, Specialty Product Lines.
- **Serge Lafon,** Executive Vice President, Truck Product Line.
- **Florent Menegaux,** Chief Operating Officer.
- **Laurent Noual,** Executive Vice President, Corporate Development.
- **Florence Vincent,** Executive Vice President, Quality, Audit and Risk Management.

Bernard Vasdeboncoeur and Eric de Cromières will remain members of the Group's Executive Committee up to the date of their retirement in the spring of 2015.

4.2.1 c) Liability

As a General Partner, the Chief Executive Officer has unlimited personal liability for Michelin's debts. This offers shareholders a rarely found level of assurance that the Group is run in their medium- to long-term interests, particularly during times of volatile markets or economic crisis. It also means that the Chief Executive Officer is especially vigilant in his management of corporate risks.

In line with this system based on long-term responsibility and commitment, the Chief Executive Officer may not relinquish his status as General Partner without the prior approval of shareholders given at an Extraordinary Meeting. His interests are therefore closely aligned with the long-term consequences of the Group's management decisions.

4.2.2 INDEPENDENT SUPERVISORY BODIES REPORTING DIRECTLY TO SHAREHOLDERS

4.2.2 a) Supervisory Board

A description of the Supervisory Board's activities during 2014 is included in the report of the Chairman of the Supervisory Board on the Board's membership, the application of the principle of equal representation of men and women on the Board, the preparation and organization of the Board's work and the Group's internal control and risk management procedures (see section 4.5.1 b) below).

▸ Members

In accordance with applicable law and the Company's bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders' Meeting for a term of four years [(1)]. The General Partners (including the Chief Executive Officer) may not take part in the vote. Supervisory Board members may be re-elected.

According to the bylaws, no more than one-third of Supervisory Board members may be aged over 75.

Supervisory Board member biographies can be found in section 4.1.2 a) above, while information concerning their compensation is presented in section 4.3.4 below.

The dates on which the Supervisory Board members in office at December 31, 2014 were first elected and the expiration dates of their current terms are shown in the table in section 4.1.2 b).

The main provisions of the internal rules setting out the roles and practices of the Supervisory Board and its Committees are presented below.

▸ Role and responsibilities

The Supervisory Board exercises permanent oversight of the Company's management and assesses its quality for the benefit of the shareholders, presenting a report thereon at each Annual Shareholders' Meeting. Its oversight procedures include:

- reviewing the separate and consolidated financial statements approved by the Chief Executive Officer;
- assessing the quality of the Group's financial information;
- assessing the Group's internal control and risk management systems;
- reviewing strategic roadmaps and their implementation;
- ensuring that shareholders' rights are respected.

The recommendation provided under Article 4 of the AFEP/MEDEF Code, according to which material transactions outside the scope of the firm's stated strategy should be subject to prior approval by the Board of Directors, cannot apply in this instance, because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company.

However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its bylaws [(2)] as well as the Supervisory Board's internal rules.

Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made.

This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate.

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.5.1 c) prepared in accordance with the "apply or explain" rule.

Lastly, in application of the bylaws, the Supervisory Board's internal rules and the internal rules of the Compensation and Appointments Committee, the Supervisory Board must be consulted or express an opinion (depending on the case) on all decisions concerning the Managing Partners (election, re-election and removal from office of the General Managing Partner and Chief Executive Officer) and the determination of the Chief Executive Officer's compensation package.

▸ Independence

A majority of the members of the Supervisory Board must be independent and without any vested interests (*i.e.* with no relationship of any kind whatsoever with the Company or its management which might risk colouring the member's judgment).

A Supervisory Board member is qualified as independent when he or she:

- is not currently and has not been during the last five years an employee or executive officer of the Company or any of its subsidiaries;
- is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board;
- is not a customer, supplier or banker that is material for the Company or that derives a significant portion of its business from the Company;
- does not have any close family ties with the Chief Executive Officer;
- has not been an auditor of the Company in any of the past five years;
- has not been on the Supervisory Board for more than 12 years.

These independence criteria are exactly the same as those prescribed in the AFEP/MEDEF Code.

See the Report of the Chairman of the Supervisory Board on the Board's work in section 4.5 below for further details of the independence review process.

In 2014, articles were added to the Supervisory Board's internal rules dealing specifically with the prevention of conflicts of interest. Under these new provisions, the members of the Supervisory Board are required to inform the Board of any potential or existing conflict of interest and are banned from taking part in the discussion and vote on the matters concerned.

(1) Except when shorter periods are proposed in order to effectively stagger the terms of office of Supervisory Board members (see information given in section 4.1.2 b)

(2) Article 17 of the bylaws states that "(...) The Supervisory Board is jointly and regularly informed about the Company's situation and the key issues listed in the Supervisory Board's internal rules. The Supervisory Board reports to the Shareholders' Meeting on the fulfilment of its duties (...)".

▸ Supervisory Board practices

To enable the Supervisory Board to effectively fulfil its oversight role, its members receive quarterly reports presenting key performance indicators, as well as regular information such as copies of the Group's main press releases, research reports published by analysts who follow Michelin, and updates on the Group's business environment.

Supervisory Board meetings may be held by videoconference on the basis stipulated in the Board's internal rules.

▸ Supervisory Board self-assessments

The Chairman carries out an annual assessment of the Supervisory Board's practices, and part of one Board meeting per year is devoted to discussing this issue.

The conclusions of the annual assessment are presented in the Chairman's report on the Board's work (see section 4.5 below).

The Supervisory Board is assisted in its oversight role by two committees, the Audit Committee and the Compensation and Appointments Committee.

4.2.2 b) The Audit Committee

▸ Members

The Audit Committee has at least three members appointed for their full term as Supervisory Board members. At least two thirds of the members must be independent. Since May 17, 2013, the Audit Committee has comprised the following members:

- Olivier Bazil, independent member and Committee Chairman.

  Olivier Bazil was born in 1946 and is a French national. He is a Director of Legrand and a member of Legrand's Strategy Committee and Nominating and Compensation Committee. He is also a Director of Vallourec, Chairman of Vallourec's Audit Committee and member of its Strategy Committee.

  He has spent his entire career with Legrand, which he joined in 1973 as Deputy Company Secretary before going on to become Chief Financial Officer (1979), a Director (1989), Deputy Chief Executive Officer and a member of the Executive Committee (1994), and then Vice Chairman of the Board of Directors and Chief Operating Officer.

  Mr. Bazil is a graduate of HEC and holds an MBA from Harvard Business School.

- Jean-Pierre Duprieu, independent member.

  Jean-Pierre Duprieu was born in 1952 and is a French national. He is Executive Vice President of the Air Liquide Group, and since 2010 has been a member of Air Liquide's Executive Management team, in charge of supervising the Group's European and Healthcare activities as well as corporate functions, including information systems and Efficiency/Purchasing programs.

  Mr. Duprieu has spent his entire career with the Air Liquide Group, which he joined in 1976 as part of the International Marketing Department. He then successively served as Assistant to the Chief Executive Officer (1985), Vice President of Sales and Marketing for French Operations (1988) and Chief Operating Officer for the Group's Industrial Gases business in France (1991), before going on to head up several Group subsidiaries (notably in South America, Canada, Italy and France) as from 1995.

  In 2000, he became Senior Vice President of Air Liquide S.A. and joined the Group's Executive Committee. In this role he was in charge of the Group's operations in Europe, Africa and the Middle East and in 2005 took on responsibility for the Asia Pacific region and the Worldwide Electronics business line. He spent five years based in Tokyo, Japan.

  Mr. Duprieu holds a master's degree in Agricultural Sciences from the *Institut National Agronomique de Paris-Grignon* (Agro-Paris Tech), with a specialization in the food industry. He is also a graduate of the *Institut de Contrôle de Gestion* in Paris and the International Forum (an Advanced Management Program at Wharton University).

- Anne-Sophie de La Bigne, independent member.

  Anne-Sophie de La Bigne was born in 1960 and is a French national. Since 2008, she has been Vice President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group.

  She began her career in 1983 as a financial controller with the Matra group before joining the Strategy & Business Development Department of the Lagardère group, where she worked from 1985 to 1999. She subsequently became Head of the Strategic Analysis Department at Aerospatiale Matra/EADS, a position she held until 2001.

  Between 2001 and 2006, she served as Vice President, Strategy and European Affairs, at GIFAS *(Groupement des Industries Françaises Aéronautiques et Spatiales)* and from 2006 to 2007, she was responsible for international corporate relations in the EADS Public Affairs Division.

  Mme de La Bigne is a graduate of Ecole des Hautes Etudes Commerciales (HEC).

Due to the extensive experience acquired during their careers, notably as part of the executive management and strategic advisory teams of large corporations, the Audit Committee's three members have a deep understanding of financial and accounting matters.

▸ Role and responsibilities

The Audit Committee's internal rules are regularly updated by the Supervisory Board, most recently in February 2014. Their main provisions are outlined below.

The Audit Committee assists the Supervisory Board in fulfilling its oversight role. It operates as a specialized committee tasked with addressing issues related to the preparation and control of accounting and financial information in accordance with articles L. 823-19 and L. 823-20-4 of the French Commercial Code.

The Audit Committee's role includes:

- reviewing the annual and interim financial statements, as approved by the Chief Executive Officer and audited by the Statutory Auditors, as well as the quarterly financial information;
- obtaining assurance that the Group's accounting methods and policies are appropriate and are applied consistently, and overseeing the quality of information given to the shareholders;
- assessing the effectiveness of internal control and risk management systems;
- reviewing all of the Group's risks, assessing the effectiveness of measures taken to control these risks and examining their accounting treatment and the related disclosures in the Group's communications;
- reviewing the Statutory Auditors' annual audit programs;
- reviewing the Quality, Audit and Risk Management Department's internal audit programs and recommending internal audits of specific financial risks;
- verifying the Statutory Auditors' independence and objectivity and expressing an opinion about their appointment or re-appointment.

The Audit Committee's activities during 2014 are described in the report of the Chairman of the Supervisory Board (see section 4.5.1 d) below).

Audit Committee's practices

The Committee's work program and meeting schedule are decided by the Supervisory Board.

In view of the distance they may have to travel to attend meetings and the other business commitments not only of the Supervisory Board and Audit Committee members but also of the members of Executive Management, the Audit Committee conducts its formal review of the financial statements half a day before they are examined by the Supervisory Board. However, to enable the Committee to perform its work as efficiently as possible:

- the documents concerning the financial statements are made available to the Committee members several days in advance;
- the Chairman of the Audit Committee meets with the Group's Chief Financial Officer in advance to review the financial statements and prepare the Committee's meeting.

This process ensures that the discussion of the financial statements by the Committee and the Board is both efficient and of a high quality.

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.5.1 c) prepared in accordance with the "apply or explain" rule.

The Committee may also call on the services of independent experts. In addition, the Committee meets with the Statutory Auditors once a year without any members of management being present.

The Committee chooses the location of its meetings and may decide to conduct meetings by videoconference.

The Committee's Chairman reports on the Committee's work to the Supervisory Board several times a year.

4.2.2 c) Compensation and Appointments Committee

Members

The Compensation and Appointments Committee has at least three members, appointed for their full term as Supervisory Board members. The Chairman and a majority of the members must be qualified as independent.

At the end of 2013, the Supervisory Board decided to set up a new Compensation and Appointments Committee [(1)]. The current members are:

- Laurence Parisot, an independent member and Committee Chairman, born in 1959 and a French national. She is Vice Chairman of the Management Board of *Institut Français de l'Opinion Publique* (IFOP), a Director of BNP Paribas, Coface S.A. and EDF, Honorary Chairman of France's Employers Federation (MEDEF) and a member of the Supervisory Board of FIVES.

  She was Chief Executive Officer of the *Institut Louis Harris France* polling organization from 1986 to 1990, and Chairman of Optimum from 1990 to March 2006. She has been Chairman and Chief Executive Officer of IFOP since 1990. Ms. Parisot was also President of MEDEF from July 2005 to July 2013.
- Pat Cox, an independent member, born in 1952 and an Irish national. He is President of the European Parliament Former Members Association, and European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project.

  Mr. Cox is a former member of the Irish Parliament and of the European Parliament. He served as President of the European Parliament from January 2002 to June 2004.
- Michel Rollier, a non-executive non-independent member, who was born in 1944 and is a French national. He is currently Chairman of the *Plateforme de la Filière Automobile* (PFA) and a member of the AFEP/MEDEF High Committee on Corporate Governance.

  He began his career at Aussedat-Rey (a member of the International Paper Group) in 1971, initially occupying the post of Financial Controller before going on to head up a business unit. He then held the position of Chief Financial Officer between 1987 and 1994 and subsequently Deputy Chief Executive Officer from 1994 to 1996.

  He joined Michelin in 1996 as Vice President, Financial & Legal Affairs and then served as Chief Financial Officer and a member of the Executive Council from 1999 to 2005. He was elected General Managing Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as General Managing Partner in May 2012.

  Michel Rollier is a graduate of the *Institut d'Études Politiques de Paris* (IEP) and holds an MA in Law.

The Company has chosen to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders' Meeting. However, the Compensation and Appointments Committee does not include any member representing employees.

In view of the limited number of Committee members and their current situation in relation to the AFEP/MEDEF Code's independence rules, the inclusion on the Committee of the Supervisory Board member representing employees would have the effect of reducing the proportion of independent members to just half of the members, versus the majority required by the AFEP/MEDEF Code.

Considering in particular the candidates for election to the Supervisory Board proposed at the 2015 Annual Shareholders' Meeting, the Committee's membership will be reviewed by the Supervisory Board in 2015.

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.5.1 c) prepared in accordance with the "apply or explain" rule.

The Compensation and Appointments Committee's internal rules were amended by the Supervisory Board at its meeting on February 6, 2014. Their main provisions are outlined below.

Role and responsibilities

The Compensation and Appointments Committee is responsible for:

- senior management compensation policy, including the criteria used to determine:
  - fixed and variable compensation paid to members of the Executive Committee,
  - variable compensation paid to other senior executives;
- the stock option and performance share allocation policy;
- senior management appointments policy; senior management career and succession plans;
- the policy concerning the appointment of Managing Partners, including career and succession plans, developed jointly with the Non-Managing General Partner (SAGES).

Concerning the specific issue of the compensation paid to the Chief Executive Officer (the only Managing Partner), in light of the legal provisions specifically applicable to partnerships limited by shares and the provisions of the bylaws, the Committee makes proposals to the Supervisory Board about the various components of the Chief Executive Officer's package which currently includes

(1) See the report of the Chairman of the Supervisory Board for 2013 in the Registration Document, page 113.

(i) variable profit shares that depend on one or several performance criteria and (ii) fixed compensation paid by a subsidiary in respect of his duties within the subsidiary.

The Committee's proposals help the Supervisory Board to formulate recommendations to the Non-Managing General Partner (SAGES) about the different components of the profit share payable to the Chief Executive Officer.

The Committee also reviews all amounts and benefits awarded or to be awarded to the Chief Executive Officer for the previous year by Group companies.

As part of the review, the Committee particularly verifies that the amounts paid or awarded to the Chief Executive Officer are proportionate and consistent in terms of (i) the Group's performance and (ii) industry and market practice.

The Committee also ensures that the components of the Chief Executive Officer's compensation are balanced, by (i) assessing the components of his variable compensation (profit-share allocation) calculated over one year and several years, and (ii) ensuring that his profit shares never exceed a reasonable percentage of his fixed compensation.

In assessing the level of his variable compensation, the Committee considers (i) the inherent variability of the Company's profits, (ii) projected future profits and (iii) the fact that General Partners are in an unusual situation to the extent that they have unlimited joint and personal liability for the Company's debts.

In addition to working on this review process and issuing the corresponding recommendations for the Board, the Committee prepares and submits to the Board its conclusions on the components of the compensation due or paid by the Company to the Chief Executive Officer for the previous year, in order to help the Board prepare its report to the Annual Shareholders' Meeting for the advisory vote on the Chief Executive Officer's compensation.

▸ Committee practices

The Committee chooses the location of its meetings and may decide to conduct meetings by videoconference.

The Committee's Chairman reports on the Committee's work to the Supervisory Board several times a year.

Further information about the work performed by the Compensation and Appointments Committee is provided in the Chairman's report in section 4.5.1 e) below.

The Compensation and Appointments Committee may invite the Executive Vice President, Personnel or any internal or external expert to attend its meetings, depending on the agenda items.

Meetings of the Committee are attended by the Chief Executive Officer, except when his compensation or succession plans for the Chief Executive Officer or the Supervisory Board members are being discussed, in accordance with the AFEP/MEDEF Code, recommendations 17.1 and 18.1 [(1)].

4.2.3 SAGES, A NON-MANAGING GENERAL PARTNER, GUARANTEEING THE COMPANY'S LONG-TERM VIABILITY [(2)]

Société Auxiliaire de Gestion (SAGES) is a Non-Managing General Partner of CGEM and as such has unlimited liability for the Company's debts. General Partners can be relieved of this liability only by decision of the shareholders in Extraordinary Meeting. The General Partners may be shareholders, but may not take part in any votes to elect Supervisory Board members or appoint Statutory Auditors.

As SAGES is not a Managing Partner, it is not authorized to play any part in the Company's management. However, if the position of CGEM's Managing Partner were to fall vacant, SAGES would take on the Managing Partner's role for an interim period and would be responsible for calling an Extraordinary Shareholders' Meeting to elect a new Managing Partner.

As well as assuming liability for CGEM's debts, in its capacity as General Partner, SAGES is responsible for recommending candidates for election as Managing Partner by the Shareholders' Meetings or recommending to the Supervisory Board the re-election of Managing Partners or their removal from office.

SAGES is a French *société par actions simplifiée* (joint stock company) registered in Clermont-Ferrand under No. 870 200 466.

SAGES has three groups of shareholders – members of the founding family, current and former Michelin executives and qualified persons from outside the Group – each of which has the same proportionate shareholding and the same number of seats on its Board of Directors.

To enable SAGES to assume its liability as Non-Managing General Partner of CGEM, at least 30% of its distributable earnings (derived mainly from the share of profits paid by CGEM in accordance with CGEM's bylaws) is allocated to a contingency reserve fund set up purely for the purpose of covering any losses that may result from its liability as CGEM's General Partner or, on an exceptional, interim basis, as Managing Partner. At least 50% of the reserve is invested in CGEM shares.

(1) This rule also results from the legal ban on a general partner becoming involved in appointing the members of the Supervisory Board of a partnership limited by shares (see article L. 226-4, paragraph 3 of the French Commercial Code, the Company's bylaws and the Supervisory Board's internal rules, as well as the detailed explanations provided in section 10.2 of the Registration Document concerning the resolutions to be presented at the Annual Shareholders' Meeting of May 22, 2015).

(2) See section 4.1.4 for biographical details about the Chairman of SAGES.

4.3 MANAGEMENT AND SUPERVISORY BOARD COMPENSATION

The data and tables in this section:

- have been prepared in accordance with the AFEP/MEDEF Code and related implementation guidelines;
- comply with AMF recommendation 2012-02 (as updated on December 11, 2014) on "corporate governance and executive compensation in companies that refer to the AFEP/MEDEF Code – Consolidated presentation of the recommendations contained in the AMF's annual reports", as well as with AMF recommendation 2009-16 (as updated on December 5, 2014), which serves as a guide to preparing registration documents.

4.3.1 SUMMARY INFORMATION

4.3.1 a) Compensation, stock options and performance shares awarded to Jean-Dominique Senard (in €) (based on Table 1 in the AFEP/MEDEF Code)

Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	2013	2014
Compensation due for the year (see Table 4.3.1 b) for details)	2,106,881	1,856,931
Value of long-term variable compensation granted during the year (see Table 4.3.1 b) for details)	0	0
Value of stock options granted during the year	0	0
Value of performance shares granted during the year	0	0
TOTAL	**2,106,881**	**1,856,931**
Reference CGEM consolidated net income	*1,127,444,560*	*1,031,090,189*

4.3.1 b) Compensation due and paid to Jean-Dominique Senard (in €) (based on Table 2 in the AFEP/MEDEF Code)

	2013		2014	
Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	**Due**	**Paid**	**Due**	**Paid**
Fixed compensation (1)	900,000	900,000	1,100,000	1,100,000
Annual variable compensation	1,200,000 (2)	1,200,000 (3)	750,037 (4)	1,200,000 (2)
Long-term variable compensation	0	0	0 (5)	0
Long-term incentive bonus	0	0	0	0
Exceptional compensation	0	0	0	0
Attendance fees	0	0	0	0
Fringe benefit (car)	6,881	6,856	6,894	6,894
TOTAL	**2,106,881**	**2,106,856**	**1,856,931**	**2,306,894**
Reference CGEM consolidated net income	*1,127,444,560*	*1,570,555,230*	*1,031,090,189*	*1,127,444,560*

(1) Compensation paid by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, in consideration of his role as Non-General Managing Partner of the Company.

(2) Including €50,000 received from Compagnie Financière du groupe Michelin "Senard et Cie" (CFM), a controlled entity. These profit shares are entirely variable as they are contingent on the profit generated by each of the two companies (CFM and CGEM) in 2013.

(3) Entirely variable profit shares contingent on profit generated in 2012. Paid by CGEM and CFM in 2013 following approval of the related resolution at the 2013 Annual Shareholders Meeting.

(4) This amount has been estimated based on applying the performance criteria. It is proportional to CGEM's 2014 consolidated earnings and is proposed with the endorsement of the Supervisory Board. It is subject to approval of the share of profits by CGEM shareholders at the next Annual Meeting on May 22, 2015 (see section 4.3.2. a). It includes the estimated €50,000 corresponding to the statutory share of CFM's 2014 profit that is payable by that company subject to approval by its shareholders at the 2015 Annual Meeting. This statutory share is entirely variable to the extent that it depends on CFM's profit for the year.

(5) Jean-Dominique Senard's long-term variable incentive bonus is not reported in CGEM's accounts because (i) it does not represent a commitment given by CGEM or any other Group company, and (ii) its payment is subject to several conditions (including the availability of sufficient profits at the end of the long-term period) and fulfilment of certain performance criteria (see section 4.3.2. a). The calculation method and basis are described in the information submitted to the shareholders' advisory vote on compensation for 2014.

4.3.1 c) Attendance fees and other compensation received by the Supervisory Board members (based on Table 3 in the AFEP/MEDEF Code)

See the table in section 4.3.4 below.

4.3.1 d) Stock options granted during the year to Jean-Dominique Senard by the issuer and any other Group company (based on Table 4 in the AFEP/MEDEF Code) (1)

No stock options were granted by the Company in 2014 to Jean-Dominique Senard (Chief Executive Officer and the Company's sole executive officer).

No executive officer of the Company has received any stock options since 2005.

	Plan no. and date	Type of options (purchase or subscription)	Value of the options calculated by the method used for the consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Jean-Dominique Senard	-	-	0	0	-	-

4.3.1 e) Stock options exercised during the year by Jean-Dominique Senard (based on Table 5 in the AFEP/MEDEF Code) (2)

	Plan no. and date	Number of options exercised during the year	Exercise price
Jean-Dominique Senard	No. 6 – May 23, 2005	5,359	€46.34

4.3.1 f) Performance shares granted during the year to Jean-Dominique Senard by the issuer and any other Group company (based on Table 6 in the AFEP/MEDEF Code) (1)

Of the 396,718 performance share rights granted on November 27, 2014, pursuant to the authorization given at the May 16, 2014 Annual Shareholders Meeting, none were granted to Jean-Dominique Senard, Chief Executive Officer and sole executive officer of the Company.

	Plan no. and date	Number of performance share rights granted during the year	Value of the performance shares calculated by the method used for the consolidated financial statements	Vesting date	End of lock-up period	Performance conditions
Jean-Dominique Senard	-	0	0	-	-	-

4.3.1 g) Performance shares granted to Jean-Dominique Senard whose sale restrictions were lifted during the year (based on Table 7 in the AFEP/MEDEF Code) (2)

	Plan no. and date	Number of performance shares whose sale restrictions were lifted during the year	Vesting conditions
Jean-Dominique Senard	-	0	-

4.3.1 h) Past awards of stock options – Information about stock options (based on Table 8 in the AFEP/MEDEF Code)

See the table in section 5.5.4 a) below.

(1) Refer also to the Managing Partners' Special Report and to the details of current plans, as presented in the table in section 5.5.4 concerning stock options.
(2) Refer also to the Managing Partners' Special Report and to the details of current plans in section 5.5.4 concerning stock options.

4.3.1 i) Stock options granted to and exercised by the ten employees other than executive officers who received the greatest number of options

See the table in section 5.5.4 b) below.

4.3.1 j) Past awards of performance shares

See the table in section 5.5.5 a) below.

4.3.1 k) Employment contracts, supplementary pension benefits and other benefits (based on Table 10 in the AFEP/MEDEF Code)

Executive officer	Employment contract		Supplementary pension benefits		Benefits or advantages due or likely to be due as a result of terminations or changes of office		Non-compete indemnity	
	Yes	No	Yes	No	Yes	No	Yes	No
Jean-Dominique Senard Position: Chief Executive Officer and General Partner Start date of term of office: 2011 Expiration of term of office: 2019 (1)		X	X (2)		X (3)		X (4)	

(1) Joined the Group in 2005; Non-General Managing Partner from 2007 to 2011; first elected as General Managing Partner at the 2011 Annual Shareholders Meeting; re-elected for a term expiring at the Annual Shareholders Meeting to be held in 2019 to approve the 2018 financial statements (see section 4.2.1 a).
(2) Defined benefit pension plan set up for senior executives of MFPM (for detailed explanations, see section 4.3.2 c).
(3) Benefit defined in the CGEM bylaws:
- *set by the Non-Managing General Partner with the endorsement of the Supervisory Board;*
- *only payable in the event of forced departure due to a change of strategy or of control;*
- *representing a maximum amount of two years' worth of fixed and variable compensation (this cap includes any other benefits payable on termination of office such as a non-compete indemnity);*
- *subject to performance conditions (see section 4.3.2 d).*

(4) Consideration payable in his capacity as an executive officer of CGEM:
- *with the possibility for the Board to waive the implementation of the non-compete clause;*
- *representing a maximum amount of 16 months' worth of his most recent aggregate compensation;*
- *capped, where appropriate, at the equivalent of two years' worth of fixed and variable compensation, applicable to all benefits payable on termination of office, including the termination benefit payable in the event of a forced departure as a result of a change in the Company's strategy or control (for detailed explanations, see section 4.3.2 e).*

4.3.2 AMOUNTS ALLOCATED TO JEAN-DOMINIQUE SENARD, CHIEF EXECUTIVE OFFICER AND GENERAL PARTNER

Michelin's Executive Management and Supervisory Board have decided to apply the recommendations of the AFEP/MEDEF Code concerning an advisory "say-on-pay" shareholder vote on the individual compensation awarded to executive officers. In order for shareholders to be fully informed for the purpose of this vote, in addition to the figures presented in section 4.3.1 and the information provided below, section 4.3.3 sets out further details on the components of the compensation due, paid or payable to Jean-Dominique Senard for 2014, in accordance with the conditions provided for in the AFEP/MEDEF Code and its implementation guidance.

In his capacity as a General Partner of CGEM, Jean-Dominique Senard has unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners [1] each receive a portion of the Company's profits as provided for in the bylaws [2]. This means that their interests are fully aligned with those of the shareholders, as they are paid this consideration only if the Company makes a profit.

4.3.2 a) Compensation and profit shares

▸ Compensation policy

In the same way as it has done each year since 2007, the Compensation and Appointments Committee of CGEM's Supervisory Board has reviewed all of the components of the compensation due, awarded or to be awarded to Mr. Senard, *i.e.* his fixed compensation awarded by MFPM, the profit shares allocated to him by CGEM and CFM as described above, and his fringe benefits (a Company car).

Concerning the specific issue of the compensation paid to the Chief Executive Officer (the only executive officer), in light of the legal provisions specifically applicable to partnerships limited by shares and the provisions of the bylaws, the Committee makes proposals to the Supervisory Board about the various components of the Chief Executive Officer's package which currently includes (i) variable profit shares that depend on one or several performance criteria and (ii) fixed compensation paid by a subsidiary in respect of his duties within the subsidiary.

(1) At December 31, 2014, the Company had two General Partners: Jean-Dominique Senard, Chief Executive Officer, and SAGES, Non-Managing General Partner (see presentation in section 4.1.4).
(2) See Article 30 of the bylaws, reproduced in section 5.1.2 e) below.

The Committee's proposals help the Supervisory Board to formulate recommendations to the Non-Managing General Partner (SAGES) about the different components of the profit share payable to the Chief Executive Officer.

The Committee also reviews all amounts and benefits due, awarded or to be awarded to the Chief Executive Officer for the previous year by Group companies.

As part of the review, the Committee particularly verifies that the amounts paid or awarded to the Chief Executive Officer are proportionate and consistent in terms of (i) the Group's performance and (ii) industry and market practice.

The Committee also ensures that the components of the Chief Executive Officer's compensation are balanced, by (i) assessing the components of his variable compensation (profit-share allocation) calculated over one year and several years, and (ii) ensuring that his profit shares never exceed a reasonable percentage of his fixed compensation.

In assessing the level of his variable compensation, the Committee considers (i) the inherent variability of the Company's profits, (ii) projected future profits and (iii) the fact that General Partners are in an unusual situation to the extent that they have unlimited joint and personal liability for the Company's debts.

Following the comparative analysis performed by external consultants in 2013 at the Supervisory Board's request [1], the Compensation and Appointments Committee reviewed the overall structure of the Chief Executive Officer's compensation package.

The review showed that:

- Mr. Senard's compensation was significantly lower than that of the executive officers included in the benchmark panel;
- this difference was exacerbated by the fact that Mr. Senard did not have a long-term compensation component;
- Mr. Senard's entitlement under the Group pension plan of which he is a member was considerably lower than market practices.

The Committee also noted that the fixed compensation received for his role as executive officer of a subsidiary and the profit shares paid to him by the Company had not increased since he was appointed sole Managing Partner in 2011, despite the fact that the Group recorded very good performances in both 2011 and 2012.

As a result, the Supervisory Board approved the recommendation put forward by the Compensation and Appointments Committee and endorsed by the Non-Managing General Partner, to offer Mr. Senard a significant increase in the fixed and variable components of his compensation as from 2013.

However, in light of the restructuring measures put in place within the Group in 2013, Mr. Senard refused to accept an increase in his compensation for 2013.

The Committee therefore proposed, effective from 2014, to:

Raise the fixed compensation paid by the subsidiary for his role as the Company's Managing Partner to a level more in line with market practices.

Link his variable compensation more closely to shareholders' interests, by asking the Non-Managing General Partner (SAGES) to reorganize his profit shares in three components:

- a first annual variable component determined as previously on the basis of a single performance criterion, the level of profit for the year;
- a second annual variable component determined on the basis of additional annual performance criteria, such as business growth, market share gains, the level of overheads and growth in free cash flow;
- a long-term variable component determined on the basis of performance criteria assessed over three years and correlated with the Group's long-term strategy as expressed in the Ambitions 2020 objectives, such as business growth and share performance.

These changes will mean that substantially most of the profit share allocated to the Chief Executive Officer will depend on both earnings for the year, as previously, and also on the achievement of several other performance criteria.

Once the new compensation system had been finalized by the Non-Managing General Partner and the Supervisory Board, the Chairman of the Compensation and Appointments Committee presented the new policy in detail to shareholders at the Annual Meeting of May 16, 2014 and issued a press release on this subject the same day. The result of applying the new system in 2014 is presented below.

2014 compensation

The Company does not have any specific commitments towards Mr. Senard other than those described in this section.

Fixed compensation

Mr. Senard received fixed compensation of €1,100,000 from MFPM for his role as the Company's Non-General Managing Partner.

Annual variable compensation

Shared features

The annual variable components of Mr. Senard's compensation are paid out of the share of profit allocated to the two General Partners of CGEM – Jean-Dominique Senard and SAGES – that is now split between them on a mutually agreed basis.

No new agreement or commitment has been entered into between CGEM and Mr. Senard concerning his compensation.

In accordance with Article 30, paragraph 3, of the Company's bylaws (as presented in section 5.1.2 e), 12% of net profit for the year, net of dividend income corresponding to distributions of profit or reserves by Manufacture Française des Pneumatiques Michelin and Compagnie Financière du groupe Michelin (CFM), is allocated to the General Partners.

(1) See page 105 of the 2013 Registration Document for details.

The allocated share of profit is capped at 0.6% of the Group's consolidated net profit.

For 2014, the profit allocated to the General Partners amounts to €5.0 million, representing 12% of profit for the year net of dividends received in 2014 from CFM.

Single-criterion annual variable component

This component corresponds to 8% of the allocated share of profit, *i.e.* €400,020 for 2014, less €50,000 corresponding to the allocated share of profit payable by CFM as compensation for Mr. Senard's role as General Managing Partner of this subsidiary.

Multi-criteria annual variable component

For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose any details of these performance targets.

This component corresponds to between 0% and 14% of the allocated share of profit, depending on the level of achievement in 2014 of the following eight criteria set by the Supervisory Board:

- four quantitative criteria – the same as those applied to determine the 2014 variable compensation of the Executive Committee members – which together count for up to 100/150ths:
  - growth in unit sales,
  - annual savings from the Efficiency project to reduce overheads, measured on the basis of an appropriate SG&A/gross margin ratio,
  - annual free cash flow (after capital expenditure and financial investments),
  - annual increase in market share in certain tire segments;
- four qualitative criteria linked to the Group's strategy, management and financial communications, which together count for up to 50/150ths.

Note that:

- if the cumulative achievement rate for the eight criteria is less than 50/150ths, Mr. Senard will not be entitled to any multi-criteria variable compensation;
- he will be awarded the maximum 14% of the allocated share of profit for this component only if the cumulative achievement rate for the eight criteria is 150/150ths.

The Compensation and Appointments Committee carefully reviewed each of the quantitative and qualitative criteria.

Based on its analysis concerning the multi-criteria annual variable component, the Committee considered that the cumulative achievement rate for the quantitative and qualitative criteria was 80%. Applying this rate to the criteria assessment grid puts the multi-criteria annual variable component at €350,017, to be paid out of the share of profit allocated for 2014.

Long-term incentive (long-term variable component)

The long-term incentive is calculated on a base amount of €1,800,000, as adjusted to reflect Michelin's stock market performance over the period 2014/2015/2016. The adjustment is based on performance over the three-year period against the following three criteria:

- growth in the Michelin share price compared with that of the CAC 40 index, for 33.3%;
- average annual growth in Group net sales, for 33.3%;
- average annual return on capital employed (ROCE), for 33.3%.

The targets for the second and third criteria concern like-for-like growth in net sales and ROCE (*i.e.* based on a comparable structure and at constant exchange rates, excluding any changes in accounting policies and any non-recurring items), and may be revised following the occurrence of any exceptional events.

The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full.

The final amount receivable under the long-term incentive plan will be:

- capped at 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2014, 2015 and 2016;
- paid out of the share of profit allocated to the General Partners in respect of 2016 and payable in 2017 after the 2016 financial statements have been approved:
  - subject to the availability of profit shares payable in 2017 in respect of 2016 profit, and
  - up to the amount of said available profit shares after deducting the annual variable and multi-criteria variable components due for 2016.

As this is a long-term incentive plan, the Supervisory Board noted that no amount was due in respect of 2014.

Mr. Senard is required to invest in Michelin shares 20% of the long-term incentive received at the end of the three-year period and to retain these shares for as long as he remains in office, after which the shares may be sold on a phased basis over four years.

4.3.2 b) Fringe benefits, stock options, performance shares

Mr. Senard has the use of a Company car (see table 4.3.1 b).

In 2014, Mr. Senard did not receive any attendance fees from any Group companies, or any benefits other than those listed above. No stock options or performance shares were granted to him during the year.

4.3.2 c) Supplementary pension benefits

Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard is a member of the supplementary pension plan set up for MFPM senior executives. His benefit entitlement under this plan is determined by reference to the fixed compensation paid to him by that company (reference compensation). The cost of this supplementary plan, which is not restricted to Non-General Managing Partners (executive officers), is measured in accordance with accounting standards as applied by the Group. Its main characteristics are as follows:

- participants must have served for at least five years as a senior executive;
- 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the three best years of compensation out of the last five years preceding the beneficiary's retirement);
- the replacement rate including benefit entitlements under compulsory plans is capped at 35%.

To be entitled to benefits under this plan, Mr. Senard must end his career with MFPM as an executive employee or corporate officer, in accordance with article L. 137-11 of the French Social Security Code.

Calculated using the general actuarial assumptions applied to measure the Group's obligation in accordance with accounting standards as applied by the Group,Mr. Senard's total benefit entitlement would represent a gross replacement rate of less than 10% of his reference compensation.

Based on his reference compensation for 2014 (annual average of the three best years of compensation out of the last five years), Mr. Senard's actual gross replacement rate would be less than the rate referred to above and would fall well short of the 45% ceiling recommended in the AFEP/MEDEF Code.

4.3.2 d) Compensation for loss of office

In accordance with Article 13-2 of the bylaws, as approved by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if Mr. Senard were to be removed from office before the end of his term as a result of a change of strategy or a change of control of the Company, provided such removal was not due to gross misconduct, he would be entitled to compensation for loss of office to be decided by the Non-Managing General Partner and subject to the prior approval of the Supervisory Board. The amount of any such compensation would not exceed the equivalent of Mr. Senard's total compensation for the two years preceding the year of his removal from office.

In accordance with the internal rules of both the Compensation and Appointments Committee and the Supervisory Board, the Supervisory Board approved the performance criteria to be applied for the calculation of the compensation for loss of office, as recommended by the Committee, and informed the Chief Executive Officer of these criteria in 2014.

The final amount of the benefit provided for in article 13-2 of the bylaws will depend on the average achievement rate recorded by the Chief Executive Officer for the multi-criteria annual variable component of the allocated share of profit for the three years preceding his removal from office ("the Three-year average"), as follows:

- Three-year Average of less than 40%: no compensation for loss of office;
- Three-year Average of between 40% and 60%: compensation for loss of office equal to 50% of the Reference Base;
- Three-year Average of between 60% and 100%: compensation for loss of office equal to 100% of the Reference Base,

where the Reference Base corresponds to the aggregate compensation paid for the two years preceding the year of his removal from office.

The compensation for loss of office would be reduced, if applicable, so that any other severance payments due to Mr. Senard would not result in his receiving an aggregate severance package in excess of two years' compensation, as recommended in the AFEP/MEDEF Code.

4.3.2 e) Non-compete clause

In the same way as Michelin employees who have specific expertise that needs to be protected to prevent its use by a competitor in a manner that is detrimental to the Company's interests, Mr. Senard is subject to a non-compete clause, which was signed on July 26, 2011 after prior approval by the Supervisory Board. This clause replaced the one contained in his employment contract that was terminated following his election as General Managing Partner.

If the Company were to decide to apply this non-compete clause, for a two-year period it would have to pay to Mr. Senard the equivalent of up to 16 months' compensation based on the most recent aggregate compensation paid to him by Group companies.

The Company is, however, entitled to waive the application of this clause.

Any compensation for loss of office that would be due to Mr. Senard in the event of a change of control or strategy would be reduced or withheld entirely if necessary so that his aggregate severance package, including the non-compete indemnity referred to above, did not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP/MEDEF Code.

4.3.2 f) Long-term incentive bonus (plan closed in 2012)

Grant year	2007	2008	2009	2010	2011
Number of units awarded (in 2007 and 2008)	18,646	20,719	-	-	-
Amount awarded (2009 to 2011) *(in €)*	-	-	0	368,034	0
Unit exercise price *(in €)*	87.85	59.85	-	-	-
Exercise period	May 14, 2011 to May 14, 2016	May 19, 2012 to May 18, 2017	-	April 30, 2015 to April 29, 2019	-
Units exercised or incentive bonuses paid in 2013	0	0	0	0	0
Units or incentive bonuses cancelled/expired	0	0	0	0	0
Units or incentive bonuses outstanding *(in €)* at December 31, 2014	18,646 units	20,719 units	0	€368,034	0

▸ Long-term incentive bonuses awarded in 2007 and 2008

The long-term incentive bonuses (ILTs) in respect of **2007 and 2008** were awarded in the form of units whose value is equal to the difference between (i) the value of Michelin shares on the date the units are cashed in and (ii) the benchmark share price, defined as the exercise price of the stock options granted to Group employees on May 14, 2007 and May 29, 2008. The other terms and conditions of the awards (notably the vesting period, eligibility criteria and the cap on gains) are identical to those of the stock option plans, except for certain minor adjustments made to reflect the legal status of a Non-General Managing Partner (which Mr. Senard was during this period). The number of units and the exercise price were adjusted under the same terms and conditions as the stock option plans following the October 25, 2010 share issue.

The maximum capped cost to the Company of the 2007 and 2008 ILTs as of December 31, 2014 can be analyzed as follows:

- €319,487 theoretically payable to Mr. Senard in respect of the 2008 ILT, corresponding to the number of units multiplied by the difference between the Michelin share price at December 31, 2014 (€75.27) and the exercise price of the 2008 ILT unit (€59.85);
- €105,431 in payroll taxes due by the Company upon payment of the 2008 ILT, estimated in accordance with current legislation;
- no payment is due in respect of the 2007 ILT because the unit exercise price (€87.85) exceeded the Michelin share price at December 31, 2014 (€75.27). As a result, no cash-settled liability has been recognized in the financial statements for the year.

▸ Long-term incentive bonuses awarded between 2009 and 2011

The long-term incentive bonus awarded in **2009** was calculated on the basis of Mr. Senard's annual variable compensation. However, given the year's recessionary economic environment and the various measures implemented in the Group in response, Mr. Senard **waived** his right to this compensation.

Mr. Senard's **2010** ILT was equal to the average amount, in €, of the variable compensation paid to him for 2008, 2009 and 2010.

This ILT is indexed to the long-term change in the Michelin share price, as determined by comparing the average share price for the quarter preceding the award date to the average price for the quarter preceding the date when Mr. Senard elects to cash in the ILT.

The adjustment may be positive or negative, depending on whether the average share price rises or falls, and will be capped at 100% of the variable compensation used as the basis for calculating the ILT.

Payment of the 2010 ILT is deferred because it may not be cashed in until between the fifth and ninth anniversaries of the reference year, unless Mr. Senard is removed from office due to mismanagement.

The maximum capped cost to the Company of the 2010 ILT as valued at December 31, 2014 may be analyzed as follows:

- €368,034 theoretically payable to Mr. Senard, corresponding to the average amount, in €, of the variable compensation paid to him in respect of 2008 (waived), 2009 (€494,807) and 2010 (€609,294);
- €368,034 in a provision covering the maximum impact of indexation on the ILT due, which would correspond to an assumed Michelin share price of at least €107;
- €242,902 in applicable payroll taxes due by the Company upon payment of the ILT, estimated in accordance with current legislation and based on the maximum indexed amount.

The 2010 ILT is the only long-term incentive bonus due since 2009 for the following reasons:

- in 2012, Mr. Senard **waived** his rights to his 2011 long-term incentive, whose amount had been calculated on the same basis as the 2010 ILT (the average amount, in €, of the variable compensation paid to him in respect of 2009, 2010 and 2011);
- the ILT program was closed in 2012 following Mr. Senard's election as General Managing Partner.

4.3.3 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO JEAN-DOMINIQUE SENARD, CHIEF EXECUTIVE OFFICER, IN RESPECT OF 2014 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 22, 2015 ANNUAL MEETING (1)

As in 2014, Michelin has decided to apply the recommendations of the AFEP/MEDEF Code concerning an advisory "say-on-pay" shareholder vote on the individual compensation awarded to executive officers.

In line with the recommendation of the Compensation and Appointments Committee, the Supervisory Board has issued a favourable opinion on the total compensation due or awarded to Mr. Senard in respect of 2014 and recommends that the shareholders issue a favourable advisory vote thereon.

These components of Mr. Senard's compensation, as presented in detail below, will therefore be presented to shareholders at the Annual Meeting on May 22, 2015.

All of the amounts indicated are based on the standard tables provided in the AFEP/MEDEF Code, which are set out in section 4.3.1 of the 2014 Registration Document.

Compensation due or awarded for 2014	**Amounts (or accounting value) submitted for shareholder approval** *(in €)*	**Presentation**
Fixed compensation	1,100,000	This corresponds to the gross annual fixed compensation due by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, as consideration for the duties performed by Mr. Senard in his capacity as Non-General Managing Partner of that company. Its amount was set by MFPM's General Partner on April 29, 2014 based on the recommendation of CGEM's Compensation and Appointments Committee.
Annual variable compensation	750,037	**Shared features** The annual variable components of Mr. Senard's compensation are paid out of the share of profit allocated to the two General Partners of CGEM – Jean-Dominique Senard and SAGES – that is now split between them on a mutually agreed basis. No new agreement or commitment has been entered into between CGEM and Mr. Senard concerning his compensation. In accordance with article 30, paragraph 3, of the Company's bylaws (as presented in section 5.1.2 e), 12% of profit for the year, net of dividend income corresponding to distributions of profit or reserves by Manufacture Française des Pneumatiques Michelin and Compagnie Financière du groupe Michelin (CFM), is allocated to the General Partners. The allocated share of profit is capped at 0.6% of the Group's consolidated net profit. For 2014, the allocated share of profit was a base amount of €5.0 million, representing 12% of profit for the year net of dividends received in 2014 from CFM. **Single-criterion annual variable component** This component corresponds to 8% of the allocated share of profit, *i.e.* €400,020 for 2014, less €50,000 corresponding to the allocated share of profit payable by CFM as compensation for Mr. Senard's role as General Managing Partner of this subsidiary.

(1) *In accordance with paragraph 24.3 of the AFEP/MEDEF Corporate Governance Code, p. 31 and 32, and paragraph I of the Application Guide of the MEDEF High Committee on Corporate Governance, p. 1 to 10.*

Compensation due or awarded for 2014	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Annual variable compensation		**Multi-criteria annual variable compensation** For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose any details of these performance targets. This component corresponds to between 0% and 14% of the allocated share of profit, depending on the level of achievement in 2014 of the following eight criteria set by the Supervisory Board: ▶ four quantitative criteria – the same as those applied to determine the 2014 variable compensation of the Executive Committee members – which together count for up to 100/150ths: – annual growth in unit sales, – annual savings from the Efficiency project to reduce overheads, measured on the basis of an appropriate SG&A/gross margin ratio, – annual free cash flow (after capital expenditure and financial investments), – annual increase in market share in certain tire segments; ▶ four qualitative criteria linked to the Group's strategy, management and financial communications, which together count for up to 50/150ths. Note that: ▶ if the cumulative achievement rate for the eight criteria is less than 50/150ths, Mr. Senard will not be entitled to any multi-criteria variable compensation; ▶ he will be awarded the maximum 14% of the allocated share of profit for this component only if the cumulative achievement rate for the eight criteria is 150/150ths. The Compensation and Appointments Committee carefully reviewed each of the quantitative and qualitative criteria. Based on its analysis concerning the multi-criteria annual variable component, the Committee considered that the cumulative achievement rate for the quantitative and qualitative criteria was 80%. Applying this rate to the criteria assessment grid puts the multi-criteria annual variable component at €350,017, to be paid out of the share of profit allocated for 2014.
Deferred variable compensation	No deferred variable compensation was due for 2014	**Long-term incentive (long-term variable component)** The long-term incentive is calculated on a base amount of €1,800,000, as adjusted to reflect Michelin's stock market performance over the period 2014/2015/2016. The adjustment is based on performance over the three-year period against the following three criteria: ▶ growth in the Michelin share price compared with that of the CAC 40 index, for 33.3%; ▶ average annual growth in Group net sales, for 33.3%; ▶ average annual return on capital employed (ROCE), for 33.3%. The targets for the second and third criteria concern like-for-like growth in net sales and ROCE (*i.e.* based on a comparable structure and at constant exchange rates, excluding any changes in accounting policies and any non-recurring items), and may be revised following the occurrence of any exceptional events. The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full. The final amount receivable under the long-term incentive plan will be: ▶ capped at 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2014, 2015 and 2016; ▶ paid out of the share of profit allocated to the General Partners in respect of 2016 and payable in 2017 after the 2016 financial statements have been approved: – subject to the availability of profit shares payable in 2017 in respect of 2016 profit, and – up to the amount of said available profit shares after deducting the annual variable and multi-criteria variable components due for 2016. As this is a long-term incentive plan, the Supervisory Board noted that no amount was due in respect of 2014.
Exceptional compensation	N/A	No exceptional compensation

Compensation due or awarded for 2014	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Stock options, performance shares and other long-term compensation	Stock options = N/A Performance shares = N/A Other long-term compensation = N/A	No stock options granted No performance shares awarded No other long-term compensation awarded
Attendance fees	N/A	Mr. Senard does not receive any attendance fees
Value of fringe benefits	6,894	Company car
Signing bonus	N/A	Mr. Senard was not paid any signing bonus

Components of compensation due or awarded for 2014 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments*	Amounts submitted to the vote *(in €)*	Presentation
Compensation for loss of office	No compensation for loss of office was due for 2014	In accordance with Article 13-2 of the bylaws, as approved by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if Mr. Senard were to be removed from office before the end of his term as a result of a change of strategy or a change of control of the Company, provided such removal was not due to gross misconduct, he would be entitled to compensation for loss of office to be decided by the Non-Managing General Partner and subject to the prior approval of the Supervisory Board. The amount of any such compensation would not exceed the equivalent of Mr. Senard's total compensation for the two years preceding the year of his removal from office. In accordance with the internal rules of both the Compensation and Appointments Committee and the Supervisory Board, the Supervisory Board approved the performance criteria to be applied for the calculation of the compensation for loss of office, as recommended by the Committee, and informed the Chief Executive Officer of these criteria in 2014. The final amount of compensation for loss of office paid pursuant to Article 13-2 of the bylaws would depend on the average multi-criteria annual variable component of the allocated share of profit for the three years preceding his removal from office (the Three-year Average), as follows: ▶ Three-year Average of less than 40%: no compensation for loss of office; ▶ Three-year Average of between 40% and 60%: compensation for loss of office equal to 50% of the Reference Base; ▶ Three-year Average of between 60% and 100%: compensation for loss of office equal to 100% of the Reference Base, where the Reference Base corresponds to the aggregate compensation paid for the two years preceding the year of his removal from office. The compensation for loss of office would be reduced, if applicable, so that any other severance payments due to Mr. Senard would not result in his receiving an aggregate severance package in excess of two years' compensation, as recommended in the AFEP/MEDEF Code.
Non-compete indemnity	No indemnity was due under a non-compete clause in 2014.	In the same way as Michelin employees who have specific expertise that needs to be protected to prevent its use by a competitor in a manner that is detrimental to the Company's interests, Mr. Senard is subject to a non-compete clause, which was signed on July 26, 2011 after prior approval by the Supervisory Board. This clause replaced the one contained in his employment contract that was terminated following his election as General Managing Partner. If the Company were to decide to apply this non-compete clause, for a two-year period it would have to pay to Mr. Senard the equivalent of up to 16 months' compensation based on the most recent aggregate compensation paid to him by Group companies. The Company is, however, entitled to waive the application of this clause. Any compensation for loss of office that would be due to Mr. Senard in the event of a change of control or strategy would be reduced or withheld entirely if necessary so that his aggregate severance package, including the non-compete indemnity referred to above, did not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP/MEDEF Code.
Supplementary pension benefits	No supplementary pension benefits were due in 2014.	Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard is a member of the supplementary pension plan set up for MFPM senior executives. His benefit entitlement under this plan is determined by reference to the fixed compensation paid to him by that company (reference compensation). The cost of this supplementary plan, which is not restricted to Non-General Managing Partners (executive officers), is recognized as a liability in the balance sheet in accordance with accounting standards as applied by the Group. Its main characteristics are as follows: ▶ participants must have served for at least five years as a senior executive; ▶ 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the three best years of compensation out of the last five years preceding the beneficiary's retirement); ▶ the replacement rate including benefit entitlements under compulsory plans is capped at 35%. To be entitled to benefits under this plan, Mr. Senard must end his career with MFPM as an executive employee or corporate officer, in accordance with article L.137-11 of the French Social Security Code. Calculated using the general actuarial assumptions applied to measure the Group's obligation in accordance with accounting standards as applied by the Group, Mr. Senard's total benefit entitlement under the plans would represent a gross replacement rate of less than 10% of his reference compensation. As this reference compensation represents less than half of the aggregate amount received by Mr. Senard for 2014 (fixed compensation and variable share of profit as stipulated in the bylaws), his actual gross replacement rate would be around one half of the above-mentioned replacement rate, and therefore well below the 45% ceiling recommended in the AFEP/MEDEF Code.

* *Unlike for joint stock companies (sociétés anonymes, or SAs) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or SCA) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).*
The fact that the specific system applicable to SAs concerning related-party commitments does not apply to SCAs is corroborated by Article L. 226-10-1 of the Commercial Code, which states that the Chairman of the Supervisory Board is required to prepare a report reviewed by the Statutory Auditors whose content explicitly excludes information related to the "principles and rules concerning the compensation and benefits granted to executive officers", whereas this information is compulsory for SAs pursuant to Articles L. 225-37 and L. 225-68 of the Commercial Code. This difference in the applicable legal regimes does not have any effect on (i) the rules concerning public disclosures of the amounts and underlying principles relating to the compensation of the Company's executive officers and (ii) the application, adapted to the context, of the AFEP/MEDEF Code's recommendations.

4.3.4 SUPERVISORY BOARD

The aggregate maximum amount of attendance fees payable to Supervisory Board members was set at €420,000 as from 2014 in the tenth resolution of the May 16, 2014 Annual Shareholders Meeting. The Board is free to decide how to allocate the total amount between its individual members and the payments are made during the first quarter of the following financial year.

The increase in total attendance fees was proposed to take into account (i) the fact that the previous amount (€320,000) had not been increased since 2006, (ii) the requirement for Supervisory Board members to be increasingly specialized and involved, (iii) the 37.5% increase in the number of meetings of the Supervisory Board and its Committees between 2006 and 2013, and (iv) the Board's higher workload following the extension of its responsibilities voted at the 2011 Annual Shareholders Meeting.

In accordance with the Supervisory Board's internal rules, as amended in February 2014, a significant portion of the attendance fees allocated to its members are contingent on their actual attendance at Board and Committee meetings.

ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY THE SUPERVISORY BOARD MEMBERS IN 2014 (BASED ON TABLE 3 IN THE AFEP/MEDEF CODE):

Supervisory Board members	Amount paid in 2013 (for 2012)	Amount paid in 2014 (for 2013)
Olivier Bazil *(elected on May 17, 2013)*		
Attendance fees	0	22,500
Other compensation	0	0
Éric Bourdais de Charbonnière *(term expired on May 17, 2013)*		
Attendance fees	50,000	25,000
Other compensation	0	0
Pat Cox		
Attendance fees	30,000	30,000
Other compensation	0	0
Barbara Dalibard		
Attendance fees	30,000	30,000
Other compensation	0	0
Anne-Sophie de La Bigne *(elected on May 17, 2013)*		
Attendance fees	0	20,000
Other compensation	0	0
Jean-Pierre Duprieu *(elected on May 17, 2013)*		
Attendance fees	0	20,000
Other compensation	0	0
Louis Gallois *(resigned on February 11, 2014)*		
Attendance fees	30,000	30,000
Other compensation	0	0
François Grappotte *(term expired on May 17, 2013)*		
Attendance fees	45,000	22,500
Other compensation	0	0
Pierre Michelin *(term expired on May 17, 2013)*		
Attendance fees	40,000	20,000
Other compensation	0	0
Laurence Parisot		
Attendance fees	30,000	30,000
Other compensation	0	0
Benoît Potier *(term expired on May 17, 2013)*		
Attendance fees	40,000	20,000
Other compensation	0	0
Cyrille Poughon *(elected on May 16, 2014)*		
Attendance fees	0	0
Other compensation	0	0
Michel Rollier *(elected on May 17, 2013)*		
Attendance fees	0	25,000
Other compensation	0	0
TOTAL	**295,000**	**295,000**

4.3.5 THE GROUP EXECUTIVE COMMITTEE

In 2014, the members of the Group Executive Committee received aggregate gross compensation of €7,189,157 (including €1,945,862 corresponding to the variable component for 2013 which was paid during the first half of 2014). In 2013 the gross aggregate compensation received by Group Executive Committee members totalled €6,796,403 (including €2,152,097 corresponding to the variable component for 2012 which was paid during the first half of 2013).

The Group Executive Committee members do not receive any attendance fees as members of the Boards of any Group companies.

4.4 TRADING IN MICHELIN SHARES BY MANAGING PARTNERS, GENERAL PARTNERS AND SUPERVISORY BOARD MEMBERS AND THEIR CLOSE RELATIVES IN 2014

▸ Chief Executive Officer

Jean-Dominique Senard

On March 28, 2014 Jean-Dominique Senard exercised 5,359 stock options at a unit price of €46.34 a share.

▸ Supervisory Board

Pat Cox

On November 10, 2014, Pat Cox acquired six shares at a unit price of €70.39 a share and 226 shares at a unit price of €70.56.

▸ SAGES (Non-Managing General Partner)

SAGES acquired 12,048 shares at a unit price of €83.18 a share on September 10, 2014 and 28,218 shares at a unit price of €67.07 on October 24, 2014.

To the best of the Company's knowledge, no other transactions in the Company's shares were carried out by the Chief Executive Officer, SAGES, Supervisory Board members or their close relatives during the year.

4.5 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE MEMBERSHIP OF THE SUPERVISORY BOARD, THE APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY, THE SUPERVISORY BOARD'S PRACTICES AND THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

To the shareholders,

In my capacity as Chairman of the Supervisory Board, I hereby report to you on (i) the membership structure of the Board and the application of the principle of gender equality, (ii) the Supervisory Board's practices during the year ended December 31, 2014 and (iii) the internal control and risk management procedures put in place by the Company.

4.5.1 MEMBERSHIP STRUCTURE OF THE SUPERVISORY BOARD, APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY AND SUPERVISORY BOARD PRACTICES

4.5.1 a) Members – Board gender equality

In accordance with the applicable law and the Company's bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders Meeting for a term of four years (1). All Supervisory Board members must be shareholders.

According to the bylaws, no more than one-third of Supervisory Board members may be aged over 75.

The Supervisory Board currently has eight members, whose names are listed below along with details of their current position (2). This information is disclosed in accordance with Article L. 226-4-1 of the French Commercial Code introduced by French Act No. 2011-103 of January 27, 2011 concerning the balanced representation of men and women on Boards of Directors and Supervisory Boards and gender equality in the workplace:

- **Olivier Bazil,** a Director of Legrand and Vallourec;
- **Pat Cox,** Member of the Board of Trustees of the Friends of Europe; former President of the European Parliament; former member of the Irish Parliament;
- **Barbara Dalibard,** Chief Executive Officer of SNCF Voyageurs;
- **Anne-Sophie de La Bigne,** Vice-President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group;
- **Jean-Pierre Duprieu,** Executive Vice-President of the Air Liquide Group;
- **Cyrille Poughon,** member of the "Workplace Quality of Life" workgroup at Manufacture Française des Pneumatiques Michelin;
- **Michel Rollier,** Chairman of Michelin's Supervisory Board, Chairman of the *Plateforme de la Filière Automobile* and a former Managing Partner of Michelin.
- **Laurence Parisot,** Vice-Chairman of the Management Board of IFOP;

At its meeting on February 18, 2015, the Supervisory Board noted the resignation of Laurence Parisot, with effect from July 24, 2015.

Ms. Parisot tendered her resignation in order to comply with the limits placed on the number of directorships held, as set out in the European Capital Requirements Directive (CRD IV), which has recently been transposed into French law.

All members of the Supervisory Board regret Ms. Parisot's departure and wish to place on record their appreciation for her decisive contribution and unflagging commitment to the Board's work during 10 years as a member.

4.5.1 b) Report on the Supervisory Board's activities during 2014

▸ General activities

At its meetings on February 6 and July 24 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2013 and (ii) the interim financial statements for the six months ended June 30, 2014. It also examined and expressed its opinion on the financial information communicated to the markets.

(1) Five years for members elected prior to 2009. Certain members may be elected for a two- or three-year period in order to effectively stagger the terms of office of Supervisory Board members.

(2) Louis Gallois, Chairman of the Supervisory Board of Peugeot SA, resigned on February 11, 2014.

The issues examined by the Supervisory Board – based in some cases on presentations made by the Chief Executive Officer or by members of line management – were as follows:

- quarterly financial information and interim and annual results, together with the corresponding press releases;
- internal control and risk management;
- capital projects;
- the Audit Committee's report;
- the Group's strategic plan;
- the planning process and budget assumptions;
- the Company's distribution strategy;
- competitor analyses;
- the Michelin Performance and Responsibility approach;
- proposed acquisitions;
- compensation policies;
- preparations for the Annual Shareholders Meeting;
- Review for two candidates' election to the Supervisory Board;
- annual assessment of Supervisory Board members' independence;
- annual self-assessment of the Board's work;
- various proposals to improve the Company's governance;
- report of the Compensation and Appointments Committee.

Members' availability

The Supervisory Board met six times in 2014 – on February 6, April 22, April 28, July 24, October 31 and December 1 and 2 – with an average attendance rate (including meetings of Board Committees) of 96.7%.

The attendance rates of the individual Board members are presented in the table below:

	Participation at meetings held in 2014		
Supervisory Board members	**Supervisory Board (six meetings)**	**Audit Committee (four meetings)**	**Compensation and Appointments Committee (three meetings)**
Olivier Bazil	6/6	4/4	N/A
Pat Cox	6/6	N/A	3/3
Barbara Dalibard	6/6	N/A	N/A
Anne-Sophie de La Bigne	6/6	4/4	N/A
Jean-Pierre Duprieu	5/6	4/4	N/A
Louis Gallois	1/1 (1)	N/A	N/A
Laurence Parisot	6/6	N/A	3/3
Cyrille Poughon	2/3 (2)	N/A	N/A
Michel Rollier	6/6	N/A	3/3

N/A: Not applicable.
(1) Louis Gallois participated in the first meeting held in 2014 before he tendered his resignation on February 11, 2014.
(2) Cyrille Poughon participated in the two meetings held after he took up his seat on the Board, following his resignation from the position of Secretary of the Michelin Group European Works Council.

Training for Supervisory Board members

As part of its training policy for Supervisory Board members, during the year the Company once again organized a special training program on the Group's operations. The program gave all of the members an opportunity to acquire or refresh their hands-on insight into how Michelin's various businesses are run.

In 2014, Supervisory Board members visited a plant in Spain, during which they discovered how manufacturing operations are organized and learned about the main production processes for a range of tires, including the related quality assurance processes.

The visit followed those carried out in 2013, particularly that of the Ladoux Technology Centre in France, which provided an opportunity to attend presentations on Michelin's business strategy, innovation capabilities, and research and process engineering resources.

These topic-specific presentations, along with those made during the year at Supervisory Board meetings by members of Executive Management and their teams, are an essential means of improving the Supervisory Board members' understanding of all the challenges facing the Michelin Group.

Lastly, the Supervisory Board members participated in the 12^{th} Michelin Challenge Bibendum in Chengdu (China) that focused on identifying pathways to mobility.

Changes in the composition of Supervisory Board and other resolutions to be presented at the 2014 Annual Shareholders Meeting

A major part of the Board's work in late 2013 and early 2014 entailed preparing for the expiration of Supervisory Board members' terms of office.

The Board reviewed the candidacies of Laurence Parisot and Pat Cox for re-election to the Board without the assistance of the Compensation and Appointments Committee, as these candidates are respectively Chairman and member of that Committee. Although the Company was not concerned by the French Act on Employment Security dated June 14, 2013 (the "LSE Act"), the Supervisory Board expressed a wish for one of its members to be an employee, as this could only help to further the Michelin Performance and Responsibility approach (focused on sustainable development and corporate social responsibility). The appointment of an employee representative would also be in line with the "Moving Forward Together" program and the commitment to employee well-being and development, which is one of the Ambitions 2020 objectives.

The Board felt that it would be good practice to take voluntary and pro-active measures to achieve the objective set in the LSE Act and reiterated in the AFEP/MEDEF Code. In the case of Michelin, this meant having a representative of the Group's employees on the Supervisory Board of CGEM, the Group's parent company.

In order to respect the essential role that CGEM's shareholders play in electing members of the Supervisory Board, the Board ultimately decided to put in place a voluntary alternative process. Consequently, the Board resolved that at the Annual Shareholders Meeting of May 16, 2014 it would put forward a Group employee for election to the Board.

The Board considered that the fairest and most effective process for selecting such a candidate would be for Executive Management to contact Michelin's most significant employee representative body at Group level.

Therefore, the Chairman of the Board asked the Chief Executive Officer to request the secretary of Michelin's European Works Council, Cyrille Poughon, to stand for election as a Supervisory Board Member at the Annual Shareholders Meeting.

Cyrille Poughon agreed to this request.

His candidacy was examined by the Supervisory Board.

▸ Preparing recommendations for electing/re-electing Supervisory Board members and other resolutions to be presented at the 2015 Annual Shareholders Meeting

At the end of 2014, the Supervisory Board asked the Compensation and Appointments Committee to review the situation of members whose term was due to expire at the 2015 Annual Shareholders Meeting and any proposals to elect new members [(1)].

▸ Review of Supervisory Board members' independence

As is the case every year, the Supervisory Board asked the Compensation and Appointments Committee to review its members' independence based on specific criteria.

Since 2013, the Board has chosen to refer exclusively to the independence criteria listed in the AFEP/MEDEF Code.

Based on the results of its review, the Compensation and Appointments Committee noted that there were no material changes during 2014 in the positions held by Supervisory Board members outside the Michelin Group or in any business relationships that may have existed during the year between the Michelin Group and companies in which the Supervisory Board members hold positions.

Members of the Compensation and Appointments Committee did not take part in either the assessment of their own independence or the Supervisory Board's decision regarding their independence.

When assessing business relationships between the Michelin Group and Supervisory Board members, a materiality threshold of 1% of the Michelin Group's consolidated revenue is applied [(2)].

The Committee recommended to the Supervisory Board to adopt the same conclusions in 2014 as in 2013 concerning the independence of the members who served on the Board in both years [(3)].

The Committee also reviewed the situation of Cyrille Poughon, a new Supervisory Board member elected at the Annual Shareholders Meeting of May 16, 2014 and an employee of Manufacture Française des Pneumatiques Michelin, a Group subsidiary. Despite his independent mindset and conspicuous participation in Supervisory Board meetings, the Board considered that Mr. Poughon could not be qualified as independent because of the implicit requirement for him, as a Michelin employee, to demonstrate loyalty to the Group.

The Supervisory Board concluded that all of its members except for Cyrille Poughon and Michel Rollier qualify as independent based on the criteria in the AFEP/MEDEF Code. Seventy-five percent of its members are therefore independent, which is a significantly higher proportion than that recommended in the AFEP/MEDEF Code, which states that half of the Board members of widely-held corporations without controlling shareholders should be independent.

▸ Assessment of the Supervisory Board's practices

At its meeting on February 5, 2015, the Supervisory Board devoted an agenda item to discussing its own practices.

The Chairman reported to the Board members on the annual self-assessment procedure he had carried out in conjunction with the Chairman of the Compensation and Appointments Committee based on individual interviews with each Board member.

The three objectives of this self-assessment were:

- to take stock of the Board's operating practices and procedures;
- to verify that important matters during the year were properly prepared in advance and appropriately addressed;
- to appraise the contribution of each member to the Board's work, based on their individual skills and expertise and their involvement in its discussions.

The Chairman emphasized the in-depth constructive work performed by all of the Board members.

He said that, in the same way as in 2013, the assessment revealed that the Board's members are very satisfied with the quality of both the information they receive and the presentations given by the Chief Executive Officer, the members of the Executive Committee, and their colleagues.

The Board appreciated Executive Management's dynamic approach to managing the business in 2014.

Its members noted that their 2013 request for more information about developments regarding Michelin's corporate social responsibility programs had been taken into account and asked that the process of improvement be pursued.

The Board members also expressed particular satisfaction with the presentations made to them on specific topics, stating that these were essential to allow them to fully understand all aspects of the Group's strategy and its deployment.

They noted the efforts made to improve the presentations on risk management processes and the preparation and monitoring of management succession plans.

Lastly, the members of the Board are considering the possibility of engaging an outside consultant to assist in assessing their work in 2015.

In conclusion, all of the Board's members considered that the Board operates in a manner that enables it to fully perform its duties.

(1) Please refer to the Supervisory Board's report in section 10.2.3.

(2) The detailed conclusions of the review are presented on pages 114 and 115 of the 2013 Registration Document, noting in particular the qualification of Mr. Rollier as a non-independent member due solely to his term as Managing Partner of Michelin having expired in 2012, i.e. less than five years ago.

(3) Louis Gallois, whose independence was assessed in 2013, resigned from the Supervisory Board in February 2014.

4.5.1 c) Implementation of the "apply or explain" rule

In accordance with Article L. 225-68 of the French Commercial Code and paragraph 25.1 of the AFEP/MEDEF Code and the corresponding implementation guidance, the Supervisory Board considers that it complies with the recommendations of the AFEP/ MEDEF Code, as adapted to the Company's structure as a French partnership limited by shares (SCA), which was adopted at the time of its formation in 1863, except as explained below:

Code recommendation	Explanation
Material transactions outside the scope of the firm's stated strategy should be subject to prior approval by the Board of Directors (Recommendation 4).	This recommendation is not directly applicable because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company. However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its bylaws (1) as well as the Supervisory Board's internal rules. Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made. This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate. This approach complies with the spirit and aims of the recommendation.
The financial statements should be reviewed by the Audit Committee no less than two days before their review by the Board (Recommendation 16.1)	In view of the distance they may have to travel to attend meetings and the other business commitments not only of the Supervisory Board and Audit Committee members but also of the members of Executive Management, the Audit Committee conducts its formal review of the financial statements half a day before they are examined by the Supervisory Board. However, to enable the Committee to perform its work as efficiently as possible: ▶ the documents concerning the financial statements are made available to the Committee members several days in advance; ▶ the Chairman of the Audit Committee meets with the Group's Chief Financial Officer in advance to review the financial statements and prepare the Committee's meeting. This process ensures that the discussion of the financial statements by the Committee and the Board is both efficient and of a high quality, and complies with the spirit and aims of the recommendation.
It is advised that an employee director be a member of the Compensation Committee (Recommendation 18.1).	The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting. However, the Compensation and Appointments Committee does not include any member representing employees. In view of the limited number of Committee members and their current situation in relation to the AFEP/MEDEF Code's independence rules, the inclusion on the Committee of the Supervisory Board member representing employees would have the effect of reducing the proportion of independent members to just half of the members, versus the majority required by the AFEP/MEDEF Code. Considering in particular the candidates for election to the Supervisory Board proposed at the 2015 Annual Shareholders Meeting, the Committee's membership will be reviewed by the Supervisory Board in 2015.

(1) Article 17 of the bylaws states that "(...) The Supervisory Board is jointly and regularly informed about the Company's situation and the key issues listed in the Supervisory Board's internal rules. The Supervisory Board reports to the Shareholders Meeting on the fulfilment of its duties (...)".

4.5.1 d) Report on the Audit Committee's work in 2014

Due to extensive experience acquired during their careers, notably as part of the executive management and strategic advisory teams of large corporations, the Audit Committee's three members have a deep understanding of financial and accounting matters.

The Audit Committee monitors issues relating to the preparation and control of accounting and financial information, in accordance with Articles L. 823-19 and L. 823-20-4° of the French Commercial Code.

The Audit Committee met four times in 2014 – on February 5, April 8, July 23 and October 31 – with a 100% attendance rate.

During its meetings, the Audit Committee made inquiries of:

- the Chief Financial Officer;
- the Corporate Financing Director;
- the Accounting Director;
- the Internal Control and Quality Director;
- the Information Systems Director;
- the Executive Vice President, Quality, Audit and Risk Management;
- the Group Risk Manager;
- the Efficiency Program Director;
- the Head of the OPE Business Process Management System;
- the Tax Affairs Director;
- both Statutory Auditors.

The main purpose of the meetings held in 2014 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2013. In particular, the Audit Committee analyzed the restatements of the 2012 consolidated financial statements, 2013 consolidated key figures and significant events of the year, material changes in consolidated income statement and balance sheet items, the main components of consolidated free cash flow, and the main items in the separate financial statements of the Company. It noted that the audit of the accounts had gone smoothly. The Statutory Auditors issued an unqualified opinion on both the separate and consolidated financial statements for 2013, without observations for the separate accounts, and with a technical observation for the consolidated accounts.

- The interim separate and consolidated financial statements for the six months ended June 30, 2014. The Committee mainly reviewed the absence of changes in accounting methods and in the scope of consolidation, restructuring cost estimates, free cash flow and working capital, and changes in raw materials prices. The Statutory Auditors had no matters to report concerning their limited review of the 2014 interim consolidated financial statements. The Auditors also presented their audit plan for 2014 to be carried out in 2015.
- The OPE Business Process Management System. The Head of the Program presented to the Committee the program's challenges and objectives, and the work completed to date, while the Information Systems Director described the OPE systems security processes and physical architecture.
- Embargo risk management/export controls. The Tax Affairs Director described the procedure for managing this risk and the related measures.
- Production cost accounting. The Accounting Director presented the method used and the options selected.
- The Group competitiveness program. The Chief Financial Officer and the Efficiency Program Director outlined the competitiveness program's objectives and the methods used, as well as the advances made in each area – industrial productivity, raw materials efficiency and Efficiency.
- Internal control. The Internal Control Director presented the action plans implemented in 2013 and the objectives set for 2014.
- The audit and risk management program. The Executive Vice President, Quality, Audit and Risk Management outlined the organization of the Internal Audit unit and the initiatives in progress. She also presented the risk map and described the action taken in respect of several material risks.
- Financial risk management. The Corporate Financing Director described the various financial risk management processes and the main challenges associated with each of these risks.
- Employee benefit obligations. The Chief Financial Officer outlined the key issues associated with the accounting treatment of these obligations and their management.
- The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 6, July 24 and October 31, 2014.

4.5.1 e) Report on the Compensation and Appointments Committee's work in 2014

The Committee met three times during the year (January 31, April 22, and October 13, 2014), with a 100% attendance rate.

The Committee's Chairman participated in preparing the questionnaire for the Supervisory Board's self-assessment.

The Committee conducted a large-scale review of the Supervisory Board members' independence, by examining in particular whether there were any business relationships between the members and Michelin that could be qualified as material [(1)].

The Committee's work mainly consisted in reviewing the following issues:

▸ Recommendations concerning the election/re-election of Supervisory Board members at the Annual Shareholders Meeting of May 22, 2015

At the Supervisory Board's request, the Committee reviewed the situation of members whose term is due to expire at the 2015 Annual Shareholders Meeting, as well as a proposal to elect a new member.

Details of this review and the Committee's recommendations to the Board are provided in the Supervisory Board's report in section 10.2.3.

▸ Review of the Chief Executive Officer's compensation

In early 2014, the Committee prepared and submitted to the Board its recommendations concerning the report on the compensation due or awarded by the Company to the Chief Executive Officer for 2013, to be presented for the purposes of the "say-on-pay" vote at the May 16, 2014 Annual Shareholders Meeting [(2)].

Following a benchmarking survey conducted at the end of 2013 at the Supervisory Board's request, in 2014 [(3)] the Compensation and Appointments Committee examined with the Non-Managing General Partner (SAGES), the overall structure of Mr. Senard's compensation package as Chief Executive Officer

This review led to the implementation of a new compensation structure that was presented to shareholders by the Chairman of the Compensation and Appointments Committee [(4)] and the Chairman of the Supervisory Board at the Annual Meeting of May 16, 2014.

The Committee met in early 2015, without the Chief Executive Officer in attendance, to analyze the various components of his compensation package and determine the results of applying the performance criteria, for the purpose of preparing the information to be submitted to shareholders for their "say-on-pay" vote on the compensation due or awarded to Mr. Senard for 2014 [(5)].

▸ Other business

The Committee also reviewed:

- changes in the membership of the Group Executive Committee;
- executive management appointments policy;
- bonus and performance share policies;
- changes to the internal rules concerning conflicts of interests [(6)];
- determination of the performance criteria applicable to the termination benefit that would be payable to the Chief Executive Officer in certain circumstances [(7)].

(1) See the detailed description in section 4.5.1 b) Review of Supervisory Board members' independence.
(2) See pages 292-294 of the 2013 Registration Document for details.
(3) See page 108 of the 2013 Registration Document for details.
(4) Please refer to the press release dated May 16, 2014 and the information provided in section 4.3.2.
(5) See section 4.3.3 for details.
(6) See description of these changes in section 4.2.2 a), under the "Independence" heading.
(7) See description of these changes in section 4.3.2 d).

4.5.2 SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS

The specific rules concerning shareholder participation at General Meetings are presented in section 5.1.2 f) below and in the 2014 Shareholders Guide, which may be downloaded from the website at www.michelin.com/ (in the section entitled "Finance/Individual shareholders").

4.5.3 INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

In compliance with article L. 225-68 of the French Commercial Code, the Chairman of the Supervisory Board has prepared a report describing the internal control and risk management procedures defined and implemented by the Company.

It reflects information compiled and contributed by several Corporate Departments, including Finance, Legal, Personnel, Quality and Audit and Risks. After being reviewed and validated by the Chief Executive Officer, the entire report was submitted to the Statutory Auditors.

It was also examined by the Audit Committee and then reviewed and approved by the Supervisory Board on February 5, 2015, in accordance with the French Law of July 3, 2008.

Risk management and internal control processes

▸ Reference framework

The Group has defined its risk management and internal control guidelines and structured the related processes in line with the Reference Framework published by France's *Autorité des Marchés Financiers* (AMF) in January 2007 and reaffirmed on July 22, 2010. In compliance with AMF Recommendation of November 5, 2013, this report presents the required disclosures according to the template defined in the Reference Framework.

The risk management and internal control processes are carefully aligned and designed to meet closely related objectives, thereby enabling the Company to seamlessly control all of its business activities.

▸ Risk management and internal control objectives

Objectives of the risk management process

The risk management process helps to:

- create and preserve the Group's value, assets and reputation;
- secure the Group's decision-making and business processes to meet its objectives;
- promote consistency between the Group's actions and its values;
- encourage employees to embrace a shared vision of the main risks.

The risk management process is designed to identify, analyze and manage the main risks confronting the Group and its subsidiaries.

The internal control process ensures that the risk management process has been deployed and is effectively managing these risks.

In this way, risk management encompasses a holistic set of resources, practices, procedures and actions aligned with the characteristics of each business, which together help to contain risks at an acceptable level.

This iterative, integrated and optimized process comprises four key phases:

1. **Identifying risks.** A prerequisite for successful risk management, this phase involves identifying any internal and external events that could have an adverse effect on Michelin's objectives, earnings or reputation. The information is summarized in the form of risk maps at the corporate level and at the level of each unit, including each Geographic Zone and Product Line. The risk maps are updated annually according to a formal process.

   The process is overseen by the Group Audit and Risk Management Department, which consolidates all of the risk maps. The consolidated risk maps are then used to diagnose the Group's risks and help to identify critical risks that require action plans, which are implemented by the operating units under the supervision of the Risk Manager.
2. **Setting risk management priorities.** This phase consists of making informed decisions about the risks to be addressed on a priority basis taking into account the resources that will have to be deployed, in order to implement the risk management strategy.

   In this way, risk management is seamlessly integrated into the Group's strategic management process. The strategic plan involves a number of key milestones, including (i) a diagnostic review performed before the strategic plan is formally documented, (ii) the plan's operational rollout to the different units, and (iii) the preparation of action plans by the units to help them meet their set objectives. Risk management issues are addressed at each of these milestones, for example, by using the risk map during the preliminary diagnostic phase, determining the steps to be taken by the units to mitigate their operational risks and implementing the appropriate risk management plans.
3. **Managing risks.** This phase consists of deploying the necessary resources to manage the risks for which the decision has been made to implement an action plan. These include prevention programs, to keep the risk from occurring, and protective measures to mitigate any adverse effects if it does. Some risks may be transferred to insurance companies, while a crisis management process has been defined to respond effectively in the event that the risk leads to a sensitive or critical situation.
4. **Tracking and controlling risks.** The goal of this phase is to ensure that any residual exposure remaining after implementing the risk management process is consistent with the Group's risk tolerance. In particular, this entails monitoring the action plans deployed as part of the risk management phase, tracking indicators that measure changes in risks, and using control systems and, where necessary, alert systems.

Objectives of the internal control process

The internal control process is specifically designed to ensure:

- application of the instructions and guidelines issued by the Chief Executive Officer and the Executive Committee;
- compliance with laws and regulations;
- the proper functioning of internal processes, particularly those relating to the protection of corporate assets;
- the reliability of financial information.

It comprises a set of resources, procedures, practices and actions aligned with the characteristics of the Group's businesses, which:

- contributes to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources;
- enables it to assess all of its material operational, financial and compliance risks appropriately.

In general, the risk management process has been designed to encourage informed, shared risk-taking in accordance with the Group's values of responsibility, integrity and ethical behaviour.

▸ Scope of risk management and internal control

The Group ensures that risk management and internal control procedures are implemented in every unit.

As of end-2014, the system now covers substantially all of the Group's operations, including all of the Geographic Zones and business units (manufacturing, sales and dealership networks).

Risk management procedures apply to all strategic, operating, reputational and compliance risks. In addition to the close ties maintained between corporate strategy and risk analysis, risk management is factored into the strategic management process on both:

- a multiyear basis, in the five-year strategic plan;
- an annual basis, in the budget and annual plan.

Each unit is requested to integrate any critical risks into their five-year business plans and to determine the resources necessary to manage them.

During the annual plan exercise, they define risk management action plans and allocate the resources required for their implementation. Progress on the plans is then tracked throughout the course of the year.

In the case of newly acquired companies, procedures have been defined to gradually integrate them into the Group's risk management and internal control system. Currently, all of the significant subsidiaries apply the general process described herein.

For further details concerning the scope of consolidation, please refer to the Notes to the Consolidated Financial Statements, for a list of the major consolidated units.

▸ Coordination of risk management with internal control

Coordinating risk management with internal control within a holistic risk management ecosystem is a constant concern for every process stakeholder. The synergies and complementarities are reviewed annually in a commitment to continuously enhancing the effectiveness of the measures undertaken by all of the participating units.

For example:

- The risk management process is designed to identify and analyze the main risks. These risks are then managed by deploying action plans, which can call for adjustments in the organization or in project management procedures, as well as for the introduction of control mechanisms. These controls form part of the internal control process, and may be revised to reflect the findings of the risk mapping exercises.
- The internal control process relies on the risk management process to identify the main risks to be addressed.
- The audit plan is prepared by using the risk map to determine the risks to be selected for the purpose of assessing the quality of the risk management process and gauging the effectiveness of the internal control procedures.

▸ Limitations

However, a risk management and internal control process can only provide reasonable, but never absolute, assurance that all of the Group's risks are entirely under control and that its objectives will be met. The probability of meeting these objectives is subject to limitations inherent in any internal control system, which stem from the judgments underlying a given decision, the need to weigh the opportunities against the cost of risk management measures before controls are introduced, along with the various problems caused by human failure and error.

In alignment with the objectives presented above, the Group's risk management and internal control process is based on the following foundations:

- a sustainable, optimized organization;
- a comprehensive, holistic risk management process;
- internal control objectives pursued by the internal control process;
- ongoing management of the entire system through action plans designed to drive continuous improvement.

Organization of the risk management and internal control processes

Coordinating the two processes depends on the control ecosystem – comprising in particular the Group's unique risk and control culture and its ethical values – which serves as their shared foundation.

▸ Organization

The Group is organized around Product Lines, each of which is dedicated to a specific business and has its own marketing, development, production and sales resources. It is also supported by two dealership networks, Euromaster in Europe and Tire Centers, Inc. (TCi) in North America.

The Product Lines are backed by Corporate Departments that are responsible for support functions such as Purchasing, Legal Affairs, Human Resources, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around seven Geographic Zones – Europe, Eastern Europe, North America, South America, Asia excluding India, Eastern Asia and Australia, Africa-India-Middle East.

▸ Delegations of authority

The role, responsibilities and organization of each of these units have been defined by the Group, along with their contribution to strategic decisions, their performance metrics and their relationship with the other units.

In addition, formal criteria and procedures have been defined covering the appointment of corporate officers of Group subsidiaries and the renewal of their terms of office, as well as the conditions applicable for exercising and delegating their authority.

▸ Corporate values

The Group places great importance on responsibility, integrity and ethical conduct. These values are presented in the Michelin Performance and Responsibility Charter, which is widely circulated both within and outside the Group. It describes how the Group endeavours to put into practice its key values of respect for customers, shareholders, people, the environment and facts.

The Michelin Performance and Responsibility Charter is supplemented by the Code of Ethics, which was issued in October 2010 and is regularly updated. The Code of Ethics defines the standards of behaviour to be observed in the conduct of the Group's business and the guidelines to be followed by Group employees when making decisions on ethical issues.

A Corporate Ethics and Compliance Committee was set up in each Geographic Zone and Business Line in 2012.

In 2014, the Group and regional Ethics and Compliance Committees met regularly to ensure the sustained roll-out of the Code of Ethics, identify any possible ethics violations and take any appropriate corrective measures. Ethics hotlines have been opened in almost every host country, providing an additional channel for employees to report potential ethics violations. During the year, audits and inspections were also performed concerning various ethics issues.

▸ Corporate risk management and internal control standards and procedures

An Internal Governance Manual was published in July 2010 to help employees respond proactively to support tighter management of operations.

In particular, the Manual describes:

- the units' roles and responsibilities;
- their planned operating procedures and governance structures;
- the behaviour expected of managers, in line with Michelin's corporate values.

In addition to the Registration Document, an Annual and Sustainable Development Report describes the Group's operations and results for the year as well as the Performance and Responsibility approach.

▸ Risk management and internal control stakeholders

To make it easier to understand what the various risk management and internal control stakeholders do, they are presented below according to three lines of responsibility.

Governance bodies

The three lines of responsibility are supervised by the Group's decision-making bodies, which play a major role in governing these systems.

Risk management is therefore governed at several levels of the organization:

1. **The Audit Committee** is made up of three Supervisory Board members who represent the shareholders. It meets several times a year to track the effectiveness of risk management systems in compliance with the governmental order of December 8, 2008 transposing into French law the 8th EU Company Law Directive. Consequently, the Group ensures that all of the Committee's comments concerning this issue are taken into account. The Audit Committee's primary responsibilities are described on page 95.
2. **The Chief Executive Officer and the Group Executive Committee** meet monthly to oversee the risk management process as part of their management duties. In this role, they approve the Group risk map, define risk management policies and determine priorities in this regard, make decisions concerning resource allocation and verify that the action plans for priority risks are being implemented according to plan.
3. **Unit and regional Risk Committees** are being gradually set up. Once they are in place, they meet two to three times a year to track the major risks within their remit.

First line of responsibility: management, employees and operating unit executives

Every employee helps to enhance the internal control process through his or her skills and expertise. In addition, everyone is expected to deploy the process and track its proper application. Also involved are the Geographic Zone and Company managers, as well as all of the leading Business Process Owners.

The operating units (Product Lines, Tactical Operational Units, Geographic Zones) manage risks on a daily basis.

In particular, they are responsible for identifying and managing their unit's risks, in accordance with the guidelines and recommendations defined by the support units. They implement the necessary risk management procedures and resources, covering prevention, protection and business continuity. They rely on their internal control process to manage their operational risks. Their responsibility encompasses:

- risk-prevention measures;
- measures to protect people, assets and equipment in order to mitigate losses or injury in the event of risk occurrence;
- plans to ensure continuity of operations in the event of a major incident.

Group managers can detect any weaknesses in their internal control processes through the systems used to monitor their operations. In addition, internal reviews are performed within the entities by specialists in the fields concerned.

Strict procedures are in place for receiving, analyzing and responding to customer complaints concerning product quality.

Second line of responsibility: the support units

The support units (Corporate Departments, Performance Divisions and Technology Centres) analyze Group-level risks. They recommend risk management guidelines, estimate the resources required to deploy prevention and protection measures, track changes in risks, and verify that their recommendations are effectively applied.

Each unit also has its own Risk Manager who, as part of the risk management network, leads, implements and oversees the risk management process in his or her unit. Unit Risk Managers are assisted by managers from the Group Quality, Audit and Risk Management Department, who support them at every stage in the process.

For example, Internal Control Departments have been set up in the Corporate Finance Department, the Geographic Zones and business units. At the corporate level, the Internal Control Department prepares the internal control manuals describing the main risks in each business process or cycle, the corresponding control objectives, the control activities and related tests aimed at meeting the objective and thereby mitigate the identified risk. These manuals are updated every year to reflect, in particular, best process execution practices and changes in the applicable standards and regulations. They are implemented operationally at various levels of the organization. The Group's risk management processes form part of the Michelin Quality System, which sets out procedures and instructions, allocates roles and responsibilities and defines the relevant methods and controls.

As part of this system, audits are also performed to ensure compliance with Group quality standards, which are largely based on the applicable international standards. In addition, a number of certifications have been earned from independent organizations.

Lastly, the system also provides for regular management reviews to assess the effectiveness and efficiency of the entire process and to pinpoint areas for improvement.

Third line of responsibility: the Internal Audit Department

The Group Quality, Audit and Risk Management Department reports directly to the Chief Executive Officer and is totally independent from the operating units. It comprises a corporate-level team in charge of auditing Group operations worldwide and local teams in North and South America. It regularly assesses internal control procedures and ensures that the risks in the thirteen families tracked by the Group are properly managed.

The Department's scope of reference covers all of the Group's processes and entities. It leads the overall risk management process, defining the methodology, organizing its deployment and fostering a risk-aware culture within the Group. It ensures that the most significant risks are effectively controlled by the units concerned, and tracks progress on all of the action plans related to these priority risks. It also verifies the quality of risk management by performing audits.

Moreover, it submits risk management agenda items at Group Executive Committee meetings, during which the most significant risks identified in the risk map are reviewed and a certain number are tracked.

In addition, the Quality, Audit and Risk Management Department regularly assesses the procedures applied to manage risks.

This may involve analyzing a risk in depth, so as to prepare recommendations enabling the Group to attenuate its exposure.

Alternatively, it may involve verifying that the recommended actions are being properly implemented and measuring the ensuing attenuation. To perform these assignments, the Group Quality, Audit and Risk Management Department has developed and deployed a process to verify that the priority risk management action plans were capable of mitigating the related risk (coverage, effectiveness, feasibility, management procedures). It has also defined risk management indicators, which have now been deployed across the Group.

Periodic summaries of internal audit findings and the implementation of the recommendations are presented to the various line managers, the Chief Executive Officer and the Audit Committee.

Other outside stakeholders

Michelin also leverages outside expertise that helps to drive continuous improvement in its risk management and internal control process.

Among these sources of expertise are the statutory and contractual auditors. Based on the observations made in the course of their audit work, these auditors submit internal control recommendations to accounting and finance managers, as well as to host country-based internal auditors, who are tasked with implementing them. Their recommendations are also reported to the corporate internal control teams and internal auditors for consolidation and communication to Group management.

In addition, the work performed by a variety of independent certification organizations is also helping to strengthen the current process.

▸ Process implementation

Corporate objectives are defined by the Chief Executive Officer both for financial performance and for areas in which Michelin is committed to achieving a particular level of excellence, such as people management, quality, innovation, working conditions and the environment.

These general objectives, which are updated and communicated every year to the various units, represent a corporate strategic roadmap that is subsequently translated into a five-year strategic vision and annual action plans by all of the units described above. These plans cover both operational aspects and improvement targets aimed at enhancing performance and service quality.

Objectives are based on past performance and detailed diagnostics, as well as an understanding of the changing business environment.

Operational risk assessment forms an integral part of the planning process during which critical success factors are determined and a sensitivity analysis is performed on the main assumptions underlying the objectives. This process also specifically addresses the related strategic risks.

In addition to strategic risks, Michelin is committed to effectively managing its operational risks, which have been classified into thirteen separate families:

- ethical risk;
- the health and safety of people;
- the environment;
- the safety and performance of products and services;
- accounting and finance;
- business interruption;
- continuity of supply;
- protection of property;
- knowledge retention;
- employee relations and personnel management;
- legal and tax;
- information systems and technology;
- project management.

Application of risk management and internal control objectives related to the preparation of accounting and financial information

Among the various objectives of the risk management and internal control system, this section focuses on the control activities related to the process of preparing accounting and financial information.

▸ Preparation and processing of accounting and financial information

The Chief Executive Officer is responsible for disclosing reliable financial and accounting information. The accounting, consolidation, management control and financial communication departments all contribute to the process of producing this information.

Within the organization, accounting teams generally report to the heads of the Geographic Zones, while budget controllers report to the heads of the Product Lines.

Consolidated financial statements are prepared monthly according to the same overall process as for the annual financial statements.

The internal control procedures required to produce reliable accounting information are defined at Group level and implemented locally. These include a physical inventory of both fixed assets and stocks, segregation of tasks and reconciliation with independent sources of information.

A dedicated team is in charge of aligning accounting policies throughout the Group, monitoring changes in applicable financial reporting standards, updating accounting manuals for all the subsidiaries and dealing with any issues they may raise.

Statutory and management accounting data are reported simultaneously by the subsidiaries and programmed controls verify that the main indicators – such as revenue and operating income – are consistent between the two sets of data. Statutory accounting data received from the subsidiaries are checked for consistency and then consolidated to produce the Group's financial statements.

Monthly changes in consolidated data are systematically analyzed. Differences between forecast and actual management accounting data are reviewed in detail every month by the Group Executive Committee and the Product Lines.

At every interim and annual closing, the Geographic Zone Directors certify in writing that, to the best of their knowledge, the separate accounts submitted by the companies within their region provide a true and fair view of the results of their operations. This statement specifically covers a number of issues that could significantly affect the financial statements in the event of non-compliance (*e.g.* applicable laws and regulations and contractual provisions) or occurrence (*e.g.* disputes or fraud).

The Investor Relations Department, which forms an integral part of the Corporate Finance Department, is responsible for preparing and disclosing all of the Group's financial information to the investing community. Financial information is disclosed in three main forms:

- the Registration Document and the Annual and Sustainable Development Report;
- financial press releases;
- presentations to analysts and investors.

The design and preparation of the Registration Document and the Annual and Sustainable Development Report are coordinated by the Investor Relations Department and approved by the Chief Executive Officer, with significant input from the Group Legal Affairs Department and the Michelin Performance and Responsibility teams. Both of these documents contain extensive, high-quality information drawn from contributions by a range of specialists in the Group's main fields of operations.

Financial press releases are written by the Chief Investor Relations Officer; those that announce earnings are also reviewed by the Supervisory Board.

Presentations to analysts and investors are prepared by the Investor Relations Department under the supervision of the Corporate Finance Department.

▸ Management of accounting and finance internal control

Group managers can detect any weaknesses in their internal control processes through the systems used to manage their operations. In addition, internal reviews are performed in the units by their specialized experts.

Information generated by the management systems is analyzed by the Budget Control teams and reported to the managers concerned for inclusion in the scorecards used to manage their operations. A management scorecard is also prepared for the Group Executive Committee, enabling it to track the Group's business month by month. On a quarterly basis, similar reports are presented in an appropriate format to the Supervisory Board. The Corporate Finance Department is responsible for ensuring the relevance and consistency of this management data.

The Group IT Department is in charge of overseeing IT policies and the corresponding resources.

The internal control procedures contained in the Group's Quality System include rules relating to data access and protection, the development of applications, and structuring and segregating development, process engineering and production tasks.

▸ Recurring assessments of the accounting and financial information preparation process

Self-assessments

To ensure that the work carried out to comply with France's Financial Security Act delivers lasting improvements, the Accounting and Financial Internal Control Department reports to the Corporate Finance Department. The Department is responsible for managing internal control processes and for overseeing work on financial internal control with a view to providing reasonable assurance that the Group's financial information is reliable and that its assets are safeguarded.

It defines internal control standards, coordinates and sets up internal control information systems and day-to-day management procedures.

It also assists the network of internal controllers in the host regions and the main business lines in implementing these systems and procedures.

Its role includes:

- standardizing internal control best practices and training regional correspondents in their use;
- regularly updating key risks by process;
- defining major control issues in conjunction with the owners of the processes concerned;
- drafting control guidelines and manuals and preparing internal control tests;
- overseeing the regional managers and managers of operational areas concerned;
- structuring the internal control network;
- interfacing with the other stakeholders in the relevant processes, such as process owners, risk managers and internal and external auditors;
- advising on the implementation of transformation projects and programs.

Since 2009, the Group developed and deployed a worldwide application for monitoring the entire internal control process, which leveraged the guidelines and principles defined in previous phases undertaken since 2004. The model will continue to be extended to cover either additional processes or new legal entities.

This self-assessment system encompasses the following sixteen processes:

- purchasing, from ordering to supplier payment;
- sales, from customer order to payment;
- inventory management;
- inventory valuation;
- financing and financial risk management;
- management of intra-Group transactions (transfer pricing and elimination of intra-Group balances);
- identification of on and off-balance sheet commitments;
- information systems management and administration;
- accounts closing;
- project and fixed asset management;
- taxes;
- human resource management (compensation, benefits and travel expenses);
- consolidation;
- investor relations;
- mergers/acquisitions/divestments;
- management of customs affairs, including the Group's customs management processes, import/export management, supervising freight forwarders, organizing delegations of authority, customs documentation, etc.

At every company covered by the system, the key internal control activities for each process are self-assessed and improved by the line personnel concerned.

Internal Controller reviews

The key controls for every process are tested on every site at least once every four years and more often where necessary.

The results of tests conducted by internal controllers are shared with the external auditors of the Group's companies, so that they can capitalize on the findings and strengthen their own external audit procedures.

Action plans

In each company, action plans are prepared to address the identified areas for improvement and implemented by line personnel.

More generally, this approach is integrated into the continuous improvement process, which is also supported by the findings of the external and internal auditors. As well, this self-assessment and testing system is applied to the five core components of the internal control process.

Action plans are generally scheduled for completion within two years for 80% of compliance shortfalls, excluding information system issues, which require longer timeframes and more resources.

Findings of the Financial Internal Control assessment

The Geographic Zone Directors and the Process Owners are responsible for their internal control compliance, with accountability supported by annual objectives.

The findings of the Financial Internal Control assessment and the implementation of the action plans are tracked by line management concerned and consolidated at Group level.

They are periodically presented to the Corporate Finance Department's Finance Committee, to the managers in charge of the relevant processes and operational areas, and to the Geographic Zones concerned.

The Audit Committee provides the Supervisory Board with status reports on the assessment process.

Actions undertaken to strengthen the risk management and internal control process

▸ Main achievements in 2014

In 2014, the risk map was updated to reflect the audits performed over the year, the outcomes of the action plans and any changes in the operating environment. At the same time, a review was undertaken to identify new risks to be included in the map, as well as emerging risks that could pose a threat to the Group over the long term. The review did not lead to any new risk areas being identified. Moreover, thanks to the action plans implemented to address existing risks, the overall level of residual risk has steadily declined.

The Chief Executive Officer and the Group Executive Committee met nine times in 2014 to oversee the risk management process as part of their management duties. In this capacity, they particularly reviewed the risk diagnostics and action plans. They also reviewed and validated certain risk management process principles, such as the definition of a Groupwide risk management policy, the determination of risk management priorities, and coordination between internal control and risk management. Lastly, they reviewed the status of action plans to address the priority risks identified during the mapping exercise and assessed the need to strengthen certain plans.

They observed that the implementation of the various risk prevention, protection and control measures had reduced the Group's exposure to these priority risks.

Other work conducted in 2014 included launching a program of business continuity audits among critical suppliers, extending deployment of the Group's own business continuity plan, and extending the Group's property and casualty insurance program to include business interruption cover.

In addition, action was taken to improve the synergy and alignment of internal control and risk management processes by placing both systems under the responsibility of the Group Quality, Audit and Risk Management Department, which reports directly to the Chief Executive Officer. The new organization has been operational since December 1, 2014.

The new Department has been given responsibility for managing the entire internal control process. All of the Product Line and Geographic Zone operating units remain responsible within their remit for ensuring compliance with the recommendations and for implementing the action plans designed to remediate internal control weaknesses.

▸ Outlook for 2015 as part of the continuous improvement process

The new crisis management system developed and tested at a pilot site in 2014 will be deployed at the various Group units starting in 2015, leading to the application of effective and consistent crisis management processes throughout the organization.

Fraud awareness campaigns will be conducted among all employee groups concerned in 2015, to support implementation of stricter measures to combat this risk.

The new Group Quality, Audit and Risk Management Department will identify and deploy synergies and complementarities between the quality, audit, risk management and internal control functions. This will provide greater impetus for the projects launched in 2014 to align all internal control processes and extend the application of best practices for the internal control of accounting and financial risks to other families of operating risks.

4.6 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 226-10-1 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD

For the year ended December 31, 2014

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of Compagnie Générale des Établissements Michelin

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Compagnie Générale des Établissements Michelin ("the Company"), and in accordance with article L. 226-10-1 of the French Commercial Code *(Code de commerce),* we hereby report to you on the report prepared by the Chairman of the Supervisory Board of your Company ("the Chairman") in accordance with article L. 226-10-1 of the French Commercial Code for the year ended December 31, 2014.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by article L. 226-10-1 of the French Commercial Code, in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by article L. 226-10-1 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

▸ Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Supervisory Board's report, prepared in accordance with article L. 226-10-1 of the French Commercial Code.

▸ Other information

We attest that the Chairman's report of the Supervisory Board sets out the other information required by article L. 226-10-1 of the French Commercial Code.

Neuilly-sur-Seine, February 9, 2015

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Dominique Descours

The Statutory Auditors

Members of "Compagnie Régionale de Versailles"

5

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5.1 INFORMATION ABOUT THE COMPANY

5.1.1 GENERAL INFORMATION

Legal and commercial name of the Company

- Compagnie Générale des Établissements Michelin.

Place of registration and registration number

- The Company is registered in the Clermont-Ferrand Trade and Companies Register under number 855 200 887.

Date of incorporation and term

- The Company was incorporated on July 15, 1863. Its term will end on December 31, 2050, unless it is wound up before that date or its term is extended.

Registered office

- The Company's registered office is located at 12, cours Sablon, Clermont-Ferrand (Puy-de-Dôme), France.
- Phone: +33 (0)4 73 98 59 00.

Legal form and governing law

- The Company is a *société en commandite* par actions (partnership limited by shares) governed by articles L. 226-1 to L. 226-14 of the French Commercial Code.

5.1.2 ARTICLES OF INCORPORATION AND BYLAWS

The Bylaws, in French and English, can be downloaded from the Company's website (www.michelin.com).

5.1.2 a) General Partners (Article 1 of the Bylaws)

- Jean-Dominique Senard (Managing Chairman).
- Société Auxiliaire de Gestion – SAGES (registered in the Clermont-Ferrand Trade and Companies Register under number 870 200 466), a simplified joint stock company chaired by Jacques de Chateauvieux (please refer to the presentation and role of this company, section 4.1.4).

5.1.2 b) Corporate purpose (Article 2 of the Bylaws)

- All operations and activities directly or indirectly linked to the production, manufacture and sale of rubber, at all stages of manufacture, in all forms and for all uses.
- All industrial, commercial and financial operations, related in particular to:
  - tires, tire components, tire accessories and manufactured rubber in general;
  - mechanical engineering in all its applications, and in particular motor vehicles and industrial vehicles, components, spare parts and accessories;
  - the production, sale and use of natural or synthetic chemicals and their derivatives, in particular the various sorts of elastomers, plastics, fibers and resins, and generally all activities and products of the chemicals industry, especially as related to the products and operations described above;
  - the filing, acquisition, use, transfer or sale of any intangible property rights, and in particular patents and related rights, trademarks and manufacturing processes relating to the corporate purpose;
- To be carried out directly, as well as through equity interests, the creation of new companies, joint ventures *(sociétés en participation)* and economic interest groups *(groupements d'intérêt économique)*, contributions, partnerships *(commandites)*, the subscription, purchase or exchange of securities, or interests, in all businesses whose activities relate to the aforementioned purposes, or by way of merger or otherwise.
- And generally, all commercial, industrial, real estate, securities and financial transactions related directly or indirectly in whole or in part to any of the purposes specified above or to any similar or related purposes.

5.1.2 c) Managing Partners (Article 10 of the Bylaws)

The Company is led by a Managing Chairman and managed by one or more Managing Partners, who are individuals and who may or may not be General Partners.

5.1.2 d) Fiscal year (Article 29 of the Bylaws)

The Company's fiscal year begins on January 1 and ends on December 31.

5.1.2 e) Statutory allocation of profits (Article 30 of the Bylaws)

An amount equivalent to 12% of net profit for the year is allocated to the General Partners, from which are deducted the dividends and reserves distributed by the subsidiaries Manufacture Française des Pneumatiques Michelin and Compagnie Financière Michelin. The allocated amount is capped at 0.6% of consolidated net profit for the year, with any excess being allocated to profit available for appropriation. Net profit comprises net revenue for the year less general and administrative costs and all other expenses of the Company, including any depreciation, amortization and provisions deemed necessary. Net profit remaining after the 12% allocation to the General Partners, plus any retained earnings brought forward from the prior year, is attributable to shareholders.

The shareholders may decide to make deductions from this attributable net profit to be used, as recommended by the Managing Chairman, to create or increase one or more reserve or contingency funds, over which the General Partners shall not have any rights.

Any attributable net profit remaining after the above deduction shall be distributed to shareholders.

5.1.2 f) Shareholders Meetings

▸ Notices of Meeting (Article 21 of the Bylaws)

Notices of meeting are issued in such form and with such advance notice as is prescribed by law.

▸ Conditions of attendance (Articles 22 and 24 of the Bylaws)

Shareholders may attend Shareholders Meetings regardless of how many shares they own, provided such shares are fully paid up and are registered in the Company's share register at least three days before the date of the Meeting.

▸ Exercising voting rights – attribution of double voting rights (Article 22 of the Bylaws)

Owners or proxies of owners of fully paid-up shares registered in the name of the same holder for at least four years shall have two votes per share, without limitation.

In the event of a capital increase paid up by capitalizing retained earnings, profits or additional paid-in capital, the resulting bonus shares distributed in respect of registered shares carrying double voting rights shall similarly carry double voting rights.

Transfer through inheritance, liquidation of marital assets, *inter vivos* transfers to a spouse or to a relative in the ascending or descending line shall not result in the loss of double voting rights or a break in the qualifying period described above.

Shares transferred for any other reason shall lose their double voting rights *ipso jure*.

▸ Statutory disclosure thresholds

The Bylaws do not provide for any disclosure to the Company when certain shareholding thresholds are exceeded.

5.2 SHARE INFORMATION

5.2.1 THE MICHELIN SHARE

Traded on the NYSE Euronext Paris stock exchange

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

Market capitalization

- €13.980 million at December 31, 2014

Average daily trading volume

- 662,063 shares since January 1, 2014.

Indices

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

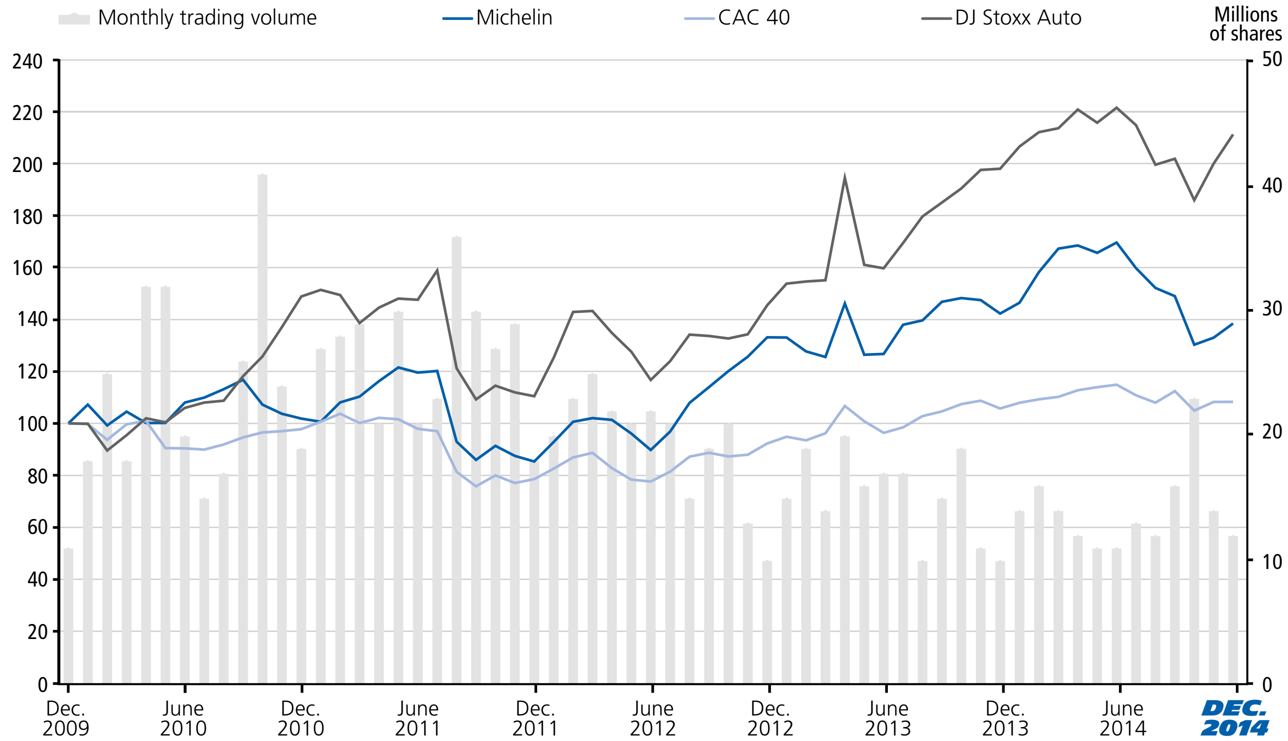
- 1.63% of the CAC 40 index;
- 0.69% of the Euronext 100 index.

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

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

SHARE PERFORMANCE

(Closing price at December 31, 2014)



5.2.2 SHARE DATA

Share price *(in €)*	**2014**	**2013**	**2012**	**2011**	**2010**
High	94.33	84.71	72.58	68.54	64.51
Low	65.10	57.23	45.32	40.20	48.13
High/low ratio	1.45	1.48	1.60	1.70	1.34
Closing price, end of period	75.27	77.25	71.59	45.68	53.70
Change over the period	-2.6%	+7.9%	+56.7%	-14.9%	+0.2%
Change in the CAC 40 index over the period	*-0.5%*	*+18.0%*	*+15.2%*	*-20.5%*	*-3.3%*
Market value at end of period *(in € billions)*	**13.98**	**14.35**	**13.07**	**8.22**	**9.48**
Average daily trading volume over the period	662,063	719,464	913,167	1,246,389	1,116,722
Average shares outstanding	185,954,390	184,901,269	181,099,501	178,446,812	153,672,558
Volume of shares traded over the year	168,826,055	183,463,371	233,770,814	320,321,901	288,114,287
Share turnover ratio	**91%**	**99%**	**129%**	**180%**	**187%**

Sources: NYSE Euronext Paris, Michelin

5.2.3 PER-SHARE DATA

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

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

5.2.4 CAPITAL AND OWNERSHIP STRUCTURE

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

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

** All fully paid up.*

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

5.3 INVESTOR RELATIONS

Every shareholder has access to clear, comprehensive, transparent information, tailored to his or her individual needs.

In particular, extensive information about our business operations, strategy and financial performance may be found in a wide variety of regulatory filings, such as press releases, the Annual Report and Sustainable Development Report, the Registration Document, the Annual and Interim Financial Reports, the Shareholders Guide, Letters to Shareholders and the Company Bylaws. All of these publications are readily available in French and English at www.michelin.com in the Finance section and on request from the Investor Relations Department.

In addition, in 2014 seven shareholder information meetings were organized in France, in Biarritz, Dijon, Lille, Mulhouse, Nantes, Paris and Toulouse. Michelin also attended the Actionaria retail investor fair in Paris on November 21-22, to talk with private shareholders and present the Group to interested investors.

During the year, more than 200 group and individual meetings were organized with 968 institutional investors and financial analysts in 15 countries. Analysts, investors and portfolio managers were also invited to a number of plant visits and presentations on specific topics.

Created in 2003, the Shareholders Consultative Committee is comprised of 14 members, including two employee shareholders. Through its input and recommendations, it helps to improve the quality of our financial and/or image communication with private shareholders. In 2014, the Committee met twice and actively participated on the Michelin booth at the Actionaria fair.

Each year, shareholders and proxy solicitors are notified of the date of the Annual Shareholders Meeting and of the voting procedures.

In accordance with the Company Bylaws, shares held in the same name for at least four years carry double voting rights.

5.4 DOCUMENTS ON DISPLAY

Historical financial information, Registration Documents, Letters to Shareholders, Notices and Minutes of Shareholders Meetings, the Company's Bylaws, and all of the regulatory filings within the meaning of Article 221-1 of AMF General Regulations (particularly press releases, quarterly reports and the Interim and Annual Reports), also available on the French website of record, www.info-financiere.fr, can be viewed in French or English at www.michelin.com or at the Company's registered office.

5.5 SHARE INFORMATION

5.5.1 CHANGES IN SHARE CAPITAL

		Change in capital		
Year	**Transaction**	**Number of shares**	**Par value** *(in €)*	**Share premium** *(in €)*
2010	**At December 31, 2010**	**176,607,845**	**353,215,690**	
2011	Conversion of OCEANE bonds	14	28	1,296
	Dividend reinvestment	3,128,066	6,256,132	170,479,597
	Exercise of stock options	282,972	565,944	11,523,396
	At December 31, 2011	**180,018,897**	**360,037,794**	
2012	Conversion of OCEANE bonds	0	0	0
	Dividend reinvestment	1,883,606	3,767,212	84,931,794
	Exercise of stock options	654,210	1,308,420	27,249,423
	At December 31, 2012	**182,556,713**	**365,113,426**	
2013	Conversion of OCEANE bonds	6	12	527
	Dividend reinvestment	4,467,601	8,935,202	239,776,146
	Exercise of stock options	573,295	1,146,590	26,718,664
	Vesting of performance shares	1,288	2,576	0
	Cancellation of shares	(1,809,260)	(3,618,520)	(132,887,705)
	At December 31, 2013	**185,789,643**	**371,579,286**	
2014	Conversion of OCEANE bonds	2	4	185
	Exercise of stock options	866,320	1,732,640	44,398,643
	Vesting of performance shares	80,571	161,142	0
	Cancellation of shares	(1,010,336)	(2,020,672)	(84,643,593)
	AT DECEMBER 31, 2014	**185,726,200**	**371,452,400**	

5.5.2 FINANCIAL AUTHORIZATIONS

5.5.2 a) Granted by the Annual Shareholders Meeting of May 13, 2011

▸ Employee share issue

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Grant of performance shares	15th	38 months (July 2014)	▶ Excluding the Chief Executive Officer ▶ Performance conditions over 3 years ▶ Capped at 0.5% of issued capital	None

5.5.2 b) Granted by the Annual Shareholders Meeting of May 11, 2012

▸ Issuance of shares and share equivalents with pre-emptive subscription rights

Corporate action	Resolution	Duration (expiry date)	Maximum issue amount, based on a share price of €76 (1) *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	4th	26 months (July 2014)	▶ €4.79 billion (shares) ▶ €1 billion (4) (securities carrying rights to shares)	€126 million (2) (3) (or 35% of current issued capital)	None
Issuance of new shares by capitalizing reserves	8th	26 months (July 2014)	▶ €3.04 billion	€80 million	None

(1) CGEM share price at December 31, 2014, rounded up to the nearest whole number.
(2) With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €126 million, excluding any shares issued under the 8th and 10th resolutions (11th resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 4th, 5th and 6th resolutions (7th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 4th, 5th, 6th, 7th, 9th and 18th resolutions not to exceed €2 billion (11th resolution).

▸ Issuance of shares and share equivalents without pre-emptive subscription rights

Corporate action	Resolution	Duration (expiry date)	Maximum issue amount, based on a share price of €76 (1) *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	5th	26 months (July 2014)	▶ €1.37 billion (shares) ▶ €700 million (4) (securities carrying rights to shares)	€36 million (2) (3) (or 10% of current issued capital)	None
Issuance of shares and/or securities carrying rights to shares through an offer governed by Article L. 411-2 of the French Monetary and Financial Code (*Code monétaire et financier*)	6th	26 months (July 2014)	▶ €1.37 billion (shares) ▶ €700 million (4) (securities carrying rights to shares)	€36 million (2) (3) (5) (or 10% of current issued capital)	None
Issuance of ordinary shares in connection with a stock-for-stock offer or in payment of contributed assets	9th	26 months (July 2014)	€1.37 billion	€36 million (5)	None

(1) CGEM share price at December 31, 2014, rounded up to the nearest whole number.
(2) With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €126 million, excluding any shares issued under the 8th and 10th resolutions (11th resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 4th, 5th and 6th resolutions (7th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 4th, 5th, 6th, 7th, 9th and 18th resolutions not to exceed €2 billion (11th resolution).
(5) Amount to be included in the maximum total capital increase authorized under the 5th resolution.

Employee share issues

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Issuance of new shares	10th	26 months (July 2014)	Capped at 2% of current issued capital	None

Debt securities without rights to shares/Other debt securities

Corporate action	Resolution	Duration (expiry date)	Maximum nominal amount authorized *(in €)*	Utilization during the year
Issuance of bonds	18th	26 months (July 2014)	€1 billion (1)	None

(1) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 4th, 5th, 6th, 7th, 9th and 18th resolutions not to exceed €2 billion (11th resolution).

5.5.2 c) Granted by the Annual Shareholders Meeting of May 17, 2013

Share buyback program

Corporate action	Resolution	Duration (expiry date)	Ceilings	Utilization during the year
Share buybacks	7th	18 months (November 2014)	▶ Statutory limit of 10% of issued capital ▶ Maximum purchase price: €100	Buyback of 241,096 shares (1)
Capital reduction by canceling shares	2nd	18 months (November 2014)	10% of issued capital	None

(1) Please refer to section 5.5.7.

5.5.2 d) Granted by the Annual Shareholders Meeting of May 16, 2014

Issuance of shares and share equivalents with pre-emptive subscription rights

Corporate action	Resolution	Duration (expiry date)	Maximum issue amount, based on a share price of €76 (1) *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	12th	26 months (July 2016)	▶ €4.94 billion (shares) ▶ €1.5 billion (4) (securities carrying rights to shares)	€130 million (2) (3) (or 35% of current issued capital)	None
Issuance of new shares by capitalizing reserves	16th	26 months (July 2016)	€3.04 billion	€80 million	None

(1) CGEM share price at December 31, 2014, rounded up to the nearest whole number.
(2) With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €130 million, excluding any shares issued under the 16th and 18th resolutions (19th resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 12th, 13th and 14th resolutions (15th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 11th, 12th, 13th, 14th, 15th and 17th resolutions not to exceed €2 billion (19th resolution).

Issuance of shares and share equivalents without pre-emptive subscription rights

Corporate action	Resolution	Duration (expiry date)	Maximum issue amount, based on a share price of €76 (1) *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	13th	26 months (July 2016)	▶ €1.41 billion (shares) ▶ €1 billion (4) (securities carrying rights to shares)	€37.15 million (2) (3) (or 10% of current issued capital)	None
Issuance of shares and/or securities carrying rights to shares through an offer governed by Article L. 411-2 of the French Monetary and Financial Code	14th	26 months (July 2016)	▶ €1.41 billion (shares) ▶ €1 billion (4) (securities carrying rights to shares)	€37.15 million (2) (3) (5) (or 10% of current issued capital)	None
Issuance of ordinary shares in connection with a stock-for-stock offer or in payment of contributed assets	17th	26 months (July 2016)	€1.41 billion	€37.15 million (5)	None

(1) *CGEM share price at December 31, 2014, rounded up to the nearest whole number.*
(2) *With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €130 million, excluding any shares issued under the 16th and 18th resolutions (19th resolution).*
(3) *This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 12th, 13th and 14th resolutions (15th resolution).*
(4) *With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 11th, 12th, 13th, 14th, 15th and 17th resolutions not to exceed €2 billion (19th resolution).*
(5) *Amount to be included in the maximum total capital increase authorized under the 13th resolution.*

Employee share issues

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Issuance of new shares	18th	26 months (July 2016)	Capped at 2% of current issued capital	None
Grant of performance shares	21st	38 months (July 2016)	▶ Excluding the Chief Executive Officer ▶ Performance conditions over 3 years ▶ Capped at 0.5% of issued capital	Issuance of 396,718 rights (1)

(1) *Please refer to section 5.5.5.*

Debt securities without rights to shares/Other debt securities

Corporate action	Resolution	Duration (expiry date)	Maximum nominal amount authorized *(in €)*	Utilization during the year
Issuance of bonds	11th	26 months (July 2016)	€1 billion	None

Share buyback program

Corporate action	Resolution	Duration (expiry date)	Ceilings	Utilization during the year
Share buybacks	5th	18 months (November 2015)	▶ Statutory limit of 10% of issued capital ▶ Maximum purchase price: €140	Buyback of 758,904 shares (1)
Capital reduction by canceling shares	20th	18 months (November 2015)	10% of issued capital	Cancellation of 1,010,336 shares (2)

(1) *Please refer to section 5.5.7.*
(2) *Please refer to sections 5.5.1 and 5.5.7.*

5.5.3 POTENTIAL SHARES

5.5.3 a) Outstanding securities convertible, exchangeable, redeemable or otherwise exercisable for shares

▸ OCEANE bonds

In March 2007, the Company issued bonds convertible and/or exchangeable for new or existing shares of common stock (OCEANEs). The issue, which was fully subscribed, was described in a prospectus filed with the French securities regulator (AMF) on March 12, 2007, under No. 07-082.

The main characteristics of this bond issue were as follows:

- listing: Euronext Paris;
- ISIN: FR0010449264;
- issue, cum-interest and settlement date: March 21, 2007;
- term: 9 years and 286 days;
- total nominal value issued: €699,999,913.16;
- number of bonds issued: 6,742,438;
- number of bonds outstanding at December 31, 2014: 5,403,098;
- nominal value: €103.82;
- issue price: at par;
- nominal interest rate: none (zero-coupon bonds);
- gross annual yield to maturity: 3.07% (for bonds not converted or exchanged and not redeemed early);
- repayment: in full at maturity on January 1, 2017 at €139.57 per bond;
- early redemption at the Company's option from March 21, 2011 if, over 20 consecutive trading days, the average share price and the average conversion or exchange ratio exceed 1.3 times the early redemption price;
- conversion or exchange ratio (subject to change in line with the provisions for the issue contract);
- ratio set at the issue date: 1 share for 1 bond;
- ratio applicable as of the date of filing of this report: 1.036 share for 1 bond (as adjusted on October 26, 2010 – see NYSE Euronext Paris announcement of the same date);
- a total of 460,575 bonds were bought back by the Company in 2014.

▸ Options to purchase new shares of common stock

Please refer to the detailed information in section 5.5.4.

▸ Performance shares

Please refer to the detailed information in section 5.5.5.

5.5.3 b) Estimated maximum number of potential new shares at December 31, 2014

(in number of shares with a par value of €2)	Maximum number of potential new shares	Issued capital *(in €)*
ISSUED CAPITAL AT DECEMBER 31, 2014		**371,452,400**
▸ OCEANE bonds		
Estimated number if all of the 5,403,098 bonds outstanding as of December 31, 2014 [(1)] are redeemed for new shares on the basis of 1.036 shares for 1 bond with a nominal value of €103.82 (the bonds may also be redeemed for existing shares)		
Maturity: January 2017	5,597,610	5,597,610

(1) Of the 6,742,438 bonds issued in total, 21 were converted into shares in 2007 (21 new shares issued), 317 in 2010 (346 new shares issued), 12 in 2011 (14 new shares issued), none in 2012, when 511,404 were bought back, 4 in 2013 (6 new shares issued), when 367,006 were bought back and 1 in 2014 (2 new shares issued), when 460,575 were bought back.

▸ Stock options outstanding as of December 31, 2014

Grant date	Adjusted exercise price *(in €)*	Vesting date	Expiry date	Number of options outstanding	
May 15, 2006	55.99	May 15, 2010	May 14, 2015	40,718	
May 14, 2007	87.85	May 14, 2011	May 13, 2016	1,052,978	
May 19, 2008	59.85	May 19, 2012	May 18, 2017	204,672	
November 23, 2009	51.16	November 23, 2013	November 22, 2018	836,800	
May 12, 2010	52.13	May 12, 2014	May 11, 2019	214,264	
May 19, 2011	66.00	May 19, 2015	May 18, 2020	252,900	
June 25, 2012	51.16	June 25, 2016	June 24, 2021	141,126	
Total stock options outstanding				2,743,458	2,743,458

▸ Performance shares outstanding at December 31, 2014

Grant date	Vesting period ends	Performance shares outstanding	
November 28, 2011	November 28, 2015 (1)	163,008	
November 28, 2012	November 28, 2015 (2) November 28, 2016 (3)	366,672	
November 29, 2013	November 29, 2017	81,400	
November 27, 2014 (Excellence) November 27, 2014 (Excellence Management)	November 27, 2018 November 27, 2018	288,426 108,292	
Total performance shares outstanding		1,007,798	1,007,798
MAXIMUM POTENTIAL SHARES AS OF DECEMBER 31, 2014 (+2.5%)			**380,801,266**

(1) and (3) Non-French subsidiaries.
(2) French subsidiaries.

5.5.4 STOCK OPTIONS

5.5.4 a) Stock option plans in effect at December 31, 2014 (1) (Table 8 of the AFEP/MEDEF corporate governance code)

	Plan 1	Plan 2	Plan 3	Plan 4	Plan 5	Plan 6	Plan 7	Plan 8	Plan 9	Plan 10	Plan 11	Plan 12	Plan 13	Plan 14
Date of the shareholder authorization	05.18.2001	05.18.2001	05.18.2001	05.18.2001	05.18.2001	05.14.2004	05.14.2004	05.12.2006	05.12.2006	05.12.2006	05.15.2009	05.15.2009	05.15.2009	05.15.2009
Date granted by the Managing Partners	05.19.2002	05.19.2003	11.24.2003	05.17.2004	07.05.2004	05.23.2005	11.07.2005	05.15.2006	05.14.2007	05.19.2008	11.23.2009	05.12.2010	05.19.2011	06.25.2012
Total number of new or existing shares that may be purchased upon exercise of the options	722,635	245,047	230,386	184,088	132,772	226,057	942,215	141,463	1,230,323	321,095	1,447,372	260,138	252,900	143,276
Of which options granted to:														
Jean-Dominique Senard (2) Chief Executive Officer	0	0	0	0	0	10,359	0	6,216	0	0	0	0	0	0
Vesting date	05.19.2006	05.19.2007	11.24.2007	05.17.2008	07.05.2008	05.23.2009	11.07.2009	05.15.2010	05.14.2011	05.19.2012	11.23.2013	05.12.2014	05.19.2015	06.25.2016
Expiry date	05.18.2011	05.18.2012	11.23.2012	05.16.2013	07.04.2013	05.22.2014	11.06.2014	05.14.2015	05.13.2016	05.18.2017	11.22.2018	05.11.2019	05.18.2020	06.24.2021
Exercise price	€42.47	€31.13	€32.82	€38.61	€42.96	€46.34	€46.34	€55.99	€87.85	€59.85	€51.16	€52.13	€66.00	€51.16
Number of options exercised as of December 31, 2014	647,332	239,847	207,064	182,088	117,189	223,557	864,725	97,945	68,689	114,423	568,526	45,874	0	0
Number of options canceled or expired	75,303	5,200	23,322	2,000	15,583	2,500	77,490	2,800	108,656	2,000	42,046	0	0	2,150
NUMBER OF OPTIONS OUTSTANDING AS OF DECEMBER 31, 2014	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**40,718**	**1,052,978**	**204,672**	**836,800**	**214,264**	**252,900**	**141,126**

(1) In compliance with stock-option plan rules and prevailing legislation (notably Articles L. 225-181 and R. 225-140 of the French Commercial Code), the number of shares to be issued on exercise of these options and the option exercise price, for all plans in effect as of October 25, 2010, have been adjusted to maintain grantee rights following the share issue with pre-emptive subscription rights placed on record on October 25, 2010.
(2) Prior to his appointment as Managing Partner.

5.5.4 b) Stock options granted and exercised during the year

Stock options granted by CGEM [1] to the ten grantees other than Managing Partners who received the greatest number of options and options exercised by the ten grantees other than Managing Partners who exercised the greatest number of options	Number of options granted/exercised	Exercise price	End of exercise period	Grant date
Options granted	0	-	-	-
Options exercised (new shares issued)	55,156	46.34 55.99 59.85 51.16 52.13	05.22.2014 05.14.2015 05.18.2017 11.22.2018 05.11.2019	05.23.2005 05.15.2006 05.19.2008 11.23.2009 05.12.2010

(1) No options have been granted by any qualifying company apart from CGEM.

5.5.4 c) Special report of the Chief Executive Officer

No stock options were granted during the year and no Managing Partner exercised any stock options in 2014.

The ten employees other than Managing Partners who exercised the greatest number of options exercised 55,156 options at a unit price of €46.34 for options granted on May 23, 2005, €55.99 for options granted on May 15, 2006, €59.85 for options granted on May 19, 2008, €51.16 for options granted on November 23, 2009, and €52.13 for options granted on May 12, 2010.

Jean-Dominique Senard, the sole Managing Partner of the Company, exercised 5,359 stock options in 2014 [1].

▸ Fulfillment of performance conditions under the May 19, 2011 performance share plan

The first condition was to achieve like-for-like growth in consolidated sales volumes of an average 3% a year over the 2011-2013 period.

The growth rates observed for these periods were as follows: a 6.51% increase in 2011, a 6.54% decline in 2012 and a 0.06% increase in 2013. The average for all three years was therefore a 0.1% decline, which fell short of the target.

The second condition was for the Group to achieve like-for-like consolidated operating income, before non-recurring income and expenses, of an average €1.4 billion a year over the 2011-2013 period.

The amounts observed for these periods were as follows: €1.945 billion in 2011, €2.423 billion in 2012 and €2.234 billion in 2013. The annual average therefore came to €2.201 billion, which exceeded the target.

Given that one of the two performance conditions was not met, not all of the options that may be exercised will vest.

Clermont-Ferrand – February 5, 2015

Jean-Dominique Senard

Chief Executive Officer

(1) Please refer to sections 4.3.1 e) and 4.4.

5.5.5 PERFORMANCE SHARES

5.5.5 a) Performance share plans in effect at December 31, 2014 (Table 9 of the AFEP/MEDEF Corporate Governance Code)

Two plans were launched on November 27, 2014. These plans provide for a vesting period of four years ending on November 27, 2018 for all grantees, with no lock-up period. These plans are not available to the Company's Managing Partner (Chief Executive Officer).

	Plan 1	Plan 2	Plan 3	Plan 4 (Excellence)	Plan 5 (Excellence Management)
Date of the shareholder authorization	May 13, 2011	May 13, 2011	May 13, 2011	May 16, 2014	May 16, 2014
Date granted by the Managing Partners	November 28, 2011	November 28, 2012	November 29, 2013	November 27, 2014	November 27, 2014
Number of rights granted	287,944	371,936	81,400	288,426	108,292
O/w to:					
Jean-Dominique Senard (Chief Executive Officer – sole Managing Partner)	0	0	0	0	0
Vesting date	November 28, 2014 (France) November 28, 2015 (other countries)	November 28, 2015 (France) November 28, 2016 (other countries)	November 29, 2017	November 27, 2018	November 27, 2018
End of lock-up period	November 28, 2016 (France)	November 28, 2017 (France)	n/a	n/a	n/a
Performance conditions [(1)]	▶ Average annual sales volume growth of at least 3% in 2011, 2012 and 2013 ▶ Average annual consolidated operating income of at least €1.4 billion in 2011, 2012 and 2013	▶ Average annual sales volume growth of at least 3% in 2012, 2013 and 2014 ▶ Average annual consolidated operating income of at least €2 billion in 2012, 2013 and 2014	▶ Average annual sales volume growth of at least 3% in 2013, 2014 and 2015 ▶ Average annual consolidated operating income of at least €2.4 billion in 2013, 2014 and 2015	▶ Average annual sales volume growth of at least 2% in 2014, 2015 and 2016 ▶ Average annual growth in consolidated operating income of €150 million in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 72% in 2014, 2015 and 2016	▶ Average annual sales volume growth of at least 2% in 2014, 2015 and 2016 ▶ Average annual growth in consolidated operating income of €150 million in 2014, 2015 and 2016 ▶ Arithmetic average annual return on capital employed (ROCE) of at least 12% in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 72% in 2014, 2015 and 2016
Number of vested shares at December 31, 2014	81,443 [(2)]	416 [(3)]	0	0	0
Number of canceled or voided shares	43,493	4,848	0	0	0
NUMBER OF PERFORMANCE SHARES OUTSTANDING AS OF DECEMBER 31, 2014	**163,008**	**366,672**	**81,400**	**288,426**	**108,292**

(1) On a like-for-like consolidated basis, excluding changes in exchange rates for the financial criteria.
(2) Of which 944 transferred to designated beneficiaries before the vesting date due to the death of the grantees concerned.
(3) Transferred to designated beneficiaries before the vesting date due to the death of the grantees concerned.

5.5.5 b) Performance shares granted during the year

Rights to 396,718 performance shares were granted during the year.

	Number of shares granted	Grant date
Performance shares granted by CGEM to the ten grantees other than Managing Partners who received the greatest number of shares	57,624	November 27, 2014

5.5.5 c) Special Report of the Chief Executive Officer

▶ November 27, 2014 Plans (Excellence and Excellence Management)

The Annual Shareholders Meeting of May 16, 2014 authorized the grant of shares without consideration to employees of the Company (except the Managing Partner) and of related companies within the meaning of Article L.225-180 of the French Commercial Code, with the number of shares that may be granted limited to 0.5% of issued capital.

This authorization was used in 2014 to grant 396,718 rights to one new share of common stock to 2,425 grantees.

The performance condition is based on the fulfillment of performance criteria set out under the Michelin Performance and Responsibility Ambitions for 2020.

While the fulfillment of two performance criteria was previously required for performance share plans, this number has now risen to three or four for executives in the highest positions of responsibility, as set out in the report detailing the related resolution of the May 16, 2014 [1] Shareholders Meeting.

The criteria are as follows:

- average annual growth in Group net sales, on a like-for-like consolidated basis and excluding changes in exchange rates, of at least 2% in 2014, 2015 and 2016;
- average annual growth in consolidated operating income, before non-recurring income and expenses (on a like-for-like basis and excluding changes in exchange rates), of at least €150 million a year in 2014, 2015 and 2016;
- arithmetic average annual return on capital employed (ROCE), on a like-for-like consolidated basis of at least 12% a year in 2014, 2015 and 2016;
- average employee engagement rate of at least 72% on a like-for-like consolidated basis, in 2014, 2015 and 2016, as measured by the annual survey conducted by an independent organization, covering factors such as desire to promote the Company and degree of workplace satisfaction.

The number of shares for which vesting is contingent upon the fulfillment of the performance condition will be calculated in the same way for each criteria as follows:

- if the minimum performance condition is not met, no shares will vest;
- if the minimum performance condition is met or exceeded, shares will vest on a gradual and proportional basis up to a certain ceiling.

Provided that the grantees are still on the Group's payroll, except where the performance shares have vested early in the circumstances defined by law or by decision of the Managing Partners:

- for plans involving executives in the highest positions of responsibility, all of the granted performance shares will vest if the four aforementioned performance criteria are fulfilled, each of which count for 25% of the shares;
- for plans involving the other grantees, only three of the aforementioned criteria shall apply, since the ROCE criterion is not taken into account. Between 25% and 75% of the granted performance shares, depending on the grantee's level of responsibility, will vest if the remaining three performance criteria are fulfilled.

▶ Fulfillment of performance conditions under performance share plans currently in effect

Fulfillment of performance conditions under the November 28, 2011 performance share plan

The first condition was to achieve like-for-like growth in Group sales volumes of at least an average 3% a year over the 2011-2013 period. The growth rates observed for these periods were as follows: a 6.51% increase in 2011, a 6.54% decline in 2012 and a 0.06% increase in 2013. The average for all three years was therefore a 0.1% decline, which fell short of the target.

The second condition was to achieve like-for-like consolidated operating income, before non-recurring income and expenses, of at least an average €1.4 billion a year over the 2011-2013 period. The amounts observed for these periods were as follows: €1.945 billion in 2011, €2.423 billion in 2012 and €2.234 billion in 2013. The annual average therefore came to €2.201 billion, which exceeded the target.

Given that one of the two performance conditions was not met, not all of the performance shares will vest.

Note that the vesting period,

- ended in November 2014 for grantees employed by French companies, during which 80,571 shares were allocated, with a lock-up period ending in November 2016; and
- will end in in November 2015 for grantees employed by non-French companies (with no lock-up period).

(1) Please refer to pages 303 and 304 of the 2013 Registration Document.

Fulfillment of performance conditions under the November 28, 2012 performance share plan

The first condition was to achieve like-for-like, consolidated growth in Group sales value of at least an average 3% a year over the 2012-2014 period. The growth rates observed for these periods were as follows: a 3.64% increase in 2012, a 5.71% decline in 2013 and a 3.42% decline in 2014. The average for all three years was therefore a 1.83% decline, which fell short of the target.

The second condition was to achieve like-for-like consolidated operating income, before non-recurring income and expenses, of at least an average €2 billion a year over the 2012-2014 period. The amounts observed for these periods were as follows: €2.423 billion in 2012, €2.234 billion in 2013 and €2.545 billion in 2014 at 2012 foreign exchange rates. The annual average therefore came to €2.401 billion, which exceeded the target.

Given that one of the performance conditions was not met, not all of the performance shares will vest.

Interim fulfillment of performance conditions under the November 29, 2013 performance share plan

The first condition was to achieve like-for-like, consolidated growth in CGEM sales value of at least an average 3% a year over the 2013-2015 period. The growth rates observed to date were as follows: a 5.71% decline in 2013 and a 3.42% decline in 2014.

The second condition was to achieve like-for-like consolidated operating income, before non-recurring income and expenses, of at least an average €2.4 billion a year over the 2013 to 2015 period. The amounts observed for these periods to date were as follows: €2.234 billion for 2013 and €2.545 billion for 2014 at 2012 foreign exchange rates.

Interim fulfillment of performance conditions under the November 27, 2014 performance share plan

The results achieved for the four performance criteria (described in more detail in section 5.5.5.c) above are as follows:

- growth in sales: -3.42%;
- operating income: growth of €81 million;
- ROCE: 11.1%;
- employee engagement rate: 74%.

▸ Performance shares vested and delivered

Note that during 2014:

- no Managing Partner of the Company received any performance shares;
- the ten employees other than Managing Partners who were granted the greatest number of share rights:
  - received 57,624 rights to one performance share (one grantee received 7,612, two grantees received 6,524, six grantees received 5,436 and one grantee received 4,348),
  - received 2,725 vested performance shares (five grantees received 310 and five grantees received 235).

Clermont-Ferrand – February 5, 2015

Jean-Dominique Senard
Chief Executive Officer

5.5.6 EMPLOYEE SHARE OWNERSHIP

Following completion of the four employee savings plans set up in 2002, 2003, 2008 and 2013, 73,467 Group employees and retired employees in 47 countries around the world were shareholders.

At December 31, 2014, they held 1.8% of the capital.

5.5.7 INFORMATION CONCERNING A SHARE BUYBACK PROGRAM CURRENTLY IN EFFECT

The following information includes the disclosures reported in the Chief Executive Officer's Report in compliance with Article L. 225-211 of the French Commercial Code.

5.5.7 a) Authorizations granted to the Chief Executive Officer

The Annual Shareholders Meeting of May 17, 2013, granted the Chief Executive Officer an 18-month authorization to buy or sell shares of Company stock, as part of a new share buyback program. The Company was authorized to buy back up to 10% of the total shares outstanding, at a maximum purchase price of €100 per share, with the requirement that it not hold more than 10% of its own share capital at any time.

The authorization was used in 2013 (please refer to section 5.5.7 a) of the 2013 Registration Document) and in 2014 (please refer to chapter 5.5.7.b) below).

At the May 16, 2014 Annual Shareholders Meeting, shareholders granted the Chief Executive Officer a new authorization, valid for 18 months or until replaced, to buy or sell shares of Company stock, under the same terms and conditions as the previous authorization, at a maximum purchase price of €140. From its entry into force this authorization has replaced the previous authorization.

The Company signed a share buyback agreement with BNP Paribas on April 28, 2014 to take effect between April 30 and November 26, 2014.

At the Annual Shareholders Meeting on May 22, 2015, shareholders will be asked to authorize the Chief Executive Officer to buy or sell shares of Company stock as part of a new buyback program, the terms and conditions of which are described below in section 5.5.8 "Description of the share buyback program submitted for shareholder approval at the Annual Shareholders Meeting of May 22, 2015".

5.5.7 b) Transactions in the Company's shares in 2014

The following transactions were carried out under the share buyback programs authorized by shareholders at the May 17, 2013 and May 16, 2014 Annual Shareholders Meetings, for 241,096 and 758,904 shares respectively.

The Company no longer held any shares in treasury at December 31, 2014, compared with 30,000 shares at January 1, 2014. A total of 1,000,000 shares were bought back by the Company during the year, net of shares sold, and were held for the following purposes:

a) Selling or granting shares to employees of the Company and its subsidiaries in accordance with the law, notably through performance share or stock option plans or employee share issues with or without a matching contribution from the Company: 19,664 shares.

b) To cancel all or some of the bought back shares, subject to shareholder approval to reduce the Company's capital: 1,010,336 shares.

5.5.7 c) Purpose of shares held in treasury at December 31, 2014

The Company held no shares in treasury at December 31, 2014.

5.5.7 d) Market value of treasury shares at December 31, 2014

No shares were held at December 31, 2014.

	Treasury shares bought back and sold during the year	
	Buybacks	Sales/transfers [(1)]
Number of shares	1,000,000	19,664
Average transaction price per share *(in €)*	85.66 [(2)]	79.95
Average exercise price	n/a	n/a
Total cost of transactions *(in €)*	85,663,500 [(2)]	1,572,136

(1) Sales of shares to employees of the Company and its subsidiaries as part of the Employee Shareholder Plan.
(2) Before transaction costs.

Derivative instruments were not used to buy back shares. The Company did not have any open buy or open sell positions in its own stock at December 31, 2014.

5.5.8 DESCRIPTION OF THE SHARE BUYBACK PROGRAM SUBMITTED FOR SHAREHOLDER APPROVAL AT THE ANNUAL SHAREHOLDERS MEETING OF MAY 22, 2015

The following description has been prepared in accordance with Articles 241-1 *et seq.* of the General Regulations of the Autorité des marchés financiers (AMF) and European Commission regulation No. 2273/2003/EC of December 22, 2003.

▸ Date of the Annual Shareholders Meeting at which the share buyback program is submitted for approval

May 22, 2015.

▸ Purposes of the new share buyback program

- To purchase shares for sale or allocation to employees of Group companies in accordance with the conditions set down by law, including (i) on exercise of stock options, (ii) under performance share plans and (iii) in connection with employee rights issues.
- To maintain a liquid market for the Company's shares through a liquidity contract complying with a Code of Ethics approved by the AMF.
- To purchase shares for allocation upon exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company.
- To purchase shares to be held and subsequently sold, exchanged or otherwise transferred in connection with external growth transactions
- To implement any other market practices that may be authorized in the future by the applicable laws and the AMF.
- To acquire shares for cancellation under a shareholder-approved capital reduction.

▸ Maximum percentage of issued capital, maximum number and characteristics of the shares the Company proposes to buy back and maximum purchase price

The Company would be authorized to buy back up to 10% of the total shares outstanding, *i.e.* 18,572,620 shares at the date of this report. Based on the maximum purchase price of €140 per share, this would correspond to a maximum theoretical amount of €2,600,166,800.

In accordance with the law, when shares are bought back for the second purpose listed above, the number of shares used to calculate the 10% limit is the number bought back less the number sold during the course of the program.

Pursuant to Article L. 225-210 of the French Commercial Code, the total value of shares held in treasury may not exceed the amount of available reserves (other than the legal reserve) recorded in the Company's balance sheet at December 31, 2014.

▸ Duration of the share buyback program

Subject to shareholder approval, the shares may be bought back at any time during the 18 months from the May 22, 2015 Annual Shareholders Meeting, i.e. until the close of trading on November 21, 2016.

Effective as from the Annual Shareholders Meeting of May 22, 2015, this authorization would replace the similar authorization granted by shareholders at the Annual Meeting of May 16, 2014.

6

2014 EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION

(PUBLISHED IN COMPLIANCE WITH ARTICLE 225 OF FRANCE'S GRENELLE II ACT)

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For the tenth anniversary of its Michelin Performance and Responsibility (PRM) approach in 2013, Michelin decided to give the process fresh impetus by defining six ambitious new objectives, based on the findings of a materiality analysis that identified the economic, environmental and social issues likely to impact its performance or influence stakeholder opinion about its commitments. By 2020, the fulfillment of these ambitions will strengthen Michelin's leadership in sustainable mobility and make it one of the world's most successful companies in exercising its responsibilities.

Michelin's sustainable development strategy focuses on both performance and responsibility. The PRM approach guides us as we improve mobility while addressing the challenges of growing our business in a truly sustainable manner. Since late 2014, the approach has been managed by the Corporate Development Department, attesting to our commitment to driving continuous improvement by seamlessly integrating our sustainable development commitments into the Group's strategic vision.

In 2013, six ambitious objectives were defined for 2020, with targets and performance indicators aligned with our operating strategy. Deployed in every unit, they will help to make Michelin a global leader in sustainable mobility and one of the world's most innovative, responsible and high-performance companies in fulfilling its financial, environmental and social responsibility commitments.

The employee, societal and environmental information presented respectively in sections 6.1, 6.2 and 6.3 below complies with Article L. 225-102-1 of the French Commercial Code – as completed by Article 225 of the Grenelle II Act of July 2010, amended by the Warsmann IV Act of March 2012 and completed by the French Decree 2012-557 of April 24, 2012 – which requires all listed companies in France to publish information on the social and environmental impact of their activities and to set forth their commitment to sustainable development.

Details of Michelin's employee, societal and environmental objectives are presented in this section.

6.1 EMPLOYEE INFORMATION

Personnel policies built around the sustainable growth of people and the business

Michelin's employee-related ambitions are compliant with fundamental human rights principles and international labor conventions and aligned with its personnel policies. The preparation of the employee data in this section was guided by a strong sense of diligence and a firm commitment to continuous improvement.

Employee-related issues are given considerable attention in forging the Company's vision and ambitions, particularly in the areas of performance and responsibility. The materiality analysis highlighted four essential employee-relations issues – health and safety, personal growth and the development of diversity, responsible personnel management, and engagement – which are situated at the crossroads between the expectations of society and Michelin's priorities.

A FIRM COMMITMENT TO THE WELL-BEING AND DEVELOPMENT OF OUR EMPLOYEES

Two goals have been defined in this area:

- protect the health and safety of our employees and contractors and continuously enhance employee well-being;
- create a working environment that fosters trust, cooperation and diversity, where all employees are empowered to learn, grow and engage in progress and innovation.

In line with the Group's purpose, these goals were chosen based on Michelin's fundamental characteristics – its culture, its values and its strengths as an employer – by projecting into the future Michelin's singular commitment to respecting people and supporting everyone's growth.

The specific objectives stemming from these goals are presented throughout this section.

- In the area of health, safety and well-being, the primary indicator is the total case incident rate (TCIR), which is accompanied by two other indicators – the participatory implementation of "well-being action plans" in the production plants and the tracking of a worldwide well-being index.

- To foster a favorable working environment, the two main indicators are the employee engagement rate and the percentage of managers promoted or transferred from within the organization. Other indicators include the positive outcomes of the social dialogue process, the percentage of women managers, the percentage of local managers in the growth regions, the Empowering Organizations (OR) deployment rate and the number of progress and innovation ideas submitted by employees.

These indicators are being gradually deployed as part of the key indicators tracked across the organization.

The "Moving Forward Together: Your Voice for Action" survey has confirmed employees' strong attachment to the Company, their pride in being Michelin employees and their confidence in the future. While somewhat mixed, the findings of the 2014 survey were generally positive and showed an improvement over the prior year. They offered an opportunity to gauge employees' feelings about their work environment, and in particular, how well they think the personnel policies are being implemented.

In addition, the commitment to dialogue and empowerment continued to be demonstrated across the Group in 2014. This progress primarily concerned people and teams, through such initiatives as the "Moving Forward Together: Your Voice for Action" survey, the faster deployment of Empowering Organizations in production operations and the preparations for their next phase, the offering of flexible employee benefits and the encouragement of employee-driven innovation. During the year, employee relations were given new impetus as well, through broader, more diversified dialogue. The relationship between the Group Personnel Department and the geographic zones is also continuing to evolve, with the increasingly effective embrace of the function's vision and greater differentiation in meeting the objectives.

Michelin is a signatory to the United Nations Global Compact, pledging to uphold its 10 principles:

1. *Businesses should support and respect the protection of internationally proclaimed human rights; and*
2. *Make sure that they are not complicit in human rights abuses;*
3. *Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;*
4. *The elimination of all forms of forced and compulsory labour;*
5. *The effective abolition of child labour;*
6. *The elimination of discrimination in respect of employment and occupation;*
7. *Businesses should support a precautionary approach to environmental challenges;*
8. *Undertake initiatives to promote greater environmental responsibility;*
9. *Encourage the development and diffusion of environmentally friendly technologies;*
10. *Businesses should work against corruption in all its forms, including extortion and bribery.*

Michelin also complies with the OECD Guidelines for Multinational Enterprises and actively promotes them in every host community. It recognizes the Universal Declaration of Human Rights and the conventions of the International Labour Organization, particularly in relation to freedom of association and protection of the right to organize convention (see section 6.1.5 a), the elimination of discrimination in employment and occupation (see section 6.1.6 b), and the abolition of forced labor and effective abolition of child labor (see section 6.2.4 *et seq.*)

These principles and guidelines have informed a number of internal reference documents, particularly the Michelin Performance and Responsibility Charter, the revised Michelin Code of Ethics, Moving Forward Together, the Manager's Guide and the Michelin Purchasing Principles. Widely promoted and distributed among employees worldwide, all of these documents have been translated into our main working languages and are permanently available for consultation on the country intranet sites.

This section describes six major personnel policy challenges:

1. **Acting as a responsible employer worldwide;**
2. **Fostering workplace well-being;**
3. **Deploying a proactive health and safety policy;**
4. **Organizing employee development and empowerment;**
5. **Nurturing dialogue, communication and listening;**
6. **Managing diversity worldwide.**

In 2014, Michelin was honored for its personnel policy performance with the Grand Prize at the Human Capital Awards, created in 2009 by Michael Page and French newspaper *Le Monde*. It recognizes the alignment of personnel policies with corporate strategy, management's involvement in the process, and the quality, originality and impact of the deployed systems and resources.

Note on the methodology used for employee indicators

When France's Grenelle II Act came into effect in 2012, Michelin redefined its employee data reporting process by optimizing reporting applications, simplifying job categories and extending the scope of reporting.

▸ Data collection applications and scope of reporting

PeopleSoft/Oracle human resources management software is used in 13 languages, to manage personnel data in the consolidated companies. Most of the employee data for 2014 was extracted from the application's Chorus database, with the exception of companies acquired during the year, Tigar, and the dealership networks in Europe (Euromaster) and North America (TCI).

The information provided in compliance with the Grenelle II Act – employee numbers, working hours, payroll and occupational accident data – relates to all of the consolidated entities, except for recently acquired companies. For the sake of completeness, employees from Euromaster and TCI, the main European and North American dealership networks, have been included in some of the data presented below. In addition to the consolidated data, separate information has been reported for Manufacture Française des Pneumatiques Michelin (MFPM), which coordinates most of the manufacturing, sales and research operations based in France.

Sustainable development reporting is based on outside standards such as the guidelines published by the Global Reporting Initiative, which aims to provide a reporting framework that is standardized, reliable and credible.

▸ Method for consolidating indicators

Data were reported by the countries and companies in accordance with a guidance document issued by the Group. This guidance describes the process for compiling the social and societal indicators required by the Grenelle II Act for all Michelin host countries and companies as defined by law. It defines application procedures (implementation and external verification) to ensure that the process is managed efficiently and in a consistent manner across the Group. It also provides a list of reference documents in which the indicators are defined, or gives definitions directly. Each country is responsible for the fairness and accuracy of the data it provides. As part of a continuous improvement process, Group Personnel audits the data monthly to ensure overall accuracy and consistency.

▸ Fair, verifiable data

For the ninth consecutive year, Michelin's corporate social responsibility data were reviewed by PricewaterhouseCoopers, the Statutory Auditors designated as an independent third party. Following their review, which in 2014 was conducted in accordance with Article 225 of the Grenelle II Act, a report was issued attesting to the presence and fairness of the required information.

6.1.1 ACTING AS A RESPONSIBLE EMPLOYER WORLDWIDE

The number of employees rose slightly in 2014, primarily due to the acquisition of Sascar in Brazil. In all, increases in the workforce, mainly in the Americas, were offset by declining numbers in Europe, with headcount remaining stable in Asia.

The percentage of women in the workplace has risen steadily over the years, to more than 16% worldwide in 2014. Unlike the other regions, Asia saw a number of resignations, while Europe was particularly affected by retirements. Around the world, Michelin's compensation and benefits policy is intended to provide employees with fair pay, protection against the uncertainties of life, and additional post-retirement income.

6.1.1 a) Employee data by geographic zone and gender

In 2014, Michelin's workforce totaled 112,306 people [1], of whom 16.3% were women [2].

▸ Number of employees at December 31, 2014

(Employees on payroll, consolidated companies, under any form of work contract)

	Europe	North America	South America	Asia (excluding India)	Africa/India/ Middle East	Group Total
Number of employees	65,569	22,741	6,752	15,431	1,813	**112,306**
MFPM						***19,712***

The number of employees rose to 112,306 people as of December 31, 2014 from 111,190 a year earlier.

All of the increase occurred in the Americas, in particular following the consolidation in December of the 946 employees of Sascar, the Brazilian leader in digital fleet management and freight security.

Also in Brazil, the transition from an eight-hour to a six-hour shift for the production teams led to the hiring of 350 people, while North American headcount rose by 500, led by the start-up of new operations, such as the new Earthmover tire production facility.

At the same time, employee numbers continued to trend down in France and the rest of Europe, mainly due to productivity gains on the shop floors and efficiency gains in the offices.

The workforce remained unchanged in Asia and the Africa/India/ Middle East regions.

▸ Full-time equivalent employees at December 31, 2014

(Full-time equivalent employees, consolidated companies, under any form of work contract)

	Europe	North America	South America	Asia (excluding India)	Africa/India/ Middle East	Group Total
Number of employees	61,340	21,845	6,287	15,412	1,811	**106,696**
MFPM						***18,553***

The breakdown by region remained stable over the year. As in 2013, France accounted for 22% of all full-time equivalent employees, with 24,000 people countrywide (including Euromaster and Michelin Travel Partners).

(1) Including the dealership networks, Tigar and recently acquired companies.
(2) Excluding the dealership networks, Tigar and recently acquired companies.

Women as a percentage of employees at December 31, 2014

(Employees on payroll, under any form of work contract, excluding temp agency workers)

Percentage of women by employee category and region	Production operators	Administrative and technical staff	Managers and supervisors (1)	Total
Europe	8.9%	36.9%	23.7%	**16.1%**
MFPM	*4.7%*	*33.7%*	*24.3%*	***16.1%***
North America	13.6%	67.3%	22.4%	**17.6%**
South America	7.6%	28.6%	26.5%	**14.5%**
Asia, excluding India	9.2%	40.0%	25.9%	**16.3%**
Africa/India/Middle East	8.0%	24.3%	14.2%	**12.9%**
GROUP TOTAL	**10.0%**	**38.7%**	**23.5%**	**16.3%**

(1) Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.

	MFPM
Production operators	4.7%
Administrative and technical staff	33.7%
Managers and supervisors (1)	24.3%
TOTAL	**16.1%**

(1) Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.
Scope: Consolidated Group excluding dealership networks, Tigar and recently acquired companies (84.8% of the workforce covered).

The priority focus on hiring more women across the organization can be seen in the steady year-after-year increase in the percentage of women in the workforce. In 2014, for example, the percentage of women operators exceeded the symbolic threshold of 10% worldwide. However, the greatest gain was in the extended management category (managers and supervisors), where the percentage rose by one point to 23.5%, on track to meet the 30% ambition by 2020.

Contract employees and temp agency workers

In 2014, contract employees represented 4% of full-time equivalent employees Groupwide.

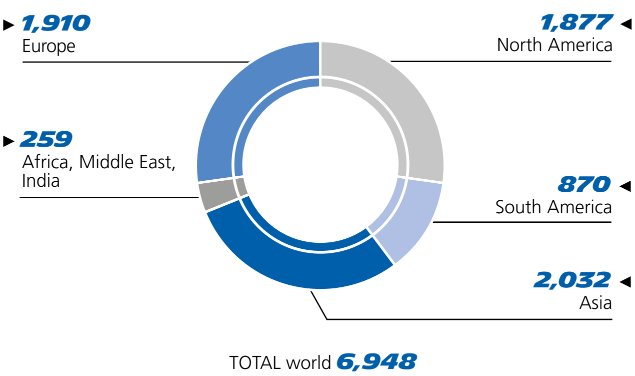
The number of temp agency workers is tracked by the Group Purchasing Department based on worldwide data for the five main agencies that have signed master contracts with Michelin at an international or regional level. It also provides an estimate of the number of temporary workers assigned from agencies used less frequently. In all, the use of temp agency personnel corresponded to an estimated 3,090 jobs on an annualized basis.

The total number of contract employees and temp agency workers remains very low, at less than 6% of the total, in line with the commitment to acting as a responsible employer.

6.1.1 b) Employee movements

In 2014, Asia acquired the largest number of new hires while Michelin continued to enhance its appeal among young people around the world.

NEW HIRES IN 2014 (UNDER PERMANENT WORK CONTRACTS)



Scope: Excluding the dealership networks, Tigar and recently acquired companies.

A total of 6,948 people were hired in 2014, more than in 2013. This offset almost all of the 7,018 separations, which were slightly fewer than the year before.

By region, the pace of hiring slowed in Africa, India and the Middle East as well as in Asia where hirings somewhat exceeded separations. Hirings rose in Europe over the year, but fell short of separations by almost a third. In every other region, hirings are on the rise.

In France, 606 people were hired by MFPM during the year.

Separations by reason (employees under permanent work contracts)

Separations in 2014	Resignation	Dismissal	Retirement	Death	Total
Group	2,514	2,400	1,976	128	**7,018**
MFPM	*119*	*255*	*827*	*30*	***1,231***

Scope: Excluding the dealership networks, Tigar and recently acquired companies.

GROUP

Departures in 2014	North America	South America	Africa, India Middle East	Asia (excluding India)	Europe	Group Total
Death	33	6	1	12	76	**128**
Resignations	450	148	134	1,290	492	**2 514**
Dismissals	397	402	63	614	924	**2 400**
Retirement	469	12	3	28	1,464	**1 976**
	1,349	**568**	**201**	**1,944**	**2,956**	**7 018**

Attrition rate (including retirements)

	2014	2013	2012	2011
Group	7.7%	8.3%	6.8%	6.6%
MFPM	*6.6%*	*7.2%*	*5.5%*	*5.7%*

Scope: Excluding the dealership networks, Tigar and recently acquired companies.

Total separations declined slightly in 2014, to just over 7,000, a few dozen more than total hirings. People left the Group for three main reasons: retirement, almost exclusively in the mature regions, resignation, notably in Asia, and dismissals and terminations by mutual agreement, which concerned around 2% of employees in the mature regions and up to 6% in the growth regions. The number of resignations remained unchanged in 2014, while dismissals and retirements declined by a few hundred cases.

In Europe, where employee numbers are very stable, and where just over 2% of employees retired during the year, retirement accounted for almost half of all separations, thus representing the leading cause of departure. Dismissals declined by one-third and resignations remained far below 1% of total employees.

In North America, separations were evenly distributed among the three main reasons, each one representing around 2% of total employees.

In the particularly competitive Asia job market, where expectations for fast career advancement are high, employee retention is an issue and resignations remain the cause of two-thirds of separations, or a little over 8% of employees during the year. The second reason, accounting for almost all of the remaining third, is dismissal, reflecting the difficulty in achieving the desired level of quality in certain jobs.

At MFPM, the primary cause of separation was retirement, whose numbers are expected to remain high over the next five years, with 800 to 1,000 departures a year.

Barely 2% of Group employees resigned during the year, and fewer than 1% in Europe and at MFPM.

Redundancy plans, job retention initiatives and retraining, placement and support programs

Michelin's manufacturing strategy sometimes involves reorganizations. This was the case in 2014 in France, and other European countries, Canada and Algeria.

Restructuring and employee support measures in 2014

As part of the reorganization of French truck tire operations announced in June 2013, a project was undertaken to increase capacity at the Roche-sur-Yon plant and terminate production at the Joué-lès-Tours facility. An agreement on measures to support the redundancy plan was signed in December 2013 and implemented in 2014. On December 19, the last truck tire rolled off the line at the Joué-lès-Tours plant, which is now dedicated to producing calendared fabrics and rubber components. Following completion of the redundancy plan, 199 people retained their jobs, 380 took pre-retirement or retired, 162 transferred to another Michelin facility and 166 were outplaced. Career transition workshops assisted people in the last category in finding a new career path. By year-end, 30% had found a solution and 40% were attending training programs leading to certification or a diploma. In addition, Michelin has pledged, *via* its Michelin Development subsidiary, to create 730 new jobs in the Tours area.

A redundancy plan in the Euromaster subsidiary eliminated 173 jobs, of which 96 in France, 25 in Sweden and 49 in the United Kingdom. In France, 36 people chose to transfer to other facilities or jobs, 17 accepted pre-retirement arrangements, 12 agreed to transition into volunteer work and 31 were offered retraining leave. Following the signature of a general agreement with the majority of employee representatives in early 2014, the plan was implemented in March. The procedures for informing employees and determining the criteria for scheduling the order of job eliminations, as well as the placement process, took a fairly long time, in particular because the sales teams were widely spread across the country. Similar measures were implemented in other countries affected by redundancy plans.

In November 2014, Michelin announced a reorganization of the logistics operations in France, which by the end of 2016 will result in the closure of six logistics hubs and the creation of two European Distribution Centers in Chantemerle, near Clermont-Ferrand, and in Rouvignies, near Valenciennes. Ninety-seven jobs will be eliminated in the old hubs and 40 new ones created in the new European Distribution Centers. In December, negotiations got underway with the unions to forge an agreement on an employee support plan.

In Algeria, the truck tire plant in Algiers was closed following the transfer or outplacement of its employees in 2013. Another process was implemented for the benefit of the sales personnel, whereby a new partner, Cevital, acquired SMA and agreed to offer all of the sales staff new jobs with Atlas Pneus, a sales agency it created. When offered the choice, 38 of the 64 sales people accepted the transfer and 26 refused. Given the lack of any union representation, the negotiations were limited to informing the "Participation Committee", which accepted the proposed measures. All of the employee-related procedures were completed by the end of March.

On March 3, 2014, Michelin announced that tire production at the Pictou plant in Canada would be significantly scaled back, resulting in the elimination of around 500 jobs. The employees concerned were able to apply for positions at the other facilities in Nova Scotia, with many of them being informed as well of early retirement opportunities. By the final quarter of the year, 211 people had taken retirement and 105 had transferred to other Michelin facilities in Canada. These personalized solutions will continue to be deployed until summer 2015, when the work contracts can be terminated and length-of-service severance paid. Since September 1, 2014, Michelin Development has been leading a $2-million investment program to revitalize the region. It has also formed a partnership with two other organizations that have agreed to co-finance the program in amount of $2 million each. This means that small businesses in the region have access to an aggregate $6 million in loans.

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

6.1.1 c) Offering a fair compensation and benefits policy

In line with local market practices and conditions, Michelin strives to offer every employee fair compensation that recognizes his or her contribution to Group performance. All employees receive supplementary compensation in forms that vary widely from one country to another. They are also protected from the financial consequences of an accident or illness and offered opportunities to save for their retirement.

	Total employee benefits expense in 2014 *(in € millions)*	Production operators [(1)]	Administrative and technical staff [(2)]	Managers [(3)]	Contract employees	Provisions and provision reversals for pension obligations	Taxes, provisions and advances
Group	5,292	2,231	1,889	809	54	7	302
MFPM	*1,316*	*574*	*260*	*376*	*9*	*1*	*96*

(1) *Production operators: hourly employees.*
(2) *Administrative and technical staff: salaried employees.*
(3) *Managers: salaried employees with bonuses.*

"Taxes, provisions and advances" includes taxes, provisions for pension obligations, variable compensation advances, stock-option advances and other long-term advances.

Compensation, payroll taxes and other employee benefits

Employee benefits expense amounted to €5,292 million or 27.1% of net sales in 2014, of which €1,111 million in employer payroll taxes.

The total may be analyzed as follows:

(in € millions)	
Wages and salaries – Group	3,929
MFPM	*890*
Employer payroll taxes	1,111
MFPM	*361*
Benefit contributions, pensions, severance and retraining costs	245
MFPM	*65*
Share-based payments	7
MFPM	*0*
TOTAL	**5,292**
MFPM	***1,316***

Ensuring that compensation reflects each employee's performance and level of responsibility

Michelin is committed to offering everyone compensation that is personalized, fair and market-competitive, and that reflects each person's performance and level of responsibility. Compensation policies are implemented with a long-term view, taking into account each person's career development, as well evolving market conditions and local practices.

In every host country, compensation is competitively set and raised with a constant eye on achieving the best possible balance between employee satisfaction and financial performance.

An array of profit-sharing and bonus systems have been introduced, which vary by country and employee category. Employees above a certain level of responsibility also receive individual bonuses based on consolidated results. This system is now being gradually extended to all managers, administrative and technical staff, and supervisors. All of these systems are designed to incentivize people to deliver the expected results and help to meet the Group's targets. At MFPM, for example, all categories of employees will be eligible for individual bonuses by 2016.

Discretionary and non-discretionary profit-sharing systems are also deployed, in accordance with each country's practices and regulations. To insure cross-border consistency, these systems are all governed by similar rules and procedures. However, they are aligned with local job markets and conditions, and the pay-out levels are set to remain competitive in the local market.

Michelin's sustainable development ambitions in the areas of employee relations and the environment are being pursued in every unit around the world and their fulfillment is one of the criteria used to determine the bonus amounts for 600 top managers across the Group.

Because pay scales are pegged to criteria specific to each country, in particular to reflect local conditions, the average pay raise for the year would not be a meaningful indicator and is therefore not calculated by the Group.

MFPM: In France, where inflation [(1)] stood at 0.3%, pay increases in 2014 were as follows:

Production operators	2.3%
Administrative employees, technical staff and supervisors	2.3%
Managers	3.3%

Data for France.

Employee benefit policies, which primarily concern health care, insurance coverage and post-retirement benefits, have been shaped by our social responsibility vision. National benefit systems are supplemented to ensure that employees enjoy a similar level of benefits in most of our host countries.

Insurance and benefit policies are continually updated in response to changes in the economic and legal environment and to take into account the findings of the Moving Forward Together survey (see section 6.1.5 c) for details). Some countries are exploring the idea of deploying flexible benefit plans, based on a Group-level recommendation, while others are considering changes to their employee benefits, based on the local feedback in the Moving Forward Together survey.

(1) Excluding tobacco.

Protecting employees from the consequences of an accident or illness

Michelin has introduced systems to safeguard employees, as well as their spouses and children, against the potentially significant financial consequences of an illness or an accident. Health care plans cover medical expenses and insurance coverage guarantees an income in the case of short or long-term disability or death.

In recent years, a holistic approach to prevention has been deployed in the United States and, since 2014, Brazil, through a wide range of quality-of-worklife, health and health care policies and health care plans designed to protect employee health. In the case of MFPM in France, for example, in 2014, the death and disability insurance agreement significantly improves coverage for operators, administrative and technical staff and supervisors, who will receive additional compensation in the event of long-term illness or category 1 disability (as defined by the French Social Security Code). In the event of death while still an employee, a death benefit is paid.

A wide range of proactive workplace health and safety initiatives are being assertively deployed (see section 6.1.3) and public health campaigns on such topics as nutrition and vaccinations are regularly conducted on-site.

Supplementing national pension systems

With life expectancy on the rise, a growing number of countries have national pension systems that may not be sufficient to meet employees' expectations. Michelin therefore believes it has a responsibility to implement systems that provide employees with additional post-retirement income, in accordance with their length of service.

These systems are generally funded pension plans that allow employees to contribute a percentage of their pay, in addition to the funds paid in by the employer. In certain countries, Group companies also carry post-retirement benefit obligations relating to previous pension plans. At December 31, 2014, these obligations amounted to €2,325 million, of which €356 million for MFPM.

Total payments under defined benefit plans amounted to €223.1 million in 2014, of which €153.2 million in benefits paid directly to employees and €69.9 million in contributions to the funds.

Wherever legislation allows, Michelin offers retirement savings plans with matching employer contributions. The invested funds are managed by a fund manager or insurance company that has been carefully selected for its solidity and financial performance. In 2012, for example, Chinese employees were offered the opportunity to invest in a retirement savings plan, a fairly novel concept that proved highly popular, with 95% of the workforce investing.

As part of the project to upgrade the supplementary pension system, the PERCO retirement savings plan agreement, which covers all of the French companies, has been revised and the matching employer contribution has been increased to 100% of the employee investment. Another agreement has introduced a new supplementary pension plan to be co-financed by the Company (in an amount equal to 1% of gross salary) and the employee (0.2%). The plan has been deployed at Manufacture Française des Pneumatiques Michelin and Compagnie Générale des Établissements Michelin, with the possibility of other French companies joining in the future.

Providing other appropriate benefits

Other employee benefits are deeply rooted in the market customs and practices of each country, in a commitment to enhancing people's quality of life by addressing local conditions and needs (see section 6.1.2).

▸ Offering supplementary compensation in various forms

In addition to salary, performance-based bonuses (for meeting individual or corporate targets), overtime pay and compensation directly related to the nature of work performed, employees are also offered supplementary compensation in forms that vary widely depending on local legislation. These include discretionary profit sharing, non-discretionary profit sharing, contributions to supplementary health insurance, retirement savings plans and employee savings plans with matching employer contributions of up to 50%. Currently, 17 country organizations provide such programs, benefiting nearly 72,000 employees. The amounts awarded under these supplementary programs vary considerably from one country to another and can account for up to 30% of an individual's compensation.

At Manufacture Française des Pneumatiques Michelin, the 2014-2017 discretionary profit-sharing agreement signed with the trade unions uses various indicators to calculate profit shares – the number and success rate of Progress Ideas, the reduction in the environmental footprint and the fulfillment of production targets. The amount of the discretionary profit-share, which is paid in the first quarter of the following year, can account for up to 5% of salary.

In 2014, a total of nearly €55 million was paid out to MFPM employees in the form of discretionary profit-shares, non-discretionary profit-shares and profit-sharing bonuses, representing nearly 7% of payroll.

6.1.2 FOSTERING WORKPLACE WELL-BEING

For Michelin, "preserving employees' health and ability to work and fostering their well-being" is a major factor in personal engagement and performance (excerpt from the Group Health Policy). Employee expectations for well-being change constantly depending on workplace demographics (change of generations, average seniority, team activities, etc.) and vary by country and facility. These factors play a critical role in shaping the quality of worklife.

Because these needs are so diverse and subject to change, a dedicated quality of worklife improvement plan has to be defined and implemented in each facility, in collaboration with employees and/or their representatives.

To get every facility involved in a continuous improvement process to support employee well-being, Michelin has been defining a corporate "Quality of Worklife" policy since 2014 that emphasizes the importance of local initiatives while ensuring compliance with a global framework.

Workplace well-being and worklife balance can be enhanced through a variety of channels, including the organization of work and the workplace, training, services and parent-friendly policies. Every unit or facility is addressing the issue in accordance with its situation, so as to ensure effective alignment with local conditions. The Group encourages the country organizations and plants, assisting them in defining and implementing improvement plans aligned with the expectations and needs of their employees.

▸ The Well-Being Index

Since 2013, Michelin has tracked the quality of employee worklife around the world with an indicator based on the annual "Moving Forward Together" employee engagement survey (see section 6.1.5 c).

It comprises 26 questions concerning worklife balance, the physical working environment, workstation safety and health issues.

In addition to annually gauging employee satisfaction, the Index helps to analyze the relevance and effectiveness of quality-of-worklife initiatives.

6.1.2 a) Rethinking work schedules

The European Framework Agreement on Social, Societal and Sustainable Development Responsibility signed on March 26, 2014 defines mutual commitments between Michelin and the European Works Council, particularly as concerns the organization of work (see section 6.1.5 a) on social dialogue).

▸ Annualized working hours

Individual working hours are generally determined by local labour legislation. Differences in annualized working hours depend on the local situation or agreements negotiated with employee representatives. They may also vary according to the nature of the work and the job category.

▸ Worklife balance

Expectations in this area vary according to workplace demographies, especially age. Parenthood issues, for example, are perceived differently depending on the generation. This is an important challenge for Michelin, since as much as 55.2% of our employees were aged 25 to 44 as of year-end 2014.

▸ Empowering employees to organize their work

In 2014, an independent physician was commissioned to analyze the impact on quality of worklife of lean production management methods and a commitment to empowerment. The study revealed a number of benefits, including improved organization of work flows and a faster, more efficient response to issues reported by production operators. On the other hand, certain negative impacts confirmed the benefits of the new direction taken with the empowerment project, designed to give employees much more responsibility in organizing, directing and controlling their work (see section 6.1.4 g) on empowering organizations).

▸ Possible adjustments to production operator work schedules

Today, the majority of production operations are organized in shifts – 3 x 8 hours, 2 x 12 hours, weekends, etc. – that enable production facilities to run around the clock.

An annual schedule is prepared to give employees the visibility they need to plan family, social and other personal activities. Management is requested to announce any adjustments to the schedule as far in advance as possible, so as to minimize employee perceptions of disempowerment. The schedule may also be discussed with employee representatives, thereby helping to enhance the quality of social dialogue.

In 2014, the occupational physicians formed a working group to identify best practices for alleviating the hardship felt by operators on alternating shifts working all or part of the night.

▸ Adjustments in office work schedules

For office workers, flextime and telecommuting arrangements help to enhance the feeling of being in control of their worklife balance. In 2014, eight country organizations with production operations offered the option of telecommuting, with Brazil, Thailand and Russia successfully introducing the system during the year. Other country organizations are gradually offering the possibility, in particular as suitable information systems are deployed.

In France, the telecommuting agreement negotiated with the unions was renewed in 2014 for a three-year period. As part of our commitment to diversity, it is designed to improve worklife balance without disrupting business operations.

▸ Facilitating part-time options

Many country organizations in Europe, as well as in the United States, have introduced part-time working arrangements in accordance with local legislation, lifestyles and employee representative input. They are helping employees to improve their worklife balance.

PART-TIME EMPLOYEES BY GENDER AND JOB CATEGORY AS A PERCENTAGE OF TOTAL EMPLOYEES AT DECEMBER 31, 2014

Group *MFPM*	Women	Men	Total
Production operators	5.0%	2.2%	**2.5%**
MFPM	*9.5%*	*2.8%*	***3.2%***
Administrative employees, technical staff and supervisors	8.5%	1.8%	**3.7%**
MFPM	*17.2%*	*4.8%*	***8.5%***
Managers	9.1%	0.8%	**2.5%**
MFPM	*17.1%*	*0.7%*	***4.0%***
GROUP TOTAL	**7.2%**	**2.0%**	**2.8%**
MFPM TOTAL	***16.1%***	***3.2%***	***5.3%***

Scope: excluding the dealership networks, Tigar and recently acquired companies.

In France, the number of part-time contracts rose slightly over the year in the administrative and technical staff, supervisor and manager categories. The decline in the operator category reflected the retirement of employees working under pre-retirement arrangements.

6.1.2 b) Developing services that improve the quality of worklife

In every host country, Michelin helps to finance activities and services that improve the workplace environment and quality of life for employees and their families. Some of these benefits are delivered by organizations such as works councils, in compliance with local legislation, while others are managed by the Company *via* similar organizations. These include the Cafeteria system in Hungary and the Michelin Athletic Club (MAC) in the United Kingdom, which offer employees a wide array of benefits.

Innovative initiatives are being undertaken by local managers. Courses in non-job related subjects are offered in some countries and are highly appreciated by employees and their representatives. In Brazil and the United Kingdom, for example, lessons in family budget management are provided, while courses to prepare for retirement are a popular option in France and Brazil. Holistic health and well-being programs, such as "Choose Well Live Well" in the United States, "Balance" in Germany, *"De Bem com a Vida"* in Brazil and *"Oxygène"* in France, were offered in 2014.

Eating well is also an important aspect of quality of life and health. In 2014, standards for outsourced foodservice providers were upgraded with specifications covering balanced nutrition and menu choices compatible with cultural or religious preferences.

In countries with high traffic congestion, like India, Thailand and China, employees can choose their means of transport, routes and times to optimize speed and ease of use. In 2014, this allowed employees in these countries to improve their commuting experience and enjoy the time off between two working days.

In 2014, particular attention was paid to break rooms, for which an indicator is showing steady improvements.

Parenthood issues (see section 6.1.6 on diversity programs) are being addressed by the country organizations through a broad variety of initiatives, including telecommuting, as mentioned above, daycare centres, financial support for alternative childcare and financial aid for children's schooling.

6.1.2 c) Aligning psychosocial risk prevention with local cultures

To safeguard employees against the adverse effects of stress, harassment and violence, Michelin has deployed programs for:

- primary prevention, through training/awareness building and initiatives to improve the quality of management and performance appraisals (ability to detect and understand at-risk situations);
- secondary prevention, through training and improvement initiatives, particularly in at-risk segments/jobs identified in the organizations (ability to understand at-risk situations and protect oneself);
- tertiary prevention, through coaching, relaxation therapy, discussion groups and individual counselling by a psychologist or occupational physician.

These programs are being deployed in a variety of ways, depending on local needs and legislation. They support the initiatives underway to enhance quality of worklife and help to nurture employee well-being.

		Brazil	Canada	China	Spain	USA	France	Hungary	India	Mexico	Poland	Scandinavian countries	Romania	UK	Serbia	Thailand	Turkey
Assessment and remediation system			x		x	x	x	x	x	x		x	x	x	x		x
Prioritization of tracked segments			x		x	x	x			x		x		x	x		
Training and awareness-building	of managers		x		x	x	x	x		x	x	x	x	x			
	of employees in stressful segments/jobs		x		x	x	x	x		x	x		x	x	x		
Work organization initiatives		x	x	x	x	x	x	x		x	x	x	x	x	x		
Quality of worklife initiatives		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Relaxation techniques		x	x	x		x	x	x		x	x	x	x	x	x	x	
Medical and/or psychological assistance		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Social welfare		x	x	x	x	x	x			x	x	x	x	x	x		
Coaching/support groups		x	x	x		x	x	x		x	x	x		x	x		
Consolidating initiatives into an action plan		x	x	x	x	x	x					x		x	x		
Involving employees or their representatives in the action plan		x	x		x	x	x		x	x	x	x		x	x		

6.1.2 d) Tracking absenteeism

The cross-disciplinary and cross-functional project to harmonize absenteeism calculation methods continued in 2014.

Unforeseeable leave Production operators	Sick leave and other short-term absences	Lost time due to occupational injury or illness	Long-term leave	Total 2014
Europe (excluding Russia)	3.6	0.2	1.5	**5.3**
United States and Canada	1.3	0.2	1.7	**3.1**
MFPM	*4.2*	*0.5*	*2.6*	***7.2***

In France, absenteeism declined to 7.2% from 7.7% in 2013, reflecting the initiatives led by management and the personnel departments to reduce the amount of unscheduled leave. In 2015, a person will be assigned to share best practices in this area.

Absenteeism was stable in North America, where data was adjusted in 2014 to count family leave as short-term unscheduled leave.

6.1.3 DEPLOYING A PROACTIVE HEALTH AND SAFETY POLICY

Proactive health and safety policies are being assertively deployed in a Groupwide commitment to preventing anything that could be detrimental to employees' health, safety or ability to carry out their jobs. Well-being is also being nurtured by optimizing the workplace environment and giving people the resources they need to feel fulfilled in their work.

Michelin's long-standing emphasis on the health and safety of its employees and contractors was further strengthened in early 2011 with the deployment of the "100% Health and Safety" approach.

"Each person is unique. Health and safety are fundamental. Above all else, our wish is to ensure safe and healthy conditions for everyone working in our Company."

Excerpt from the Michelin Health and Safety declaration, available in 13 languages.

▸ A uniform health policy that covers all of the health-related social responsibility commitments in every unit around the world

Michelin's health policy complies with the recommendations issued by key international organizations, such as the UN, the ILO and the OECD, and the relevant standards, laws and regulations, including ISO 26000 and Grenelle II. It has also been aligned with local cultural practices and legislation by our regional and country organizations. The policy is designed to update and harmonize existing practices in the areas of occupational health, quality of life, stress management and anti-harassment.

The health and safety targets and objectives set across the Group are strengthening the chemical risk management policy and the global ergonomics program.

Michelin's Environment and Risk Prevention Management System, based on OHSAS 18001 specifications, meets certification standards. In 2014, an initial plant in Italy began the process of earning OHSAS 18001 certification.

"In all its operations, Michelin is committed to protecting the health of its employees, subcontractors, visitors, customers and neighbouring communities."

Excerpt from Michelin's health policy.

This commitment was strengthened in the Ambitions 2020 Performance and Responsibility (PRM) plan by setting improvement targets for health, safety and employee well-being.

▸ A network that coordinates health and safety initiatives for employees and contractors

Each facility has access to the skills of risk prevention professionals, such as OSH experts, ergonomists and hygienists, and health care providers, like doctors and nurses, in accordance with its size and type, according to Michelin organization standards. They network at the Group, regional and country level to share best practices and leverage acquired experience, as part of a continuous improvement process.

Following on from the project launched in 2013, the network partners have introduced a new organization designed to operate more efficiently.

6.1.3 a) Safeguarding employee health

To improve the performance of individual and Group prevention measures, the responsibilities and activities of the health departments have been redefined. The cooperative relationships among the various stakeholders have also been clarified to ensure consistency in the health and safety policy.

In 2014, the regional and country organizations continued to implement action plans to align their services with the new corporate health organization guidelines. Medical resources were expanded, pilot facilities to test the new organizations were set up and health coordination committees were formed in the leading regions.

▸ Systematically monitoring employee health

Policies governing regular medical check-ups have been defined at Group level to monitor exposure to chemicals and early-detect the onset of certain occupational diseases. Eight standards have been validated and will soon be deployed outside France, based on the findings of the multidisciplinary working group set up in 2013 to improve the reliability and consistency of monitoring practices for employees exposed to chemical risks.

A large number of standards and protocols were drafted or revised during the year, notably in the United States and India.

▸ Obtaining independent guidance from a medical advisory committee

Since 2010, a medical advisory committee comprising nine outside experts has helped to foresee and prevent health risks based on the latest advances in science. Its independent opinions assist Group management in addressing the health risks specific to tire manufacturing. In 2014, it reviewed conventional and hypersensitivity pneumonitis in the tire industry and the risk of cancer in the tire industry.

▸ Preventing and monitoring occupational illnesses

A wide range of initiatives are in place to prevent and detect occupational illnesses, particularly those related to lifting, repetitive stress, physical exertion, noise exposure and chemical hazards. Chemical risks are assessed prior to implementing any trials or new production techniques and a program to improve workstation ergonomics is helping to reduce the occurrence of occupational illnesses associated with physical activity. Initiatives to manage risks associated with workstation ergonomics and occupational hygiene are presented in section 6.1.3 b). To supplement these general protection measures, employees systematically wear personal protective equipment.

▸ Protecting employees during a public health crisis

To protect employees from Ebola hemorrhagic fever, initiatives have been deployed at several levels of the organization:

- concerning the regions hit by the epidemic, appropriate preventive measures were taken for the 71 employees in Nigeria and neighbouring countries;
- travel policy has been adjusted and recommendations issued to managers;
- medical procedures and other proactive measures have been recommended in every host country to prevent importation of the disease.

To help combat the Ebola epidemic, the Michelin Foundation donated €50,000 to the French Red Cross in 2014.

Other measures have been taken to protect employees from the effects of air pollution in Shanghai, Shenyang, Delhi and other large Asian cities. A dedicated steering committee has been set up in China and the following protective measures taken:

- issuing recommendations on what to do in case of a pollution alert;
- scaling back physical activity for people sensitive to injury at high-exertion workstations;
- supplying respirators for commuting;
- using air purifiers in some cases.

▸ Conducting public health campaigns for employees and their families

In every host country around the world, public health campaigns aligned with local needs and practices are conducted for the benefit of Michelin employees and their families.

Initiatives deployed as part of these campaigns include (i) training in lifting heavy loads, preventing back and joint pain, and avoiding the risks associated with a sedentary lifestyle; (ii) advice on healthy eating and wellness; (iii) anti-smoking and anti-alcoholism courses; and (iv) exercise programs.

Check-ups are provided for employees in countries where access to health services is difficult or expensive, such as in South America, Thailand, China and India.

In the United States, Michelin's fourth Family Health Centre opened in 2014 in Lexington, KY. These centres provide easy access to high-quality, affordable medical check-ups and health care for both employees and their families. Health care plans in the United States offer incentives to employees and their spouses to improve their medical coverage under certain conditions, *e.g.,* having a check-up and either achieving normal results when tested for metabolic risk factors or improving their results in accordance with a target set by the physician.

At corporate headquarters in France, the *Oxygène* program enables employees to practice a variety of physical activities in the workplace (see section 6.1.2). A public health program is offered to personnel in Poland each year.

When allowed under local legislation, plant medical teams provide addiction prevention and treatment services. Examples include an on-site psychologist in Thailand, rehabilitation programs in France, Poland, South America and India, and primary prevention campaigns in most facilities.

▸ Supporting local health care facilities

Michelin helps to improve local public health care facilities in emerging countries, whenever their quality is deemed inadequate.

In China, cooperative programs with hospitals in Shanghai and Shenyang continued to improve care for local employees and expatriates, with a particular emphasis on preventing health care-associated infections. This coverage was extended in 2014 by a contract with an English-speaking medical service, which has improved care for expatriates. A 2014 review showed that these actions have had a very positive impact, with employees expressing their satisfaction during a feedback forum.

During the year, corporate citizen initiatives continued apace in Chennai, India to support the primary health care facilities that serve local communities. For more details about Michelin's community engagement initiatives, see section 6.2.2 b.

Michelin also has an agreement with International SOS to ensure that expatriates and employees travelling abroad have access to health care services wherever they are.

6.1.3 b) Assessing and preventing risks

Michelin is fostering a culture of safety at work through (i) the constant engagement of every employee, with regular management involvement during the daily "5 Minutes" situation reports; (ii) active employee participation in monthly safety exercises; (iii) starter and refresher training programs; (iv) sharing best practices; and (v) celebrating and acting on ideas suggested by employees. Working conditions and employee well-being are being improved by upgrading workstation ergonomics and addressing industrial hygiene issues.

In recent years, risk assessments have been conducted for every workstation in accordance with shared, standardized methods in a variety of health and safety-related areas. These include ARM for equipment risks, EVANE for ergonomic risks, CR for chemical risks and ASAR for asbestos risks.

Data from these assessments are used to set priorities in the annual or multi-year action plans. In the case of France, they are consolidated into the comprehensive risk assessment review *(Document Unique),* which addresses all of the possible risk factors.

▸ Managing workplace safety

A culture of safety at work embraced by employees at every level

Workplace safety policies are underpinned by the engagement and empowerment of our employees, to consistently demonstrate the right behaviour and drive continuous improvement. A wide variety of media is used to encourage this mindset and support the constant attention to safety issues, including on-site CCTV networks, posters and displays, annual safety events and an intranet site for managers.

In 2014, 88% of the employees who participated in the Moving Forward Together survey said that safety was a top priority in their business (for more details about the Moving Forward Together survey, see section 6.1.5 c) below).

Every month, 76% of production plant employees take part in a safety exercise.

Employees can also help to improve safety performance through their Progress Ideas (see section 6.1.4 f). In 2014, of the 13,197 Progress Ideas implemented across the Group, 51% related to safety and 49% to working conditions.

Monitoring occupational accidents among contractor and temp agency workers

Safety performance data relating to contractor and temp agency workers is centrally tracked *via* the dedicated GAIA database and reviewed every year with the contracting companies, in a commitment to sharing results and improvement plans.

▸ Enhancing workstation ergonomics to improve shopfloor working conditions

In the design phase, ergonomists ensure that projects and installations offer the desired working conditions and ergonomic performance, while on the shopfloor, they identify and lead the selected improvement plans with the help of local teams. This global, in-plant network is driving faster improvement by sharing their experience and quickly instilling best practices. Michelin addresses ergonomic issues with a dedicated capital budget. In 2014, working conditions were improved for more than 3,000 employees in physically demanding positions caused by physical stressors, environmental hazards, poor lighting or noise.

Reducing workstation hardships is helping to minimize impacts on employee health and make manufacturing jobs accessible to a wider range of people.

▸ Managing industrial hygiene risks to protect employee health

Every research project on chemicals, nanomaterials and other new materials takes industrial hygiene into account. Only chemicals that have earned the Michelin HSE Visa by complying with both local legislation and the sometimes stricter Michelin acceptance criteria may be used.

In the case of nanoparticles, a standardized method for analyzing and managing their risks was deployed in 2014 in France and North America, with particular application in R&D projects.

Following on from the 2013 reassessment of the risks associated with curing fumes, risks from preparation compound fumes were reassessed in 2014 and compounding fumes were analyzed.

Excessive risks are eliminated by using alternative, less hazardous chemicals or by installing personal or facility protection equipment. Michelin invests in risk reduction initiatives every year.

In line with the REACH program in Europe and the Global Harmonized System (GHS) in Asia, North America and Brazil, the centralized occupational health and hygiene expert information system (Atrion and Basedoc) continued to be rolled out in 2014. The system outputs standardized safety documents for all the semi-finished and finished products used worldwide, in compliance with local legislation and corporate standards.

Michelin tires have never contained asbestos, which is banned from use at Michelin facilities worldwide.

Like many companies, however, Michelin used asbestos in the 1960s and 1970s for soundproofing and thermal insulation and in friction materials. After the successful removal of friable asbestos, the program to remove bonded materials continued in 2014. To properly manage the risks to people and the environment, all of these asbestos-removal operations worldwide are supervised by a manager at corporate headquarters.

▸ Measuring and tracking occupational accidents and illnesses

As part of its "100% Health and Safety" policy, Michelin now measures its worldwide performance using the Total Case Incident Rate (TCIR), based on the American OSHA rate, which is the standard used by many multi-national companies. Impairments in health due to accidents or exposure that require treatment or workstation adjustments (*e.g.* in the case of impairments caused by ergonomic issues, such as musculoskeletal disorders) are reported in number of cases per 200,000 hours worked.

In 2014, when these data were consolidated for the first time, the TCIR (excluding the dealership networks) stood at 1.74. Note that 48 plants achieved a TCIR of below 2, in line with the objective set by the Group in 2010. To improve the reliability and consistency of the reported data, experts in every region have been identified and trained in the new standard. By extrapolation, the 2014 TCIR is estimated at 2.84 for the whole Group.

Presented to operations without a single lost-time incident, the Michelin Safety Award honours safety performance over time (one to three million hours worked, depending on the size).

In 2014, it was awarded to ten plants, in Germany, Brazil, Canada, the United States, Mexico and the United Kingdom, a research centre in Japan, a head office in Germany and three logistics warehouses in Italy and Germany.

In all, 25 plants reported no lost-time incidents in 2014, compared with just eight in 2005.

The sales and marketing operations continued to improve their track record, reflecting the safe driving by employees and the gains delivered by technicians assigned to trucking companies.

Despite rising risk-awareness and the wider application of the prevention plan to temp agencies and contractors, Michelin was saddened by the death of four contractor employees, at the Pirot plant in Serbia, the Chennai plant in India, the logistics warehouse in Burgos, Spain and the Euromaster dealership in Vigo, Spain. The causes of these accidents have been investigated and measures taken to improve the safety of people working on our sites.

The lost-time incident frequency rate (LTIFR) corresponds to the number of incidents resulting in more than one day's lost time per million hours worked. The lost-time incident severity rate (LTISR) corresponds to the number of working days lost to accidents resulting in at least one day's lost time per thousand hours worked.

Since 2013, the reporting of occupational illness data has enabled the calculation of a consolidated Occupational Illness Frequency Rate (OIFR) covering the total workforce (excluding the dealership networks, Tigar and recently acquired companies). It is based on the International Labour Organization's list of occupational diseases, the only reference common to every country. According to the data collected, the illnesses reported in recent years were primarily musculoskeletal disorders and, to a lesser degree, respiratory diseases and hearing problems.

6.1.4 ORGANIZING EMPLOYEE DEVELOPMENT AND EMPOWERMENT

Michelin places considerable importance on employee skills development and ranks in the top half of the world's largest companies for its training opportunities. Reference jobs have been defined for each profession and a system for recognizing employee capabilities is being rolled out. New employees are hired and integrated into the corporate community for a career, not just a job. They are supported right from the start, first *via* an induction program and then by their line and career managers. Employees are also encouraged to play an active role in innovation. Lastly, empowering organizations are being introduced to give every team member more control over his or her work, thereby fostering job fulfilment and improving overall performance.

6.1.4 a) Dedicated training policies

Michelin is committed to taking a dynamic but balanced approach to training and development that gives all employees the opportunity to realize their full potential, while also meeting the Company's skills requirements. This is reflected in the percentage of training hours per total hours worked, which stood at 4.1% in 2014, close to the 4.4% observed in 2012 and 2013. The slight decline was attributable to the initiatives undertaken to ramp up employee skills more quickly (see 6.1.4 c).

Largely as a result of the lack of government-sponsored tire-related job training programs, Michelin was once again the leading investor in training among France's CAC 40 companies in 2014, with a total of 6.63 million hours offered (excluding the dealership networks, Tigar and recently acquired companies). This corresponds to an average of 70 hours per person on payroll and 73 hours per trainee, compared with 76 and 80 hours in 2013.

At MFPM, which is based in a mature market and has a stable workforce, training hours amounted to almost one million or 3% of total hours worked.

With nearly 1,200 people dedicated to Learning & Development, Michelin invests in training its teams to meet the challenges of international growth, which increasingly demands the ability to deliver ever-greater technical performance and superior quality of service. In particular, it trains, validates and certifies 6,000 operators and technicians every year, of which 1,200 outside their home country. Once again in 2014, training hours represented the equivalent of 4,000 employees in full-time training over the entire year.

TRAINING HOURS BY EMPLOYEE CATEGORY

Group (excluding Euromaster and TCI)	Production operators	Administrative and technical staff and supervisors	Managers	Total
Number of training hours	4,690,603	1,629,881	307,701	**6,628,184**
Percentage	70%	25%	5%	**100%**

Job-specific courses accounted for 89% of the total training program, in line with the commitment to helping to develop people's skills and employability. Management courses accounted for another 5% of the program, reflecting ongoing initiatives by the Personnel Department to enhance the quality of management, as part of the Moving Forward Together approach. In 2014, the Euromaster dealership chain launched a new leadership training program for the 100 or so members of its country-based executive teams.

Environment and Prevention training is still being extensively offered for all employees. Excluding the job-specific courses for E&P personnel, it represented 3% of total hours of training during the year. Special attention is paid to language courses, which accounted for 4% of total hours.

6.1.4 b) Structuring the skills management process

A structured process is used to manage skills across the organization. In each profession (marketing, finance or logistics, for example), a Competency Director is responsible for updating job standards, keeping the job map and job definitions current, preparing model training plans for the main jobs and, as needed, conducting skills assessments. In the case of administrative and technical staff, supervisors and managers, the use of the same matrix based on the Hay method helps to position each job vis-à-vis the different levels of responsibility managed by the Company. The Competency Director oversees the work of a Profession Committee comprising employee experts in the profession and representatives from the Personnel Department. Each Committee is led by a training manager with expertise in the profession, who is a member of the Learning & Development community.

In all, Michelin has defined 749 job families organized into 26 professions. To keep pace with technological, organizational and other change, the Competency Departments update the descriptions of these jobs and their related skills-sets every three or four years, on average, or at the rate of around 200 jobs a year.

As of year-end 2014, the Departments had also issued information on around 80 model career paths, accompanied by testimonials from people who have followed them. All of the job descriptions and related documentation may be found in a shared database.

Every employee's position is linked to a reference job, providing clear information about what is expected of him or her. In the same way, every employee participates in an annual process comprising a performance review, the definition of objectives and an annual development plan. Every three years, they are also offered a more in-depth development review to explore growth possibilities beyond their current job. Among the administrative and technical staff, as well as part of the extended management population, the percentage of people having had a development review within the previous three years rose to 67% in 2013 from 46% in 2011. The proportion was held steady at 66% in 2014, when the focus was on improving the quality of the exercise.

The year also saw the continued roll-out of the centralized human resources planning process, which is designed to ensure that the right skills are available at the right time and in the right place to meet future needs. The system was simplified and a clearer vision was offered to regional decision-makers in connection with the Group Executive Committee.

6.1.4 c) New training opportunities aligned with emerging needs

People's aspirations for shorter, more personalized courses, the large industrial projects in South America, China and India, high market volatility and the need to reduce costs have all driven the emergence of a new training policy focused on managing training lead times. In response, the training professions have reinvented their approaches to more effectively address the challenges of the manufacturing operations.

Since 2011, trainees have been provided with "just the right skills at just the right time" as part of the Time to Competence process, which is designed to accelerate job-skills acquisition by activating two main levers:

- To determine "just the right skills", the professions define the criteria that are inherent to each job and identify the most important skills Involved, based on which they develop optimized training plans and a more effective validation and qualification system.
- To determine "just the right time", training managers recommend curricula combining classroom teaching, tutoring sessions and self-learning opportunities using e-learning and 3D simulation systems, especially for operators. This combination of different instructional strategies helps to make training a part of daily worklife. Self-learning and empowerment are also being encouraged by a new digital portal tested in North America in 2014.

The main outcomes delivered during the year included:

- The training plans for the 220 most significant exempt and non-exempt jobs in 15 professions were revamped between 2011 and 2014, with an impact on 56% of all employees excluding the dealership networks.
- Nearly 5,000 tutors and 700 mentors have been identified and certified to transfer their knowledge and practices.
- More than 200 production operator training paths have been reviewed by the plant production monitor teams, under the supervision of the plant training managers.
- Scheduled training times have been shortened by 23% on average by accelerating the ramp-up in skills acquisition by newly hired operators.
- The new plants efficiently started up on time and delivered output that immediately met the requisite quality standards.

A 2014 assessment of the impact of "just the right skills at just the right time" in four Geographic Zones showed that the initiative had reduced training time by 250,000 hours, thereby allowing employees to work more effectively in the plants and offices.

The Time to Competence process received the Learning Enterprise Award at the 2014 Michael Page/*Le Monde* Human Capital Awards.

6.1.4 d) Supporting the successful induction of every new employee

Attended by more than 6,900 people in 2014, the Michelin Induction Program guides all new hires, regardless of category, through their first days with the Company. The program continued to be deployed worldwide in 2014, with a sustained focus on the countries where the most people are hired.

The program includes local support from the new hire's manager who, with the help of a Personnel Department representative, orients him or her to an initial job track. Then, an on-site introductory internship in a plant or office enables the new employee to experience Michelin's culture first-hand, working on the production line or interacting with customers.

All new hires attend an induction seminar, where they learn about Michelin's history and values and gain insight into its challenges, strategy, organization and operating procedures, so that they quickly understand where they are in the corporate community and what is expected of them.

During the first year, every new hire also has an opportunity to meet with the chief executive of his or her unit.

In every region or country, the induction process is supported and led by local correspondents, who network to drive continuous improvement in the process and share best practices.

In late 2014, an induction survey conducted among new hires in every country generated valuable feedback that will help to further improve the quality and efficiency of the induction process.

6.1.4 e) Supporting career development opportunities across the organization

Michelin has always emphasized promoting from within. As of year-end 2014, 83% of the 5,641 A to N-grade managers (Hay scale) had come up through the ranks, *i.e.,* they had been promoted one or more times after their induction period.

At every level of the business, the goal is to maintain a career development dynamic through transfers and promotions. In fact, all employees are hired with the idea of giving them a career with the Company, not just for a specific job, and ongoing skills development enables everyone to realize his or her full potential.

Employees are supported at every stage in their careers by a global network of 400 career managers, whose role is to help build personalized career paths over time, in accordance with personal aspirations and the needs of the Company. By the end of 2014, 73% of employees had had at least one meeting with their career manager over the previous two years.

Because they are independent, career managers also serve as a recourse for employees, outside of their reporting relationships. In 2014, for example, 65% of employees said that they would turn to their career manager if they had any issues with their work situation.

Alongside career managers and the employees themselves, managers also play a key role in the career management process, by helping employees to improve their performance and supporting their professional development. In particular, managers conduct periodic development reviews to identify employees' strengths, areas for improvement and medium-term opportunities for advancement. Nearly 70% of employees have had a development review with their manager over the past three years. Around the world and at every level, managers are also tasked with identifying employees with the potential to progress quickly and/or far up the corporate ladder and offering them, in association with their career manager, fast-track career paths.

6.1.4 f) Encouraging employees to share their ideas

A pioneer in participatory innovation, Michelin introduced an employee suggestion system as far back as 1927. Today known as InnovaGo, it offers all employees the opportunity, spontaneously and at any time, to get more involved in their Company's operations and growth by suggesting what we call Progress Ideas, for resolving problems or improving working methods, or Innovation Ideas, for offering a new product or service to customers. Managers encourage their team members to make suggestions.

The number of employees participating in the process has steadily increased each year, with 23,209 employees submitting at least one idea in 2014, or 36% of the workforce that had access to the process.

For the first time, the total number of ideas submitted during the year exceeded 56,000. New countries have joined the system, including China, with more than 3,000 ideas submitted in 2014, and later in the year, Brazil (125 ideas) and Thailand (75 ideas). Other country organizations gave the process new momentum. In Italy, for example, the number of participants rose to 2,732 from 2,032 the year before, while the number of suggestions surged to 4,748 or three times more than in 2012.

Worldwide, nearly 23,000 were implemented in 2014, helping to drive progress in a wide variety of areas, including safety, quality and working conditions. They also delivered annual net savings of €13 million and earned participants a total of €1.77 million in bonuses.

> In 2014, the Group deployed the InnovationWorks program, a new approach to enable every employee to suggest innovative business initiatives to help meet corporate growth objectives. If a team's idea is selected, the program provides the resources needed to quickly test the initiative in the marketplace, with the team acting as a start-up in an incubator structure. InnovationWorks was conducted in two Geographic Zones in 2014: China, with 1,300 participants, 225 ideas submitted and four initiatives selected for incubation, and Europe with 17,000 people asked to participate, 4,170 ideas submitted by 2,293 employees and five initiatives selected for incubation in first-half 2015. The exceptional participation rates in both programs, compared with outside benchmarks, attests to the vitality of the entrepreneurial spirit and innovation capabilities of Michelin employees.

In France, 44% of employees submitted a total of 21,095 suggestions in 2014, of which 8,621 were implemented. The Golbey plant continued to perform well above average, with 353 employees submitting more than 677 Progress Ideas throughout the year, for a participation rate of 72%.

New facilitators were trained in Serbia and the United States ahead of the system's start-up or extension in these countries in 2015.

6.1.4 g) Promoting team self-management and empowerment in every aspect of the business

Moving Forward Together, our employee value proposition, emphasizes the possibility for everyone to exercise his or her full range of skills and capabilities in order to find job fulfilment, motivated by a sense of well-being and opportunities for personal growth. Today, the empowerment process is enhancing and supporting the different aspects of this proposition, including:

- job satisfaction, by broadening everyone's scope of responsibilities;
- the quality of worklife, by increasing the perceived quality of each person's job;
- career management, particularly for operators, by opening up new opportunities for advancement;
- compensation, due to the new career management possibilities;
- training and development, because new responsibilities imply the acquisition of new skills;
- the quality of management, as its nature shifts considerably from command and control to delegation, empowerment and subsidiarity.

Initiated in the early 1990s, Michelin's empowerment drive reached a first milestone in the 2000s with the application of the first concept. Beginning in 2010, a project was successfully implemented to deploy the process faster and more widely across the entire manufacturing base. Today, more than 75% of operations are applying the management method, with most of the others preparing for deployment.

Recognizing the concept's positive impact on personal engagement, in 2012, Michelin decided to extend it by taking the empowerment of production teams as far as possible. The first act in this new commitment involved the creation of 38 laboratories to identify solutions capable of improving the ability of production teams to organize their work and self-manage their performance and progress. This experimental and discovery phase involved 1,500 people in 38 production and maintenance cells based in 18 plants in a number of countries. Operators were asked to imagine the solutions, test their feasibility and assess their effectiveness in terms of workplace well-being and performance, with managers acting solely as support.

In every case, the operators came up with solutions giving them the power to act on different aspects of their daily work, such as the induction of new team members, managing their own skills and capabilities, and managing standards or production variances. This helped to improve engagement and performance at every station.

Following these successful trials, it was decided to test the concept, now known as Autonomous Management of Performance and Progress (MAPP), in the production plants to confirm the outcomes on a larger scale.

In late 2013, six plants were chosen, on a voluntary basis, and in 2014, a second phase was launched to implement the solutions discovered by the 38 test cells.

6.1.5 NURTURING DIALOGUE, COMMUNICATION AND LISTENING

Michelin has reaffirmed its commitment to giving new impetus to the social dialogue process so that it becomes a key driver of sustainable performance. To foster discussion and facilitate access to information, a wide variety of internal communication media and resources have been deployed. In particular, a global survey offers an opportunity for dialogue across the organization, while measuring employees' perceptions and level of engagement.

6.1.5 a) Giving new impetus to social dialogue

In 2014, more than 3,000 official meetings were held across the organization with unions and employee representatives, leading to the signing of 50 new agreements (including the dealership networks).

Contrary to 2013, which saw a drive to sign agreements on flexibility, many of the 2014 agreements focused on improving health conditions, on-site hygiene and workplace safety, as well as on supporting personal growth and quality of worklife.

At MFPM, social dialogue enabled the signature of agreements during the year on such important issues as:

- across-the-board discretionary profit-sharing;
- non-discretionary profit-sharing;
- implementation of telecommuting arrangements;
- right-to-organize agreements in units that previously did not have any;
- in March 2014, the first of a new type of European framework agreement was signed in an excellent spirit of collaboration. It covered three issues – equal opportunity and non-discrimination, work organization, and health and safety – that were selected by mutual consent, thereby deepening the shared commitment and enhancing the quality of the procedure for tracking performance in these priority areas.

A new social relations policy, whose spirit is described in the 2013 Registration Document, was validated and an in-depth, interactive buy-in process was rolled-out for managers and employee representatives. The IndustriAll Global Union was contacted and an initial meeting was held in February 2015, marking the kick-off for drafting Michelin's first international framework agreement.

At the Annual Meeting in May 2014, shareholders elected an employee member to the Group's Supervisory Board, even though Michelin is not subject to that obligation under France's Employment Security Act of June 14, 2013. In December, another employee member was appointed to the MFPM Supervisory Board, which is subject to the provisions of said act.

6.1.5 b) Providing ample opportunity for information and dialogue

Michelin attaches great importance to communications with employees and their representatives and uses a wide variety of resources to share information and encourage discussion in its facilities. Around 30 communication channels and a dozen different consultation procedures are in place across the Group. On average, each country uses 20 of these media, including the Intranet; plant, country and unit publications; daily, weekly and monthly team meetings; the *Forward* TV news program; the print *Bibnews* magazine sent to all employees in many countries; the BibSpace enterprise social network; the Letter to Shareholders; meetings with employee representatives; surveys and polls, including the "Moving Forward Together: Your Voice for Action" survey; roundtables; forums; bulletin boards; and Family Day events.

Launched in April 2013, the BibSpace enterprise social network already has 15,000 employee members and 400 active communities. Designed to encourage dialogue among employees and enhance the flow and quality of shared ideas, BibSpace is often used for our Innov'Up innovation challenges. It is also streamlining cooperation, the sharing of best practices and problem solving, while helping to drive our digital transformation.

Following the joint commitment undertaken in 2013 by the Personnel Department, the Communication & Brands Department and the Prevention and Industrial Performance Division to strengthen dialogue between managers and their teams by introducing monthly meetings in the production cells, an audit was performed in the plants in 2014 to assess their deployment.

During the year, employees were encouraged to take an increasingly active, direct part in discussions of key corporate issues, such as innovation and sustainable mobility.

During the Michelin Challenge Bibendum event held in November 2014 in Chengdu, China, eight employees, chosen from among 1,000 candidates, were offered the opportunity to take part in the one-of-a-kind event as reporters on special assignment. On a dedicated BibSpace page, they shared their impressions of the event's highly innovative mobility solutions with their colleagues around the world, while experiencing first-hand our corporate mission – to give everyone a better way forward.

6.1.5 c) Listening to employees *via* the annual engagement survey

Employee engagement is an important driver of operational excellence and our ability to meet our performance objectives. Michelin set the particularly ambitious objective of becoming a world-class leader in this area by reaching and maintaining an 85% employee engagement rate by 2020. The annual "Moving Forward Together: Your Voice for Action" survey measures the engagement rate and employee opinions about their work, in light of the seven aspects of our employee value proposition: Moving Forward Together, the Trademark of Mutual Commitments.

For the second time in 2014, the survey was conducted across the entire Group except for Euromaster, where a similar survey was carried out at the same time by the same polling organization, IBM/Kenexa. A massive 83% of employees responded Groupwide, or three points more than in 2013, thereby underscoring their confidence in the process and demonstrating the credibility of the findings.

In 2014, the overall employee engagement rate was 74%, up two points from 2013 and five points above the global average for the companies in the IBM/Kenexa database. The rate stood at 79% for managers, technical and administrative staff and supervisors (five points more than the global IBM/Kenexa average for salaried employees) and at 71% for operators (four points more than the global IBM/Kenexa average for hourly paid employees).

In 2014, the survey stimulates the exchange of views and ideas across the Group, with managers sharing the findings to initiate dialogue and teams working together to identify priorities, determine the measures to be taken in the short term and recommend action plans for the longer term. In all, 68% of the 2014 respondents said that they had been able to share and discuss their team's 2013 findings, and half already felt that the survey is leading to positive changes.

This simple, agile approach creates a cycle of annual improvement and empowers employees at every level of the organization.

The study also highlighted areas of Michelin excellence, such as the pride in working for the Group, the importance of product and service quality, the overriding concern for safety and the commitment to innovation.

6.1.6 MANAGING DIVERSITY WORLDWIDE

Consistent with its belief that every individual is worthy of respect, Michelin has made diversity a wellspring of growth. Maintaining a high sensitivity to the risk of discrimination is a priority, through ongoing audits and awareness-building programs. Our assertive commitment to diversity is delivering tangible outcomes year after year. In particular, the hiring of women for all types of jobs in every aspect of the business is being facilitated around the world. The emergence of local management is also encouraged, primarily in the growth regions.

6.1.6 a) Making diversity a tangible indicator of Michelin’s respect for people

Long one of Michelin's core values, respect for people is demonstrated everyday through two closely related initiatives, the recognition of every person as a unique individual and the celebration of diversity.

Structured around four priority issues – gender, nationalities and cultures, age and disabilities – our approach to diversity is supported by a determination to recognize everyone's individuality.

In a business environment and markets that are becoming more complex by the day, a diversity of personalities enables us to devise faster, more effective responses to change. It also helps to accelerate innovation in every aspect of the business, from products and services to management, employee relations and organization.

The diversity management system is structured by a global organization at several levels. The process is led by the Group Diversity Director with the help of a Steering Committee comprising the Geographic Zone Directors and the Group’s Director of Personnel, who is also a member of the Group Executive Committee. The Steering Committee validates diversity objectives for the entire Group and the Geographic Zone Directors set specific annual targets for their region, coupled with action plans. The focus is on long-term initiatives, which are continuously monitored *via* clearly defined indicators with management’s support.

At the country level, local diversity managers are organized into the international diversity network, led by the Group Diversity Director. They support the managers and personnel department employees, including career managers, who are responsible for promoting and enhancing diversity.

In every country, employees are encouraged to submit Progress Ideas that encourage diversity, particularly the hiring of women, through improvements in such areas as work organization, ergonomics and work-life balance. Employees whose ideas are chosen for implementation are rewarded with a bonus and recognized at an international event.

6.1.6 b) Raising awareness of the risk of discrimination

Before taking up their position, all line and career managers participate in a training program designed to raise their awareness of discriminatory behaviours. Combining theory, practice, individual assignments and role-playing, these group sessions help managers to avoid stereotyping, become familiar with diversity legislation and anticipate high-risk situations. By changing practices and attitudes, they also encourage participants to take tangible action to promote diversity within their departments.

Audits are also regularly performed to ensure that human resources processes are non-discriminatory and that actions plans have been effectively implemented to address the risks identified.

In France, discrimination fact sheets have been posted on the intranet, with titles like “How to act in a non-discriminatory manner”, “What is discrimination?” and “What to do if you witness or experience a discriminatory attitude or action.”

Awareness campaigns and special training programs are used to instil an effective diversity culture throughout the organization and at every level of management. Country organizations are also encouraged to develop their own awareness initiatives for managers and employees.

In 2014 in the United States, for example, the top 100 managers attended a course specifically dedicated to non-discrimination, which enabled them to exchange best practices and build a network around the issue. A similar program, “Prevent Workplace Discrimination and Harassment”, was deployed in the Nordic countries and Central Europe.

Employees have been asked to question their own attitudes and express their opinions, in particular during the global engagement survey (see section 6.1.5 c) and dedicated events. Étienne Hoarau, a widely travelled, mobility-impaired cyclist and author of the book *À contre-pied,* gave a number of conferences in France.

As part of the second annual worldwide "Moving Forward Together: Your Voice for Action" survey, employees were able to express their opinions about two diversity issues: "Michelin has created an environment where people with diverse backgrounds can succeed." and "Employees are treated with respect, regardless of who they are or their position."

In 2014, a qualitative analysis was performed to gain deeper insight into the meaning of respect in our various host countries and cultures. By using photolanguage techniques and analyzing the open comments on the survey, the causes of respect/disrespect were categorized and prioritized. Practical action plans have been defined in several countries, in particular to raise manager awareness of behaviour and practices that enhance the perception of respect.

6.1.6 c) Making all positions accessible to women and ensuring gender wage parity

As in the automotive industry, at Michelin, women have traditionally accounted for a relatively small percentage of production operators (10% in 2014, excluding the dealership networks). The ratio is more balanced among administrative and technical staff (38.7%) and, to a lesser extent, among managers and supervisors (23.5%, up from 22.5% in 2013). In the more male-dominated European and North American dealership networks, women accounted for 11.6% of employees on payroll at Euromaster, compared with 11.1% in 2013, and 10.7% at TCI, versus 9% in 2013. The percentage of women in the Michelin workforce is increasing with every year. For the fourth year in a row, women accounted for one-third of all administrative and technical staff, supervisors and managers hired worldwide. In France, more than 40% of people hired in these categories were women. Recruiting teams now include more women and are accountable for hiring a target percentage of women.

A global, in-house parenthood study conducted in 2014 audited the measures already in place and recommended benchmarks. It found a number of "women-friendly" countries, based on their legislation and cultural environment, and highlighted the 115 supportive benefits offered by Michelin, including flextime arrangements, services such as daycare facilities and nursing rooms, financial aid for childcare, service centres and Family Days.

In addition, telecommuting arrangements are offered in a growing number of countries, such as Germany, Brazil, Canada, Spain, the United States, Central Europe, France (where a new agreement was signed in 2014) and the Nordic Countries.

▸ Enhancing manufacturing's appeal to women

Michelin is committed to increasing manufacturing's appeal to women by upgrading workstation ergonomics and deploying programs in conjunction with academia to improve gender balance in its jobs. Steps are also being taken to attract more job applications from women.

The production plants are encouraged to increase the percentage of women hires at all levels, starting with production operator positions. Since 2010, a variety of resources have been made available to help them meet the defined targets, including a map of women-friendly jobs, new organizational arrangements and adjustments to workstation ergonomics. Continuous improvements in ergonomics mean that an increasing number of production workstations may be staffed by more employees, including women. The goal is to make 50% of manufacturing positions accessible to all employee categories by 2020. In France, 130 work situations demanding forceful exertion, which were therefore unsuitable for women, have been eliminated by investing in new solutions at the production plants.

In 2014, Michelin became a founding member of France's *Fondation Égalité Mixité,* a foundation that, under the auspices of *Fondation Agir Contre l'Exclusion* (FACE), seeks to increase gender equality in the workplace by conducting wide-scale TV and other advertising campaigns and recommending innovative programs to drive progress.

In Germany, Scotland, France, Romania and Thailand, women have been invited to visit the production plants and discover the different professions, talk with the women who work there and apply for jobs. In Germany and Romania, a Girls' Day is organized every year at the plants to present their jobs to girls aged 12 to 16, while facilities in Germany and France hold Open Houses so that teachers, parents and students can find out more about the jobs that manufacturing can offer.

Following on from the United States and the Nordic Countries last year, in 2014, operations in Russia identified the main obstacles to hiring more women in the sales force. This will lead to the implementation of action plans in 2015 to step up mentoring and upgrade working conditions.

▸ Providing specific support for management positions

Diversity*	2014	2013	2012
Percentage of women managers and supervisors [(1)] *(%)*	23.5%	22.5%	21.9%
MFPM	*24.3%*	*23.3%*	*22.4%*
Percentage of women among top managers [(2)] *(%)*	15.7%	14.9%	13.7%
MFPM	*14.7%*	*13.8%*	*12.7%*
Percentage of women among executives [(3)] *(%)*	9.1%	8.6%	8.0%
MFPM	*9.2%*	*8.2%*	*7.5%*

* *Unless otherwise specified, employee-related figures (except headcount) concern the entire Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired during the year.*
(1) Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.
(2) Employees with a level of individual responsibility of A to I, according to the Hay method used by the Group.
(3) Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.

To fulfil our commitment to hiring and promoting more women managers, dedicated teams have been set up for this purpose in every region. The in-house method developed to identify potential is clearly based on criteria that are not gender related. Particular attention is paid to the criteria defining potential and the examples provided, and managers have been made aware of the risk of associating high-potential employees with a particular gender.

Women identified as having development potential are supported by a dedicated program comprising a six-month coaching phase followed by a year of mentoring. After a four-year trial in Europe, the program is now helping women adapt more easily and rapidly to high-level positions. It was introduced in China in 2013 and piloted in the United States in 2014.

Facilitating work-life balance

Year after year, Michelin is steadily increasing the number of systems and programs locally aligned to facilitate work-life balance. Operations in France have made very strong progress, with 16 different programs, including company-subsidized, tax-advantaged service vouchers, reserved slots in local daycare facilities, and corporate concierge services.

In Germany, slots have also been reserved in municipal daycare centres. The Company finances a family services centre to help parents with their administrative formalities, offering personalized advice, a 24/7 hotline, childcare services and caregiver services for close dependents – an increasingly important issue as the German population ages. The centre also proposes vacation opportunities for employee children. A wide range of flexible working arrangements are on offer, along with a few examples of job-sharing.

Ensuring wage equality worldwide

Michelin applies a policy of non-discrimination and equal pay for equivalent profiles and positions. The same audited method for calculating wage data has been used worldwide since 2012, enabling comparisons between the pay levels of men and women in positions of equivalent responsibility. In 2014, the exercise covered 29.4% of total employees (excluding the dealership networks, Tigar and companies acquired in 2014) in Germany, Brazil, Canada, China, Spain, the United States, France, the United Kingdom, Hungary, India, Italy, Japan, Mexico, Poland, Romania, Russia and Thailand. The job categories analyzed were managers, administrative and technical staff and supervisors, for which a sufficient volume of data was available. The exercise is designed to identify the reasons behind any pay gaps among people with equivalent responsibilities, and then to close them with individual adjustments to compensation.

Since 2011, the gender wage gap has steadily narrowed year after year, to 2.8% in 2014.

6.1.6 d) Promoting and supporting disability employment

Defined in 2006 at the Group level, policies governing the employment of disabled people are based on a humanistic approach and a commitment to eliminating all forms of discrimination in hiring around the world. They are designed to offer jobs to the disabled or to retain employees who become disabled at some point in their career.

In addition, Michelin is systematically committed to meeting or exceeding legally mandated quotas wherever they exist.

In addition to combating discrimination, human resources teams and employees are aware of the need to support the disabled in keeping their jobs. In France, for example, a network of advisors has been set up in the production plants to work with occupational physicians and career managers. In response to a given case, they meet as a commission to devise a solution for adjusting the workstation or proposing an alternative career path.

The Human Resources community is regularly invited to meet with national stakeholders working on disability issues and to improve its understanding of the different forms of disability, including mental impairment.

From a legal standpoint, hiring the disabled is governed by standards that vary widely by country. Some, like Canada, Russia, Serbia, the United Kingdom and the United States (where it is against the law to disclose information about a disability), do not require companies to hire a certain percentage of disabled people, while others, such as the Netherlands, have only incentive-based policies. Still others have imposed quotas, ranging from 0.5% of total employees in Thailand to 7% in Italy. These legal and cultural differences mean that almost every situation is unique, making it difficult to consolidate worldwide data on disabled employment. At MFPM, the legally mandated quota was exceeded in 2014, with disabled people accounting for nearly 6.5% of the workforce.

Special attention is paid to people suffering from cancer, through mutual support groups, as in Brazil, or awareness-building and sensitivity initiatives conducted by the League Against Cancer in France. The Michelin Corporate Foundation finances healing and support projects for people with cancer, such as the film produced with the *Institut Curie* and the House of Life project (see section 6.2.2).

6.1.6 e) Focusing on local management sensitive to host community cultures

	2014	2013	2012	2011
Percentage of non-French people among top managers* (1) *(%)*	47.5%	47.0%	45.7%	45.3%
MFPM	*14.3%*	*14.9%*	*14.2%*	*12.9%*
Percentage of non-French people among executives* (2) *(%)*	35.9%	36.5%	36.6%	36.5%
MFPM	*12.7%*	*13.6%*	*13.1%*	*13.0%*

* *Unless otherwise specified, employee-related figures (except headcount) concern the entire Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired during the year.*
(1) *Employees with a level of individual responsibility of A to I, according to the Hay method used by the Group.*
(2) *Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.*

Diversity issues related to ethnic origins are amply addressed by programs underway in North America and in Europe, particularly as part of the hiring and induction process. In the United States, to ensure equal opportunity for all, the distribution of performance appraisal results is analyzed for each minority group – women, African Americans, Puerto Ricans, Asian Americans and Hispanics. Anomalies are systematically analyzed and appropriate corrective measures are taken when necessary.

Wherever possible, Michelin is committed to nurturing the emergence of a highly skilled corps of local managers, while respecting local cultures. The idea is to hire and promote people on the basis of their capabilities and potential.

Particular attention is paid to fostering the emergence of local managers in the growth regions of South America, Southeast Asia, China, India, the Middle East and Russia. In 2014, the target of having locals account for 64% of managers in these regions was exceeded (65%), with the result that nearly half (47.5%) of all executive managers were non-French nationals. Worldwide, local managers are contributing their cultural capital and understanding of regional issues. In every country, management succession plans now focus on the training and development of local managers to help them quickly rise to positions of responsibility.

6.1.6 f) Creating opportunities for inter-generational knowledge transfer

In Western Europe and the United States, the average age of employees is trending upwards as the age pyramid shifts and people gradually have to work longer until retirement. Michelin is pro-actively addressing this issue by improving workstation ergonomics, capitalizing on the experience acquired by older employees, and offering new job opportunities or temporary assignments in line with each person's situation. At the other end of the age pyramid, the mentoring of new hires by more experienced employees is actively encouraged, both to enable the transfer of skills and expertise and to facilitate intergenerational integration.

Since 2012, production facilities have used an application to determine the distribution of operators by age, identify the risks associated with workstation ergonomics, gauge any loss of motivation, and organize inter-generational knowledge transfer. The application also supports the deployment of corrective and preventive measures. D-Generation, an application that cross-references the age pyramid with workstation demands, is currently being used in Hungary, Italy, Romania, Russia and Thailand.

In France, every plant has a consultant to advise employees, particularly those nearing retirement, on how to remain in the workforce and to ensure that workstation ergonomics are properly upgraded.

In 2014, a Group policy was defined to enable older employees to exercise motivating and fulfilling responsibilities in their remaining years to retirement. By capitalizing on their skills and experience, they can sustainably contribute to the Company's performance, while easing through the special circumstances of this period of life.

6.1.7 SUMMARY TABLE OF 2014 EMPLOYEE DATA

	2014	2013	2012	2011	GRI G4
Employees on payroll at December 31 (full-time equivalent employees, consolidated companies, under any form of work contract, excluding temp agency workers)	106,696	105,724	107,302	108,340	
Employees on payroll at December 31 (consolidated companies, under any form of work contract, excluding temp agency workers)	**112,306**	**111,190**	**113,443**	**115,000**	**G4 LA1**
Europe	65,569	66,147	67,785	69,580	
MFPM	*19,712*	*19,979*	*20,805*	*20,731*	G4 LA1
North America	22,741	22,274	22,209	22,545	G4 LA1
South America	6,752	5,518	6,037	5,957	G4 LA1
Asia (excluding India)	15,431	15,458	15,307	15,332	G4 LA1
Africa, India, Middle East	1,813	1,793	2,105	1,586	G4 LA1
Employees by gender* *(%)*					
Men	83.7%	84.0%	84.4%	84.8%	
MFPM	*83.9%*	*84.4%*	*85.0%*	*84.7%*	G4 LA1
Women	16.3%	16.0%	15.6%	15.2%	
MFPM	*16.1%*	*15.6%*	*15.0%*	*15.3%*	G4 LA1
Employees by category* *(%)*					
Production operators	62.4%	61.4%	63.1%	63.9%	
MFPM	*47.4%*	*48.4%*	*51.0%*	*51.0%*	
Administrative and technical staff and supervisors	30.0%	30.9%	30.1%	29.7%	
MFPM	*38.7%*	*38.1%*	*23.4%*	*24.0%*	
Managers**	7.6%	7.7%	6.8%	6.4%	
MFPM	*13.9%*	*13.5%*	*25.8%*	*25.0%*	

	2014	2013	2012	2011	GRI G4
Employees by age* *(%)*					
24 and under	5.5%	5.5%	6.1%	6.7%	G4 LA1
MFPM	*5.3%*	*5.2%*	*5.6%*	*6.2%*	G4 LA1
25-34	27.3%	27.2%	27.3%	27.5%	G4 LA1
MFPM	*22.4%*	*21.8%*	*21.0%*	*5.6%*	G4 LA1
35-44	27.9%	27.4%	26.8%	26.1%	G4 LA1
MFPM	*24.5%*	*23.3%*	*21.6%*	*20.5%*	G4 LA1
45-54	22.5%	23.1%	23.4%	23.8%	G4 LA1
MFPM	*21.7%*	*24.4%*	*26.6%*	*28.4%*	G4 LA1
55-64	16.5%	16.4%	16.2%	15.7%	G4 LA1
MFPM	*26.0%*	*26.0%*	*25.1%*	*23.9%*	G4 LA1
Over 65	0.4%	0.4%	0.2%	0.3%	G4 LA1
MFPM	*0.1%*	*0.1%*	*0.0%*	*0.0%*	G4 LA1
Employees by length of service* *(%)*					
Less than 2 years	18.3%	19.7%	21.9%	20.5%	
MFPM	*13.1%*	*15.4%*	*17.4%*	*11.3%*	
2-5 years	14.1%	11.8%	10.3%	12.2%	
MFPM	*12.3%*	*8.5%*	*6.5%*	*9.2%*	
5-10 years	16.6%	16.5%	15.8%	16.5%	
MFPM	*13.1%*	*13.1%*	*13.0%*	*14.0%*	
10-15 years	13.1%	14.8%	14.9%	12.8%	
MFPM	*13.1%*	*13.3%*	*11.9%*	*9.7%*	
15-20 years	10.7%	7.8%	6.8%	6.3%	
MFPM	*8.1%*	*5.6%*	*5.0%*	*4.1%*	
More than 20 years	27.1%	29.3%	30.3%	31.6%	
MFPM	*40.3%*	*44.0%*	*46.3%*	*51.7%*	
Employee movements* (permanent work contracts)					G4 LA1
New hires	6,948	5,869	6,224	9,611	
MFPM	*606*	*588*	*934*	*1,394*	G4 LA1
Resignations	2,514	2,452	2,218	2,013	
MFPM	*119*	*112*	*114*	*159*	G4 LA1
Dismissals and terminations by mutual agreement	2,400	2,658	2,197	2,260	
MFPM	*255*	*185*	*197*	*262*	G4 LA1
Retirement	1,976	2,332	1,853	1,769	
MFPM	*827*	*1,070*	*757*	*661*	G4 LA1
Death	128	116	125	141	
MFPM	*30*	*33*	*32*	*37*	G4 LA1
Contract employees (excluding temp agency workers)* *(%)*	4.0%	3.9%	3.6%	4.7%	
MFPM	*4.6%*	*3.3%*	*3.3%*	*5.2%*	
Part-time employees*	2.8%	3.3%	2.8%	2.5%	
Training*					
Percentage of training hours per total hours worked	4.1%	4.4%	4.4%	4.4%	
MFPM	*3.0%*	*2.9%*	*3%*	*N/A*	G4 LA9
Percentage of employees who received training	96%	94%	96%	94%	G4 LA9
Number of training hours per employee per year	70	76	75	74	G4 LA9
Training hours (excluding dealership networks)	6,628,184	7,167,926	7,278,854	7,231,466	G4 LA9
MFPM	*951,707*	*987,773*	*1,096,736*	*N/A*	G4 LA9
Type of training (excluding dealership networks)					
Job-specific training	89%	88%	90%	92%	LA11
Management training	5%	6%	6%	4%	
General training	6%	6%	4%	4%	
			100%	**100%**	

	2014	2013	2012	2011	GRI G4
Environment and Prevention training (for all employees, excluding E&P personnel)	3%	3%	3%	3%	
Language training	4%	2%	2%	2%	
Production operator absenteeism* (excluding dealership networks)					
Europe	5.3%	5.4%	5.0%	5.0%	
MFPM	*7.2%*	*7.7%*	*7.2%*	*7.0%*	G4 LA6
Sick leave and other unforeseeable short-term absences	3.6%	3.6%	3.4%	3.3%	G4 LA6
MFPM	*4.2%*	*4.5%*	*4.2%*	*4.1%*	G4 LA6
Injury leave	0.2%	0.2%	0.2%	0.1%	G4 LA6
MFPM	*0.5%*	*0.5%*	*0.4%*	*0.3%*	G4 LA6
Long-term leave	1.5%	1.6%	1.5%	1.5%	G4 LA6
MFPM	*2.6%*	*2.7%*	*2.6%*	*2.6%*	G4 LA6
Occupational accidents (including the dealership networks and Tigar; excluding recently acquired companies)					G4 LA6
Number of lost-time incidents, Groupwide	671	659	529	456	G4 LA6
Lost-time incident frequency rate	3.57	3.46	2.80	2.40	G4 LA6
Lost-time incident severity rate	0.21	0.23	0.19	0.17	G4 LA6
Number of plants with zero recordable incidents	25	20	24	26	
TCIR*	1.74	N/A	N/A	N/A	
Number of official meetings with employee representatives (including the dealership networks and Tigar; excluding recently acquired companies)	3,000	2,860	1,724	1,616	
Number of collective bargaining agreements signed	50	65	61	49	
Number of Progress Ideas*	56,372	50,462			
Diversity*					
Percentage of women in extended management [(1)]	23.5%	22.5%	21.9%	20.9%	
MFPM	*24.3%*	*23.3%*	*22.4%*	*21.9%*	
Percentage of women among top managers [(2)]	15.7%	14.9%	13.7%	12.5%	
MFPM	*14.7%*	*13.8%*	*12.7%*	*12.5%*	
Percentage of women among executives [(3)]	9.1%	8.6%	8.0%	7.4%	
MFPM	*9.2%*	*8.2%*	*7.5%*	*6.6%*	
Percentage of non-French people among top managers* [(2)]	47.5%	47.0%	45.7%	45.3%	
MFPM	*14.3%*	*14.9%*	*14.2%*	*12.9%*	
Percentage of non-French people among executives* [(3)]	35.9%	36.5%	36.6%	36.5%	
MFPM	*12.7%*	*13.6%*	*13.1%*	*13.0%*	
Percentage of local top managers in growth-region countries	65%	62%	N/A	N/A	
Percentage of management positions held by employees promoted or transferred from within	83%	77%	73%	N/A	
Employee engagement rate*	74%	72%	N/A	N/A	

* *Unless otherwise specified, employee-related figures (except headcount) concern the entire Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired during the year.*
** *Employees with a level of individual responsibility of A to K, according to the Hay method used by the Group.*
(1) *Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.*
(2) *Employees with a level of individual responsibility of A to I, according to the Hay method used by the Group.*
(3) *Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.*

6.2 SOCIETAL INFORMATION

A societal commitment founded on respect for ethics and community well-being

Michelin places great importance on its relations with stakeholders, particularly the communities near its facilities. It is also committed to respecting ethical and anti-corruption guidelines. Michelin moreover plays a key role in road safety by conducting a wide variety of initiatives worldwide and maximizes the impact of its societal commitment by actively encouraging suppliers to share its sustainable development standards.

6.2.1 THE TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF JOB-RELATED AND REGIONAL DEVELOPMENT ACTIVITIES

Providing expertise and financial support to local project champions

Michelin seeks to play a role in economic development by supporting, whenever possible, the creation of sustainable jobs. Unique and flexible in its modes of assistance, Michelin Development involves Group specialists on a case-by-case basis. They provide expertise and advanced technical support to local project champions in a wide variety of areas, including industrial organization, workplace safety, energy efficiency, quality control, marketing and sales, finance, hiring, international development, information technology, logistics and exports.

This advice and expertise can be backed by financial support in the form of subsidies and five-year, low-interest, collateral-free loans, designed to create leverage with individual or institutional investors, thereby kick-starting a dynamic process of local job creation.

The start-ups supported in 2014 covered a very diverse array of business segments. In France, for example, projects involved the resumption of luxury shoe production near Cholet ,with the support of a manufacturing firm and a training program for young people, and the expansion of a call center in the Bordeaux region where operator positions are held exclusively by the disabled. All sectors are potentially concerned as long as the project is solid and the sponsor competent and motivated.

In 24 years, Michelin Development has helped to create more than 30,000 jobs in Spain, France, Italy, the United Kingdom, Canada and the United States. Michelin Development has also helped to set up more than 2,000 technical assistance programs intended to support the emergence of local businesses.

Supporting business development in employment catchment areas

In France, Michelin Development has helped to create 21,164 jobs since 1990.

Particularly active at facilities undergoing industrial reorganization, Michelin Development has amply exceeded compliance with French legislation requiring companies to help revitalize local catchment areas. In recent years, agreements have been signed with the French State and local authorities concerning the facilities in Bourges, Montceau, Seclin, Toul and Tours. The agreements covering Monceau and Toul came to an end in 2014. A total of 70 new agreements were signed in France in 2014. In all, 1,077 jobs have been or will be created by these companies through the agreements signed in 2014. Financial aid commitments signed during the year totaled more than €3.5 million.

Applying a similar approach in many countries

Similar organizations have been set up in other European countries since 2002. Michelin Development Ballymena in the United Kingdom celebrated its 10th anniversary. Overall, it has subsidized some 400 jobs and devoted 2,500 hours to consulting and expertise-sharing. In December 2014, the magazine *Ejecutivos* presented Michelin Development Spain with an award for the best Corporate Social Responsibility (CRS) initiatives. A total of 1,629 jobs were subsidized in France, Italy, Spain and the United Kingdom this year.

Since 2006, Michelin Development North America has invested more than $8 million in a wide variety of small local businesses. As part of the Michelin Development Program deployed in Ontario, Nova Scotia, Alabama and South Carolina, the Company provides financial support with the goal of creating sustainable, high-quality jobs, while effectively contributing to the economic prosperity of host communities. It has already granted low-interest loans to 88 companies and helped to create nearly 2,500 subsidized jobs.

6.2.2 RELATIONS WITH STAKEHOLDERS, PARTICULARLY LOCAL COMMUNITIES, SCHOOLS AND ASSOCIATIONS

6.2.2 a) Fostering dialogue with committed stakeholders

In 2014, Michelin established constructive dialogue with a number of its stakeholders, based on several initiatives. A founding document was drafted, which integrates this dialogue into the Group's strategy and sets the guidelines that will ensure it is pursued consistently around the world. An initial meeting was held in Clermont-Ferrand on May 13-14. It was attended by 20 stakeholders from seven European countries, including suppliers, employee representatives, sustainable mobility experts, business organizations, investors, customers and NGOs. The day-and-a-half meeting was hosted by Jean-Dominique Senard and six members of the Group Executive Committee as well as by the Srategic Anticipation and Sustainable Development team. Discussions focused on the following three areas of sustainable development: what it means to be a sustainable mobility leader; how Michelin can contribute to sustainable mobility in large cities; and how sustainable mobility can be achieved with limited natural resources. Stakeholders encouraged Michelin to more clearly express its ambition of becoming a true sustainable mobility player and not merely a tire manufacturer. The discussions produced a wealth of information that was transcribed in a report sent to all in-house departments concerned, as well as to members of the Group Executive Committee to inform them of its recommendations.

At the Michelin Challenge Bibendum last November, 21 new stakeholders – seven of them Asian – from different fields were interviewed one-on-one. The stakeholders included customers, subcontractors, start-ups, consultants, project sponsors, international organizations, academics and a member of the Supervisory Board. They gave their opinion on Michelin’s sustainable development strategy as well as its sustainable mobility projects, the Challenge Bibendum and the five priorities to promote sustainable mobility presented in the Green Paper published for the event. Their comments were gathered into a new report that was also sent to people throughout the enterprise. Once again, the many remarks by stakeholders on a wide range of highly varied subjects – ranging from encouraging the use of renewable materials to developing interconnected service offers – will serve to guide the Company's decisions with the goal of responding more effectively to society's expectations.

In September, at the meeting of the international PRM correspondent network in Clermont-Ferrand, training was given in how to conduct dialogue with stakeholders. In December, Michelin North America also organized a meeting in Greenville with 25 stakeholders from South Carolina. Four sustainable development themes were discussed, including Michelin’s contributions to the region’s school system.

Lastly, a long-term stakeholder governance policy was approved. It calls for dialogue through a range of committees at three levels: corporate, Business Units and Geographic Zones.

Moreover, Michelin places special importance on its relations with organizations from civil society, and NGOs in particular. More than 200 managers, CSR directors and public affairs or sustainable development correspondents in Europe, Asia and the Americas received training in ways of better understanding NGO operations and expectations. Published in 2013, the *Relations with Non-Governmental Organizations* guide has been deployed around the world. NGOs were invited to take part in Group discussions on new projects with significant social and environment impact or to join a working group to study Michelin’s approach to sustainable natural rubber farming.

6.2.2 b) Participating harmoniously in the life of host communities and contributing to their sustainability

A variety of local initiatives exist under a number of different names to “continuously improve the integration of our industrial and commercial sites into the local social and economic fabric” (PRM Charter, 2002). Examples include partnerships, subsidies, involvement in local communities, corporate citizenship, local sponsorship, donations and corporate philanthropy. To enhance consistency and make a larger impact, new commitments to promote host community development were adopted in late 2013 in new guidelines signed by François Corbin, President Geographic Zones and introduced by Jean-Dominique Senard, Chief Executive Officer. This program, deployed for the first year in 2014, is integrated in Michelin’s no. 5 Performance and Responsibility Ambition for 2020: “Living in Harmony with our Host Communities.”

▸ Being open to local stakeholders' fundamental needs

The Group participates in local community activities and provides its expertise and/or financial support when appropriate. Community initiatives are defined and managed at the level of production and non-production sites with a focus on including the viewpoints of employees and outside individuals interested in the Company's business. One best practice suggested was to create a steering committee chaired by the Site Director for each facility. The committee makes the final decision as to host community involvement initiatives and the resources allocated for them. Employees are encouraged to participate by suggesting appropriate initiatives.

Local philanthropy and partnership actions are thus more closely aligned with people’s medium-term needs (two to three years on average). These actions are organized around several priority themes:

- the economy: developing the local economy, by supporting the creation and sustainability of microenterprises and SMEs, the creation of sustainable jobs, etc.;
- social welfare: fostering social development, by supporting skills enhancement or health and well-being programs, educational and training projects, job opportunities for young people or tutoring programs conducted by seniors;
- the environment: enhancing the local environment, by improving the quality of life and/or sustainable mobility of local residents including by promoting road safety, providing financial aid for health care and educational infrastructures, such as schools, and hospitals, and supporting sustainable development and environmental protection projects.

▶ First feedback on new initiatives to support communities

In 2014, Michelin renewed its partnership with the London Benchmarking Group (LBG). Comprised of 300 global companies, the LBG has established a method for measuring the value of corporate investments in local communities. Nearly 100 Michelin plants and offices totaling around 70,000 employees applied this international standard in 2014 and aligned their programs with the guidelines introduced in 2013.

Among the new outreach actions supported by sites, certain initiatives may be set aside for volunteers, based on specific requirements defined by the project champion. The objective set for 2020 in the Michelin Performance and Responsibility Ambitions is to increase to 30,000 the number of employee working days a year devoted to community involvement.

In 2014, Michelin employees reaffirmed their role as ambassadors of the Company and its values. The Group allowed its employees to devote 23,942 days to community outreach activities. Compared with 2013, the amount of time that staff spent sharing their experience and helping host communities rose by 45%. This considerable increase was also due to improvements in data collection methods.

In 2014, a total of €14,816,805 was allocated to local initiatives for the communities neighboring the Group's facilities. Allocations to support host communities now also integrate the monetary value of loans, donations and volunteer work. Annual philanthropic spending programs have also increased in part due to the recent creation of the Michelin Corporate Foundation (see 6.2.2 d).

The initiatives undertaken worldwide to support local communities are many and varied, making it difficult to provide a comprehensive overview. Nonetheless, a few examples are given below.

▶ In North America, special initiatives to support children

Since 2009, the main Michelin facilities in North America have each sponsored a nearby public primary school, as part of the Michelin Challenge Education program. A partnership is established between the site and the school thanks to the support of Michelin employees, who voluntarily give their time (more than 5,000 hours in 2014) to tutor students having difficulty in subjects such as reading, math and science.

Donations are also made to charity organizations, like the United Way, and to local food banks, such as Meals on Wheels of Greenville, South Carolina.

▶ In South America, support for programs that promote diversity

The "Ação Educativa" teaching initiative continued to be deployed in Brazil during the year, to improve the chances of academic achievement among young people living near Michelin plants in Campo Grande and Itatiaia in Rio de Janeiro State. Developed in partnership with National Industry Training Services (SENAI) and supported by Michelin employee volunteers, the program offers remedial courses for teenagers and classes for adults in such widely varying areas as mechanics, logistics, information technology and languages. A recent program called "Praia Para Todos" makes it easier for the mobility challenged to access the beaches of Rio de Janeiro.

▶ In Russia, an environmental stewardship initiative

To help replace the thousands of trees near Davydovo destroyed by forest fires in 2010, some 167 Michelin employees and their families celebrated the Year of Environmental Protection in Russia in 2013 by planting around 1,000 trees on four hectares of land. In 2014, Michelin employees once again took part in a tree planting program in the region, notably in the forest between the village of Davydovo and the town of Kurovskoe.

▶ In Europe, charity organizations, road safety programs and measures to enhance the employability of host community members

Michelin leads a myriad of initiatives in Europe in a highly diverse array of areas, including training for young people to prepare them to enter the workforce more easily and the economic and cultural development of host communities. This involvement in local communities includes a variety of charitable donations, such as grants to Caritas, to local Red Cross organizations to support the homeless, and to medical research associations; blood drives; financial partnerships with institutions for the disabled; funding for medical equipment such as defibrillators and hospital vehicles; donations to sports programs for the disabled; job-search training for the unemployed; donations to non-profit organizations for disadvantaged youth; tire donations to emergency services and charity organizations; donations of computers and projectors; and donations of bicycles and helmets to improve road safety.

The Group pursued major spending programs to support road safety in 2014. These included partnerships with associations such as the Prévention Routière road safety organization for the "Securiz'Mois" operation held in ten French cities and the continuation of the Michelin Junior Bike program, which since 1998 has raised road safety awareness among 200,000 young people in Hungary, Italy, Poland and Romania (for more details see 6.2.3 c).

A multitude of pan-European initiatives are also underway to encourage and support education and to attract young people to technical jobs. Examples include a week-long internship for European secondary school students; career awareness outreach to students ; support for schools by teaching classes, serving on examination boards and assisting struggling students; participation in a Girls' Day campaign to encourage young women to pursue technical careers; partnerships with several European universities and schools to promote science courses; events with leading engineering and business schools to present Michelin's professions; and funding for student scholarships.

Many programs encourage personal growth through sports, including support for sports clubs; assistance in the organization of sporting events; and the renovation of the playing field and playgrounds of a school.

▶ Solidarity, education and health in the Asia-Pacific region

In China, a wide array of charitable initiatives were undertaken in 2014. Some Michelin employees donated their time to clean up beaches while others gave classes in English, history and arts to children whose parents had migrated from disadvantaged regions.

In Japan, employees also strengthened their relations with host communities by organizing classes in schools and clubs, making equipment available and providing maintenance of parks and gardens.

In Thailand, a number of programs are helping to improve the quality of life for people living near facilities, including one that promotes road safety.

In India, an ambitious CSR program is being pursued in the Thervoy Kandigai region, where a new Michelin truck tire plant was inaugurated in 2013. The program focuses on five key priorities: health, education, job training, safety and the environment. The goal is to improve health care and education for local communities, to enhance their residents' medium and long-term employability and to maintain or restore a healthy and sustainable environment. For more details, see the 2013 Registration Document.

To apply recommendations made by the OECD National Contact Point, the Group commissioned an independent organization to carry out a new environmental impact study based on a full annual weather cycle. The study findings will be known in 2015. Michelin also commissioned another independent firm to conduct a human rights impact study. The Group will take into consideration the study's recommendations, in particular by developing strategic regional integration discussions looking forward to 2025 that involve local jobs, economic diversification and the maintenance of traditional activities. These discussions will focus on conditions for developing direct and indirect jobs in the local area over the medium and long-term, involving subcontractors and sales partners in the process and strengthening measures that promote jobs for women. Special attention will be paid to deepening the dialogue with local stakeholders, and in particular with village communities most directly concerned by the new facility, and by consolidating community capacity. Similarly, the respect for employee representation rights and related recourse mechanisms will also be analyzed. Also to be included are discussions on the convergence of initiatives undertaken by the Group with those led by other companies in the industrial park and by government authorities, in particular the State Industries Promotion Corporation of Tamil Nadu in India.

6.2.2 c) Fostering relations with environmental protection associations

Whenever appropriate, Michelin fosters close ties with environmental protection associations and other organizations working to safeguard the environment. These initiatives concern not only production facilities and technology centers but also regional headquarters. Partnerships are created with local, national and international associations. Many examples of those involved in biodiversity programs are mentioned in paragraph 6.3.5.

6.2.2 d) A new chapter in corporate philanthropy

At the initiative of Jean-Dominique Senard, the Michelin Corporate Foundation was created in January 2014 with the goal of helping people move forward. It is committed to taking action in all of the Group's host countries in five major areas: sustainable mobility, sports and health, community outreach and education, environmental stewardship, culture and heritage.

The Foundation supports outstanding, innovative projects that are aligned with Michelin's humanist culture and values of respect. It accompanies projects that are consistent with the Group's activities and close to its employees and units. Its areas of intervention are sufficiently broad to encourage the many employees who are involved in associations, foundations and outreach organizations to solicit support. This provides a new opportunity for the Group's employees to demonstrate their commitment, entrepreneurial spirit and creativity.

The Foundation has two governance bodies. The Board of Directors defines its overall objectives and rules on projects valued at more than €100,000. Chaired by Jean-Dominique Senard, it includes four members of the Michelin Executive Committee as well as three outside experts. They are Henri Loyrette, formerly president and director of the Louvre Museum and the chairman of Admical, a French organization dedicated to developing philanthropy among companies and entrepreneurs; Brice Lalonde, former Minister of the Environment and a special advisor on sustainable development to the UN's Global Compact; and Jean Chazal, dean of the University of Auvergne medical school and a renowned neurosurgeon. Projects valued at between €5,000 and €100,000 are validated by a Selection Committee. It is comprised of ten members who are representatives of the Group's operations or its major corporate functions. Philippe Legrez, the Foundation's General Delegate, decides directly about projects valued at less than €5,000. He manages the Group's philanthropic programs with the support of Anne Teffo, Assistant General Delegate, and a small team.

The combined value of the 61 projects financed by the Michelin Corporate Foundation in 2014 came to €10,425,029.

Among the year's more high-profile projects were:

- six TED Talks on sustainable mobility that were presented during the opening ceremony of the Michelin Challenge Bibendum on November 12 in Chengdu, China;
- safer roads to school with the NGO Children of the Mekong. Once validated by Cambodian authorities, this program for underprivileged children will be deployed in the Philippines and Myanmar;
- the House of Life. The first of its kind in France, this innovative organization is dedicated to helping post-treatment cancer patients prepare for their return to activity in the best possible conditions;
- *Association Sportive Montferrandaise* (ASM). The Foundation is continuing the long-term partnership with ASM, which was founded in 1911 by Marcel Michelin.

6.2.3 FAIR, HONEST BUSINESS PRACTICES

6.2.3 a) Establishing a global system to promote ethical behavior

The Michelin Code of Ethics is available in 13 languages and serves as a reference document for the entire organization. It has also inspired the publication of more practical guidelines that have been adapted to meet the needs of certain zones and countries. In addition, training is provided to ensure that employees comply with the guidelines.

The Michelin Code of Ethics was published in 2010 to expand on the Performance and Responsibility Charter and the Group's compliance guidelines and policies. Reflecting a deep commitment to the values of respect and responsibility, it defines standards of behavior to help employees make the right decisions when confronted with an ethical issue. It covers 17 different areas: Support for the international principles in the UN Global Compact and respect for Human Rights: compliance with laws and regulations; conflicts of interest; gifts and invitations; government relations and anti-corruption; donations and political contributions; confidentiality; competition and fair dealing; insider trading; protection of the group's assets; fraud; relations with suppliers; trade and export issues; fairness in financial reporting; health and safety; discrimination and harassment, and protection of employees' privacy.

Available in 13 languages, the Code of Ethics can be downloaded from the Group intranet by personnel. A print version is also available for team managers.

The Code of Ethics was deployed by Geographic Zone, by country and then by site, with managers involved at all levels. Communication and training programs were carried out in the countries so that all Group employees, regardless of their hierarchical status, would be able to understand and comply with the Code's rules and regulations.

In this way, the Group ensures that its activities are systematically guided by the values defined in its Code of Ethics, in line with its commitment to supporting the Global Compact.

▸ The Group and regional Ethics and Compliance Committees

A governance team manages and controls the deployment and the respect for ethical guidelines within the Group.

In 2011, the anti-Fraud committees were replaced by ethics and compliance committees that were set up at Group level as well as at the level of each of the eight Geographic Zones. Ethics and compliance committees have even been created at the country level.

Their role is to monitor the Code's deployment worldwide and ensure its application and to determine what action needs to be taken in the area of ethics and compliance. The committees include representatives from departments in charge of Audit, Finance, Legal Affairs, Personnel, Security and Sustainable Development, as well as the Geographic Zone managers.

▸ Training programs

Information and training sessions are organized onsite and/or online, depending on the country's needs, to explain the Code of Ethics' principles to employees. They are carried out at regular intervals to train employees and raise their awareness of the Group's ethics and compliance approach as well as of key points and important ethical issues identified by the Group. The sessions may cover all or part of the Code of Ethics. There may be, for example, special training on corruption.

A shared database facilitates the exchange of ethics and compliance documents between the Group and the Geographic Zones, by bringing together all of the identified best practices, relevant articles and documents, and decisions made by the Group.

▸ Alert procedures

Anonymous, protected alert procedures enable employees to signal possible infractions of the Code of Ethics as well as failures to apply the Michelin Performance and Responsibility Charter. All ethical failures may be signaled by an ethics hotline deployed in all Geographic Zones, or by occupational physicians, local legal affairs teams, career managers or direct managers.

▸ Ethics controls

Michelin ensures compliance with the rules of conduct in its Code of Ethics by regularly submitting them to internal control procedures:

- In 2012, the Group prepared a specific ethics internal control manual to ensure that the Code's guidelines were being correctly applied. In 2013, a pilot project was launched in 11 countries and 19 companies to make sure that the manual was effectively verifying practical compliance with the Group's ethical values. In 2014, this pilot project was extended to all manufacturing companies as well as to the Group's largest sales and marketing companies.
- What's more, internal ethics and compliance audits are organized on a regular basis. The results of these audits are then presented to the Group Ethics and Compliance Committee, which takes necessary action and deploys measures to improve, if needed, current practices within the Group.
- A map of ethics risks was drawn up to analyze and confirm the level of maximum impact for each "ethics and compliance" risk. The map makes it possible to build awareness in each Geographic Zone of the critical nature of each ethics risk and to harmonize attitudes across the Group. Geographic Zones that feel they do not fully control one of the risks must adopt improvement plans. These plans include corrective actions, if necessary, so that the Group can focus on the risks that have been identified as the most important.
- The Group has also deployed integrated reporting systems covering ethics and compliance initiatives in the Geographic Zones as well as compliance failures signaled over a year, including the number of identified failures, the concerned categories, and action plans and/or disciplinary measures. These tables provide an overall vision of the actions taken and the training given in the Zones as well as the number of reported shortcomings.

When failures to comply with rules of ethics are noted, they are analyzed according to a process defined by the Security Department that applies to the entire Group. Based on elements contained in the reports concerning the failures, the Department then decides on the best way to conduct in-house investigations, which may then give rise to action plans, corrective measures and/or disciplinary sanctions depending on the seriousness of the shortcoming.

In 2014, the Group recorded just over 400 shortcomings, of which 60% were reported via the ethics hotline. These failures concerned the protection of Group assets (34%), fraud (20%), confidentiality (5%) and compliance with laws and regulations (3%). The remainder concerned issues involving people or other categories in the Code of Ethics. Following investigations carried out in 2014 and in previous years, the Group applied disciplinary sanctions (warnings, unpaid leave for determined periods, and dismissals) and also launched external initiatives for certain failures (application of the law, judicial action for fraud and, in some cases, civil actions to attempt to recover Michelin's assets).

6.2.3 b) Taking an active approach to corruption prevention

An anti-corruption process covers initiatives to ensure prevention, training, internal control and discipline.

In 2002 in the Michelin Performance and Responsibility Charter, the Group put forward the following principles: "Wherever we operate, throughout the world, we are firmly against any and all forms of corruption, irrespective of the organizations and bodies concerned, whether public or private. We refuse any and all remuneration to third parties if such remuneration does not correspond to an actual service, for a justified amount, duly posted in our accounts."

Then, in 2010, Michelin formalized in its Code of Ethics the fundamental rules and guidelines that must govern each employee's decisions with regard to preventing corruption.

To strengthen the system, Michelin plans to adopt a code of anti-corruption best practices in 2015. The goal is to more effectively educate managers and other Michelin personnel about actions that may indicate corrupt behavior by providing examples on ways of preventing corruption.

▸ Paying particular attention to purchasing practices

The Purchasing Department is regularly audited as part of the internal control process (for more details about the department, see section 6.2.4 b below). It has also taken specific measures to further prevent corruption.

- Ethics and anti-corruption guidelines are posted on the Purchasing Department website and sent to all of the Department's employees and contacts.
- Suppliers can use the contact form available on the Purchasing Department's website to request mediation, after having failed to resolve an issue with their usual contacts, or to request information on the Michelin Purchasing Code's principles or implementation.
- A system has been deployed to report and centralize violations of anti-corruption guidelines, so as to identify suppliers with whom Michelin should terminate the business relationship.
- A process is in place to assess supplier performance, based on social responsibility audits performed by EcoVadis, an independent company. The findings are then consolidated in an application that combines such criteria as the environment, fair business practices, job principles and practices and supplier management. Following the audit, certain suppliers may be asked to deploy a Michelin-approved improvement plan.
- A dedicated database enables Michelin to collect, store and track all of this supplier information.

6.2.3 c) Stepping up initiatives to protect consumer health and safety

▸ The Michelin Quality Process

Expressed in the Michelin Performance and Responsibility Charter, this quality commitment is demonstrated in every aspect of our business through a customer-centric organization and a quality management system designed to drive continuous improvement in product and service quality and the way we do things.

The Michelin Quality Process sets out a number of practices that are crucial for satisfying customers, gaining their trust, and improving the company's performance, image and development. These practices are integrated into employee training so that they are understood and diligently applied by everyone in his or her area of responsibility.

Each product or service is defined in specifications that include information concerning all of the countries where marketed, all of the conditions of use, all of the applicable standards and regulations, and all of the customer requirements.

All managers are expected to promote and implement the Michelin Quality Process. They are responsible for their unit's quality performance and have to guarantee that customers receive high-quality products and services that are safe, suitable for the intended use and compliant with applicable regulations.

▸ An active role in protecting consumers and the environment

Using nanomaterials. In July 2014, the Organisation for Economic Co-operation and Development (OECD) published a report on the use of nanomaterials in production and transport activities entitled *Nanotechnology and Tyres: Greening Industry and Transport*. At the OECD's request, Michelin played an active role in the working group that published the report, which is a first for the tire industry in that it analyzes the use of nanotechnologies in tire manufacturing. The analysis covers the economic aspects, the social and environmental costs and benefits, safety issues at every stage of the tire life cycle, decision-making throughout the development process and tire industry innovation drivers related to these technologies.

In the study, the OECD also analyzed different methods of managing risks related to the use of nanomaterials, thereby authorizing their use by site or by manufacturer while defining the guide of best practices to be applied. The report summarizes the findings of a two-year project, suggested and supported from the outset by the OECD's Business and Industry Advisory Committee, of which Michelin is an active member. The report is available to the public.

Performance thresholds. In 2009, European legislative authorities decided to introduce minimum tire-performance thresholds. From the beginning of the project, Michelin was highly favorable to this type of regulation and offered discussions tools (test values) that enabled legislators to establish these performance thresholds. The thresholds concern, in particular, the environmental impact of tires (rolling resistance and noise) as well as improved road safety (wet braking).

Introduced in 2012 for new products, the legislation is gradually being applied to products already on the market. Compliance of new car, van and truck tires with these thresholds is verified by government technical services when the product is certified. All tire ranges currently sold by the Michelin Group comply with the new regulations.

The European initiative has been extended, through UNECE Regulation No. 117, to countries that have signed the UN's 1958 contracts and agreements. In addition, many other countries have begun to set up similar measures to protect the environment and ensure the safety of their citizens. In each of these countries, Michelin has been favorable to the application of these thresholds and if requested will help to define limits.

▸ A commitment to road safety

Michelin supports road safety by combining a methodological approach with a differentiated array of initiatives in the field. Michelin has led discussions on road safety issues with groups of international experts since 2010, helping to advance thinking in this area. As a result of these discussions, the Road Safety Task Force has published two white papers, the *White Paper for Safe Roads in 2050* and the *White Paper for Road Safety Investment*, released in July 2010 and July 2011 respectively. Widely distributed by international institutions and country organizations, the *White Paper for Safe Roads in 2050* inspired the World Health Organization (WHO) action plan for 2011-2020. In 2013 and 2014, Michelin brought together 15 public and private-sector experts from around the world to discuss road safety and connected mobility. A report was published for the Michelin Challenge Bibendum in Chengdu to provide a look at the current situation and to identify projects to be deployed to make safety a priority as connected mobility evolves.

This commitment would not be possible without the many partnerships forged with various road safety organizations. An official partner of the United Nations' Decade of Action for Road Safety 2011-2020, Michelin is also one of the few private companies that belong to the United Nations Road Safety Collaboration, which is led by the WHO. Michelin is also a member of the Global Road Safety Partnership, under the sponsorship of the International Committee of the Red Cross. The Group is also a founding member and supports the activities of the non-governmental organization Youth for Road Safety (YOURS), created with the help of the WHO in 2009. Based on a network of nearly 400 young people from 100 countries, YOURS organizes local road safety initiatives with the help of public and private partners. Lastly, as an official partner to the International Automobile Federation's "FIA Action for Road Safety" program, Michelin created the international "Golden Rules" campaign and regularly joins with the FIA on road safety projects.

These close relations with key road safety players allow Michelin to establish a global network of correspondents to support projects and initiatives deployed at the local level.

In this way, the Group continues its direct involvement in the field with road users, especially with young people.

Two particularly ambitious programs were introduced in 2014. The Michelin Best Driver project in Brazil raised awareness among 26,000 students from 15 universities. The project involved installing telematics in the cars of nearly 1,000 students to monitor their day-to-day driving habits and organizing a contest to select the best young Brazilian driver. Widely diffused on social networks, this safe driving message reached more than seven million young people. In the United States, Michelin teams introduced a multiyear program to raise awareness among young drivers of the important role tires play in enhancing road safety. In partnership with FIA, Michelin engaged Brent Rivera, Alexis Zall and other appropriate spokespersons as part of an original, efficient communication campaign. The program reached some eight million people.

In 2014, Michelin continued to deploy local initiatives through targeted actions. In Turkey, for example, the Group signed a protocol agreement with public authorities to provide training for school bus drivers. Educators have already been trained, and the goal now is to deploy the course for 6,000 bus drivers by 2015.

6.2.4 SUBCONTRACTOR AND SUPPLIER RELATIONSHIPS

6.2.4 a) Enhancing the sustainability of logistics operations

Reducing greenhouse gas emissions from logistics operations is a major priority for Michelin, which has identified a large range of action levers and is gradually activating them both inside and outside the organization. The initial results have been very encouraging. This approach is based on a search for new synergies between loading and transport companies, with the goal of reducing emissions and achieving greater efficiency. In addition to technical advancement, the goal is to create the conditions for a full-fledged cultural change in which everyone is empowered. In this type of scenario, technical progress and responsible logistics work hand in hand. All logistics players in each Geographic Zone share the related improvements and complementary resources.

▸ Deploying action levers that have proven their worth

Optimizing transportation distances. Prioritize direct deliveries from the plant to the customer, an initiative that goes beyond logistics and strengthens the Group's sales approach.

Increasing the load factor. Reduce empty miles. Monitor load factors and set a target for improvement. Use compression tools, such as the Variable Control Maximizer (VCM) tool used in North America and currently being deployed in Thailand and Brazil, which increases the load factor by 15%, or the Atlas system adopted in Europe, which delivers an improvement of around 5%. Maximize vehicle load capacity, within the limits allowed by local legislation.

Favoring multimodal solutions (rail, sea, inland waterway) over air transportation. For regular deliveries, check with carriers about the technical and financial feasibility of a multimodal solution, such as road/rail, road/waterway or road/sea. Multimodal solutions significantly reduce greenhouse gas emissions and other negative impacts of transportation, including noise and air pollution, road accidents and traffic jams, and the deterioration of public infrastructure, such as roads and car parks. Reduce air freight by only shipping by air the volumes strictly necessary while waiting for the arrival of maritime shipping containers, because air freight causes 47 times more pollution than sea freight.

Developing partnerships with trucking companies concerned about their energy efficiency. Optimize the equipment used by ensuring that: the vehicle is recent and regularly maintained; the engine is suited to the distance and the average load carried; the vehicle has a speed-limiting device, accessories that reduce aerodynamic resistance, and tires with low rolling resistance; and the tires are retreaded and regrooved to extend tire life and reduce fuel consumption.

Encourage eco-driving. When correctly monitored, driver training and management can improve fuel efficiency by up to 10%. For trucking companies, this represents a potential increase in operating margin of 2% to 5%, depending on the country. Eco-driving also reduces the number of road accidents, by encouraging drivers to think ahead.

Energy efficiency has been chosen as the decisive environmental criterion for logistics purchases worldwide in 2014-2015. The indicator used will be fuel consumption by vehicle category, based on clearly defined targets. New environmental objectives were be set with suppliers in 2014. Beginning in 2015, measures will be taken in relation to fuel type, as alternatives to diesel vehicles – such as natural gas, biogas, electric and hybrid vehicles – will have been further developed in the interim.

▸ Creating the conditions to become a benchmark in responsible logistics around the world

Standardize and improve carbon-emission measurement systems at Group level. The method for calculating Michelin's carbon emissions was inspired by the guide prepared by France's Agency for the Environment and Energy Management (ADEME). Wherever possible, emissions are calculated using well-to-wheel coefficients that take into account emissions from extraction, processing, transportation to the place of use, and combustion.

Action plans being deployed in each Zone:

In Europe

- Creation of a full-time position to monitor carbon emissions generated by logistics transport and look for possible optimization solutions.
- Following a partnership agreement signed in 2013 with Carbologic©, 25 transporters provided detailed CO_2 data in 2014. In 2015, deployment will be continued and deepened, which will make it possible to render reported data more reliable and above all to challenge transporters on their environmental efficiency.
- Monitoring and improvement of load factors. The frequency and route of certain runs is being reviewed. A detailed study of delivery loops in Europe combining finished and semi-finished products was conducted in 2014 with a number of strategic transport companies. Loops identified in 2014 will be gradually implemented in 2015. Load factors are monitored on a weekly basis by export managers. A number of initiatives have been launched at several levels. One involved increasing the number of 40-foot containers (instead of 20-footers) used to transport semi-finished products, in particular to Canada, which reduced carbon emissions by nearly 200 tonnes in 2014.
- Developing multimodal solutions. In 2014, tonnage carried by train, barge and boat increased by 28% compared with the previous year. For the past year, multimodal transportation means are systematically sought out, which has led to the development of various solutions. These include containers carried by barge between plants in Germany and the port of Antwerp or between certain plants in France and the port of Marseille at Fos-sur-Mer. In recognition of its waterway logistics chain in France, Michelin was awarded the Medlink label by the port of Marseille in 2014. When time allows, trucks are loaded on boats for transport between Nantes, France and Irun, Spain. This increase in multimodal transport reduced carbon emissions by 8,700 tonnes in 2014.
- Using liquefied natural gas (LNG). Largely unused in France, LNG is developing as a solution. In October 2014, Michelin took part in the inauguration of an LNG station in southern France that will make it possible for truckers driving with LNG to carry products between France and Spain beginning in 2015. Michelin also participates in round tables with various trucking companies to identify possible strategic locations for other LNG stations.

In North America and Central America

- Increase in the number of SmartWay suppliers. Trucking companies participating in the SmartWay program, led by the US Environmental Protection Agency, have fitted their vehicles with accessories and devices that reduce their environmental impact. Michelin has set a target of gradually increasing the percentage of flows with these truckers to 95%. In 2012, SmartWay participants represented 66% of carriers, 92% of shipments and 74% of total weight carried. In 2013, the use of SmartWay suppliers increased to represent 72% of carriers, 93% of shipments and 83% of total weight carried. In 2014, SmartWay participants represented 76% of carriers, 94.5% of shipments and 93% of total weight carried.
- Maintaining multimodal transport solution. In 2014, multimodal transportation represented 14% of the total distance traveled.
- Increasing load factors. The deployment of the VCM tool is continuing in the United States and Canada, with more types of tires that can be compressed.

In South America

- The VCM compression tool is being deployed for maritime shipments leaving from Brazil.
- Developing multimodal solutions. Tests are underway for delivering to the Manaus region in the north of the country by short sea shipping, then by truck. The project would reduce CO_2 emissions by 2,700 tonnes a year.

In Southeast Asia

- Use of natural gas vehicles (NGVs). In Thailand, government subsidies mean that NGVs offer both environmental and financial benefits. They are primarily used for short distance deliveries around Bangkok and NongRee, and for the long-distance transportation of containers from plants to logistics platforms.
- Optimizing load factors. The method used for loading products for export was changed and improvements were made in the loading of products both for export and for transportation from plant to logistics platform.
- The VCM compression tool was deployed in late 2014 for maritime shipments leaving from Thailand, with one to two containers a week. The goal is to increase the number of containers to around 20 a week in 2015.

In China

- Ongoing actions to optimize load factors by using vehicles that enable a 10% increase in volume carried at no additional cost.
- Use of multimodal transport, mainly waterways and maritime. As a result, the percentage of original equipment customers delivered by barge rose to 70%, from 59% in 2013. Barge deliveries from the Shenyang plant in the north of the country to customers in the south also began. Overall, train and barge transport in China increased from 10.8% of total weight carried in 2013 to 15.7% in 2014.This led to a reduction in CO2 emissions of approximately 3,000 tonnes in 2014.
- Intercontinental logistics: maritime shipping and air freight. Launch of a sustainable development process with the Group’s 10 biggest maritime shipping companies, which account for more than 70% of flows. In calls for bids in 2014 (for the years 2014 and 2015), CO2 emissions were one of the criteria when choosing maritime shipping companies. In addition, a carbon scorecard is currently being tested with leading transporters in order to have more detailed, more frequent information on maritime shipping carbon emissions.
- Air freight accounts for only a small portion of volumes transported by Michelin but is potentially a major source of CO_2 emissions. The Group’s objective is to limit as much as possible the use of air freight and thus to anticipate as closely as possible the needs of the different Geographic Zones in order to avoid emergency situations. Projects undertaken with production teams have made it possible to more efficiently manage urgent semi-finished product supply needs. In 2014, the highly selective use of air transport resulted in a 1,070-tonne reduction in carbon emissions compared with the previous year.

6.2.4 b) Pursuing sustainable purchasing governance

Michelin is deploying its sustainable development approach outside the Company, particularly in its relations with suppliers. This initiative is justified by the considerable value of these purchases, which represent nearly 64% of net sales.

In 2012, the Purchasing Department issued the Michelin Purchasing Principles, a set of global guidelines based on the Group’s core values and international commitments such as the fundamental conventions of the International Labour Organization, the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. The Principles provide a foundation for establishing the crucial relationships of trust that must exist between Michelin, its purchasing teams and its suppliers worldwide. As an integral component of the contract binding the Group and its suppliers, the Principles clearly state the ethics guidelines for purchasing teams and the rules of professional conduct in supplier relations; the supplier approval process; the Group’s quality standards; and the environmental, social and ethical performance expected of Michelin suppliers.

A sustainable purchasing module has been integrated into the training and development program dedicated to the purchasing functions. The module makes it possible for purchasing teams to measure the social responsibility and sustainable development challenges related to their activities. The module is now mandatory for all buyers, technical specifiers and key internal customers. A total of 241 employees have completed the module since 2011.

Prior to the signature or renewal of any contract for an annual amount exceeding €250,000, the Group’s buyers must assess the potential risk factors related to the supplier’s social responsibility standards. This analysis takes into account the following factors: the impact of the product or service on the end-customer; revenue; business criticality; supplier dependence; the supplier relationship; the nature of operations; geographic location; and size.

Among the Michelin Performance and Responsibility Ambitions for 2020, the Purchasing Department has set a goal of evaluating the Group's 400 main suppliers with regard to Michelin’s sustainable development requirements. The purpose is to encourage and support them so that 70% can be confirmed as compliant with Group standards.

With the support of the Purchasing Department and a global network, the Purchasing Quality Director leads the process and ensures that initiatives in the Group's responsible purchasing process are properly deployed.

6.2.4 c) Taking social and environmental issues into account in the purchasing policy

▸ Helping suppliers achieve Michelin standards

Based on analyses of abovementioned risks, 355 documents evaluating suppliers' social and environmental performance have been carried out since 2012, of which 199 in 2014 alone. Conducted for Michelin by EcoVadis, these evaluations led to 37 action plans. To ensure that they have achieved their aim, all action plans are systematically validated by a reevaluation. This policy is designed to help key suppliers become confirmed as compliant with our standards, in line with the commitments made as part of our PRM Ambitions for 2020. At year-end 2014, 51% of evaluated suppliers had already moved into compliance with Group standards.

Suppliers who do not meet the mark are required to implement an action plan that is monitored by Michelin's purchasing teams. Very poor results or failure to meet a commitment with regard to sustainable development issues may lead the Purchasing Department to remove a supplier from its portfolio. The decision is always made by consensus, after discussing all of the potential consequences, such as those relating to jobs and supply chain management.

Supporting the risk management process, 76% of raw-material supplier facilities, representing more than 45% of purchasing volume, have been certified to ISO 14001 standards, or 5% more than in 2012.

▸ Paying special attention to natural rubber suppliers

The natural rubber production industry features a large number of suppliers, most of whom are small or mid-sized. Since 2013, EcoVadis has carried out evaluations of the sector's social and environmental performance. In addition to conducting evaluations and helping suppliers to implement their action plans, Michelin makes its technical know-how available to rubber tree farmers with the goal of improving their sustainable development performance.

- **Cost-savings.** The implementation of appropriate agronomic practices and the use of the best varieties of rubber trees can generate a twofold increase in per-hectare natural rubber production. The result is that rubber-tree farmers can see their income double for the same level of effort.
- **Social.** Improved output per unit of land reduces competition between subsistence and large-scale commercial farming.
- **Environment.** The technical advice provided by Michelin has a positive impact on farm output without increasing the use of fertilizer or pest control products. Moreover, improved output on the same amount of land means less pressure on tropical forests, which are major sources of biodiversity.

Technical assistance, farming advice and technology transfers by Michelin agronomic experts are part of the Group's sustainable development approach. In 2014, a total of 125 days of technical assistance were provided.

In addition, the Group actively partners with CIRAD, a French research center that works with developing countries to address international agricultural and development issues, the International Rubber Research and Development Board, the French Rubber Institute and other research organizations. The goal is to increase rubber tree output, minimize the use of chemical products and, more generally, increase the world's understanding of rubber farming and the production of natural rubber.

▸ Recognition for Michelin

A signatory of France's Responsible Supplier Relationships Charter, Michelin was awarded the label of the same name in June 2014. Presented by the government's supply dispute mediators, *Médiation Inter-Entreprises* and *Médiation des Marchés Publics*, and the French purchasing association, *Compagnie des Dirigeants et Acheteurs de France*, the label recognizes French companies that have developed balanced, sustainable relations with their suppliers. The label is awarded for a period of three years, following an audit of purchasing practices by an outside organization.

6.2.4 d) Communicating results and listening to suppliers

In accordance with the Michelin Purchasing Principles, the results of the supplier CSR audits and other outcomes of the sustainable procurement policy are posted on the Purchasing website each year.

Since 2012, suppliers can also use the Purchasing website to contact the customer and supplier relations mediator in regard to any alleged or observed violation of the Michelin Purchasing Principles. Contacted nine times in 2014, the mediator intervenes only when suppliers have failed to resolve an issue with their usual contacts. Six of the issues reported were resolved immediately.

These resolutions correspond to another Group commitment, which is to pay its suppliers in line with the legal deadlines in each of its host countries. In 2014, the Group paid 78.1% of its invoices on time.

6.3 ENVIRONMENTAL INFORMATION

To reduce the environmental impact of its products, Michelin continuously improves the rolling resistance of its tires through new technological advances. To limit the impact of its manufacturing operations, the Group uses an ISO 14001-certified environmental management system and deploys ambitious measures at its plants to prevent pollution and to reduce greenhouse gas and VOC emissions, water and energy use, the amount of waste produced and the percentage of non-recovered waste. Michelin is also committed to combating climate change and protecting biodiversity near its facilities.

6.3.1 A FIRM COMMITMENT TO ENVIRONMENTAL STEWARDSHIP

Most of a tire's environmental impact occurs during use and is directly related to rolling resistance. That's why reducing rolling resistance is a key objective for Michelin researchers. Continuous progress in recent years has resulted in significant gains. At the same time, Michelin is deploying an environmental strategy at its manufacturing facilities that is based on an environmental management system, Group standards and a global indicator. Initiatives are regularly conducted to raise awareness of environmental issues among employees and significant resources are allocated to preventing environmental risks.

Respect for the environment is one of Michelin's five core values. The Group's environmental strategy is shaped by the results of impact studies conducted by independent organizations. Life cycle assessments for passenger car tires and for truck tires (incorporating health-related indicators) were updated in 2009 and 2010 respectively.

Life cycle assessments show that most of a tire's environmental impact occurs during use, with the materials, manufacturing, logistics and end-of-life recovery phases having a much weaker impact, or even a positive impact in the case of resource recovery.

Areas for improvement have been defined worldwide in both products and manufacturing operations. To enhance their visibility, these areas were reaffirmed in 2013 as the environmental pillar of Ambitions 2020, as expressed in two ambitious objectives.

This section presents the outcomes of the environmental strategy deployed in Compagnie Générale des Établissements Michelin (hereinafter "the Group") in compliance with French Decree 2012-557 of April 24, 2012 specifying the disclosure obligations concerning a company's social and environmental information. The scope of reporting also includes Manufacture Française des Pneumatiques Michelin (hereinafter "MFPM"). The Group's distribution networks, which do not have any manufacturing operations and which have an estimated impact of less than 2% with regard to the leading environmental indicators (water use, energy use, CO_2 and VOC emissions and waste), are not covered in the section below.

Life cycle assessments conducted in Europe have shown that, based on a standard 40,000 kilometres travelled, more than 92% of a car tire's health and environmental impact occurs during use, primarily as a result of its rolling resistance. This proportion rises to more than 95% for a truck tire, based on a standard tread-life of 600,000 kilometres. In normal conditions of use, tires account for a significant proportion of a vehicle's fuel consumption. The proportion is currently estimated at 20% for passenger cars and more than 30% for trucks. Michelin's primary objective is to increase the energy efficiency of tires while simultaneously improving the product's other performance factors, especially safety, rolling noise and durability. Reducing a tire's rolling resistance also improves a vehicle's fuel efficiency, which in turn reduces both harmful exhaust emissions, such as NO_x and VOCs, and CO_2 emissions during use. In addition, extending tread-life enables more intensive use of process raw materials and amortizes the energy used during the manufacturing process over a larger number of kilometres travelled.

Invented in 1992 and now on their fifth generation, Michelin's highly energy-efficient Energy™ Saver car tires are delivering further progress in fuel efficiency. They have steadily improved fuel consumption since the MICHELIN Energy™ line was first introduced, now delivering an improvement of up to 0.2 litres/100 km in an average, equivalent-size European car, for an average 4 g/km reduction in CO_2 emissions. This performance has been widely recognized by the market, as attested by the hundreds of certifications of MICHELIN Energy™ tires as original equipment.

In truck tires, the technological innovations collectively known as Michelin Durable Technologies offer a wide range of benefits, including a sustained improvement in fuel efficiency and therefore CO_2 emissions. These technologies also increase a truck tire's load capacity and total life-span, which has almost doubled since 1980. The one millionth Michelin X One tire was sold in the United States in 2010. Since 2000, fleets equipped with X One tires have reported up to a 10% improvement in fuel efficiency. For 1,000 heavy trucks, this represents a potential saving of 17,000 tonnes of CO_2, or the equivalent to the average emissions generated by 3,400 American cars in a year. The MICHELIN X® LINE™ Energy™ range is fully resonant with the expectations of long-haul truckers as it allows them to reduce their fuel bill while delivering superior tread life. To design the new offer, the Truck Product Line leveraged the expertise acquired directly from trucking companies.

Michelin researchers are still deeply committed to reducing tire rolling resistance, while maintaining or enhancing other performance factors, such as safety, grip and noise.

Lastly, Michelin is very actively involved in deploying and operating effective end-of-life tire recovery and reuse solutions. These are primarily based on recovering resources for reuse in such areas as synthetic surfaces, draining sub-layers, moulded objects and backfill, and on using scrap tires as fuel in cement plants or steel mills.

Providing a solid foundation *via* the Environmental Management System, Group Environmental Standards and a network of experts

Michelin's strategy for managing the environmental footprint of its manufacturing facilities is underpinned by (i) the Environmental Management System (EMS), which is designed to enable each plant to manage both its day-to-day and long-term environmental impact, and (ii) the Group Environmental Standards, which define the equipment and performance levels expected of a Michelin facility.

Based on ISO 14001, the EMS comprises a process to verify compliance with legislation and Michelin standards, as well as an obligation to define and meet, every year, improvement targets aligned with local challenges and Group strategy. It also specifies procedures to prevent accidental pollution. Group guidelines dictate that every new facility must achieve ISO 14001 certification within five years of start-up. In 2014, 96% of the production facilities and Technology Centres had been certified to ISO 14001 standards, including the new plants in Shenyang, China and Resende, Brazil. New facilities are scheduled for certification between 2015 and 2016. By the end of 2014, 99.5% of all Michelin-produced tires were made in ISO 14001-certified plants. Standardized deployment of the EMS has led to geography-wide certification in Europe and North America.

In place since 2004, the Group Environmental Standards cover ordinary operations as well as abnormal incidents and accidents. Their guidelines govern the use of equipment to prevent pollution, including accidental spills, leaks and air emissions, and to reduce water and energy use. They apply to all new and upgraded installations, thereby helping to drive further progress towards the goal of environmental excellence on every site. Existing installations are regularly evaluated for shortfalls against the Standards, and action plans are prepared to bring them into compliance.

To keep the risk analysis process robust and ensure that the resulting solutions are effective, a network has been tasked with addressing a full range of environmental, industrial hygiene, workplace safety and industrial risk prevention issues. Its manager has his or her own budget and reports directly to the member of the expanded Group Executive Committee in charge of industrial performance. For the environmental aspects, the network comprises some one hundred specialists based in the different country organizations and product lines, as well as at each site.

Reducing the environmental impact of manufacturing facilities by managing a performance indicator that includes the six most relevant environmental components

Life-cycle analyses have shown that production processes account for only 6% to 10% of a tire's environmental impact, compared to around 92% from when it is in use.

To make mobility more sustainable and widely accessible, innovations in new products and services are designed to shrink this in-use footprint. On the manufacturing side, a similar commitment is helping to reduce the impact of production operations.

This is why, since 2005, Michelin has measured these operations' energy use, water withdrawals, CO_2 emissions, VOC emissions, amount of waste produced and amount of waste landfilled.

As a manufacturer, Michelin is focusing on achieving environmental efficiency as measured by the Michelin Environmental Footprint (MEF) indicator.

COMPONENTS AND WEIGHTING OF THE MICHELIN ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR

MEF site

Component		Weighting
Resource consumption	Energy	15
	Water	15
Air emissions	VOCs*	25
	CO_2	15
Waste	Total weight generated	15
	Total weight landfilled	15

* VOC: Volatil Organic Compounds.

FORMULA FOR CALCULATING THE MEF:

$$\text{MEF} = \frac{\text{Reporting year energy use (GJ/t)} \times 15}{\text{Group energy use 2005 (GJ/t)}} + \frac{\text{Reporting year water use } (m^3/t) \times 15}{\text{Group water use 2005 } (m^3/t)} + \frac{\text{Reporting year VOC emissions (kg/t)} \times 25}{\text{Group VOC emissions 2005 (kg/t)}} + \frac{\text{Reporting year } CO_2 \text{ emissions (t/t)} \times 15}{\text{Group } CO_2 \text{ emissions 2005 (t/t)}} + \frac{\text{Reporting year waste generated (kg/t)} \times 15}{\text{Group waste generated 2005 (kg/t)}} + \frac{\text{Reporting year waste landfilled (kg/t)} \times 15}{\text{Group waste landfilled 2005 (kg/t)}}$$

A networked application enables the standardized collection of data from each site. The collected data are defined and standardized for use as benchmarks during internal audits and independent reviews.

Between 2005 and 2014, the steady gains in environmental efficiency have driven a 35% improvement in the indicator and every year avoided the equivalent environmental impact of the five largest plants.

The 2020 objective is to maintain the Group's growth momentum without increasing the overall environmental impact in absolute value compared with 2010. This objective is consistent with the Michelin Performance and Responsibility approach – performance with an improvement in environmental efficiency, and responsibility with a stable or reduced overall impact.

In 2013, following the 10th anniversary of the Michelin Performance and Responsibility approach, the objectives for 2020 were defined for the environmental. The Group's ambition is to be a responsible manufacturer: a target of a 40% reduction in the MEF was set for 2020, compared with 2010.

To successfully meet the 2020 targets, in 2014, each production facility prepared an environmental action plan aligned with its local circumstances. The consolidated summary of these plans will be used to adjust the target and the related resources, while maintaining the ultimate goal of increasing production without increasing the overall impact.

The following tables show the 2014 performance of the MEF and its six components.

PERFORMANCE OF THE MICHELIN ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR – GROUP, 2005 TO 2014

	2020 objective compared with 2010	2010	2013	2014	% change 2014-2010	% change 2014-2013	Percent of 2020 objective met
MEF*	-40%	70.0	66.5	65.1	-7.0%	-2.1%	17%
Energy consumption GJ/t Tires Produced (TP)	-25%	14.4	13.8	13.3	-7.3%	-3.0%	30%

**Base value of 100 in 2005*

Performance by MEF component – Group	Unit	2010	2013	2014	2014 target	2015 target
Energy consumption	GJ/t TP	14.4	13.8	13.3	13.5	13
Water consumption	m^3 TP	11.8	11.7	11.2	11	11
VOC emissions	kg/t TP	2.89	2.63	2.53	2.6	2.5
CO_2 emissions	t/t TP	1.28	1.21	1.16	1.19	1.15
Waste produced	kg/t TP	109.5	112.6	118.0	108	110
Waste landfilled	kg/t TP	10.2	7.90	7.86	7.5	7

Group	2014 ratio	2014 vs. 2010	Unit	2014 absolute value	Absolute annual change 2014-2010	Unit
Energy consumption	13.35	-7.3%	GJ/t TP	42,602	-2,980	x 10^3 GJ
Water consumption	11.24	-4.7%	cu.m/t TP	35,876	-1,445	x10^3 m^3 '000s
VOC emissions	2.53	-12.5%	kg/t TP	8,067	-1,087	t
CO_2 emissions	1.16	-9.4%	t/t TP	3,697	-371	x 10^3t
Waste produced	117.96	+7.7%	kg/t TP	376,530	+28,069	t
Waste landfilled	7.86	-22.9%	kg/t TP	25,103	-7,458	t
GROUP MEF	**65.11**	**-7.0%**				

PERFORMANCE OF THE MEF INDICATOR FOR MANUFACTURE FRANÇAISE DES PNEUMATIQUES MICHELIN

MFPM	2010	2013	2014	% change 2014-2010	% change 2014-2013
MEF	65.1	60.2	59.2	-9.1%	-1.7%

Performance by MEF component – MFPM	Unit	2014	Change 2014-2010
Energy consumption	GJ/t TP	17.1	-13.2%
Water consumption	m^3 TP	10.4	+14.3%
VOC emissions	kg/t TP	2.13	-14.4%
CO_2 emissions	t/t TP	0.60	-28.0%
Waste produced	kg/t TP	145.6	-0.5%
Waste landfilled	kg/t TP	0.17	-91.3%
MEF MFPM		**59.2**	**-9.1%**

SUMMARY TABLE OF ENVIRONMENTAL DATA FOR THE GROUP AND MFPM

Group *MFPM*	2014	2013	2014-2013	2010	GRI 3 Indicator
Water consumption *(m³/t)*	11.2	11.7	-4.0%	11.8	
MFPM	*10.4*	*10.3*	*+0.7%*	*9.1*	EN8
Energy consumption *(GJ/t)*	13.3	13.8	-3.0%	14.4	EN3-EN4
MFPM	*17.1*	*17.8*	*-4.2%*	*19.6*	
Michelin point sources	7.3	7.6	-5.0%	8.0	
MFPM	*8.0*	*9.0*	*-11.0%*	*11.3*	EN3
Steam purchased	0.9	0.9	-7.2%	1.2	
MFPM	*0.9*	*0.9*	*-3.7%*	*0.1*	
Electricity purchased	5.2	5.2	+0.6%	5.2	
MFPM	*8.2*	*8.0*	*+3.3%*	*8.2*	EN4
Greenhouse gas emissions *(t/t)*	1.16	1.21	-4.5%	1.28	
MFPM	*0.60*	*0.67*	*-10.0%*	*0.83*	
of which:					
Direct emissions from Michelin point sources	0.52	0.55	-5.6%	0.58	
MFPM	*0.45*	*0.50*	*-10.9%*	*0.63*	
Indirect emissions, steam generation	0.08	0.09	-16.2%	0.12	
MFPM	*-0.007*	*-0.003*	*+114.7%*	*0.02*	
Indirect emissions, electricity generation	0.56	0.57	-1.4%	0.58	
MFPM	*0.16*	*0.17*	*-4.8%*	*0.18*	EN18
Total Michelin direct and indirect emissions avoided *(tonnes of CO_2)*	45,550	40,630	+12.1%	24,000	EN19
Sulfur dioxide emissions *(kg/t)*	0.76	0.86	-10.7%	0.96	
MFPM	*0.02*	*0.02*	*-10.1%*	*0.04*	
Nitrogen dioxide emissions *(kg/t)*	0.72	0.74	-3.8%	0.83	
MFPM	*0.60*	*0.54*	*+10.1%*	*0.57*	
Volatile organic compound emissions *(kg/t)*	2.53	2.63	-3.9%	2.89	
MFPM	*2.13*	*2.31*	*-7.9%*	*2.48*	EN21
Total weight of waste produced *(kg/t)*	118.0	112.6	+4.8%	109.5	
MFPM	*145.6*	*134.1*	*+8.6%*	*144*	
Total weight of waste landfilled *(kg/t)*	7.86	7.9	-0.5%	10	
MFPM	*0.17*	*0.2*	*-0.2%*	*2*	
Total weight of hazardous waste *(kg/t)*	5.78	6.29	-8.1%		
MFPM	*12.02*	*15.4*	*-21.9%*		EN23
Number and total surface area of facilities located less than one kilometre from any protected areas	27 sites totalling 6,400 ha	27 sites totalling 6,400 ha			
MFPM	*7 sites totalling 624 ha*	*7 sites totalling 624 ha*			EN11

In all, the MEF came to 65.1 in 2014, representing a 2.1% improvement over 2013 compared with just a slight increase in output. The target had been set at 65, based on the assumption that production would almost double. Compared with 2010, when output was also slightly higher than in the previous year, the MEF has improved by 7%.

With the exception of waste production, all the components improved year-on-year in 2014, with three (energy, CO_2 and VOCs) exceeding their targets and lifting the indicator almost to its overall objective.

The year-on-year improvement in 2014 was mainly due to the sustained effort to reduce VOC emissions.

The second contributor was the CO_2 component, which improved faster than energy consumption. This was primarily attributable to the decline in the use of purchased heat, which has a greater impact on CO_2 emissions.

The third contributor was water withdrawal, which improved mainly because of initiatives undertaken locally following on-site analysis of the composite MEF indicator.

The decline in energy consumption, another major improvement driver, stemmed from the consolidation of significant gains in certain geographies and production segments (even though these were offset by temporary increases elsewhere).

Although more waste was produced during the year, the percentage of landfilled waste remained unchanged, with more than 93% of the total either recovered as materials or energy. Forty-nine facilities recovered more than 95% of their waste and 24 facilities reported zero waste landfilled during the year. Two-thirds of the increase in waste was attributable to the temporary impact from the start-up of the major new industrial projects in Brazil, China, India and Thailand.

Compared with 2010, the MEF has been reduced by 7%, with improvements in every component except waste generation, which rose by 7.7% over the year. Energy use declined by 7.3%, carbon emissions by 9.4%, water use by 4.7%, VOC emissions by 12.5% and landfilled waste by 22.9%. On a full-year basis, this significant improvement from 2010 levels avoided:

- the use of 2,980,000 GJ of energy, or the amount of energy used by nearly 29,000 French people (based on 103 GJ per person, as described in the 2011 energy statistics for France published by INSEE and the SOeS);
- the use of 1,445,000 m^3 of water, or the amount of drinking water used by 26,000 French people (based on 55 m^3 per person, as described in the water statistics for 1998, 2001, 2004 and 2008 published by SOeS-SSP);
- the emission of 1,087 tonnes of VOCs, or the emissions released by more than 1,260,000 cars in France (based on the Euro V standard for gasoline vehicles, which is a maximum of 68 mg of non-methane hydrocarbons per kilometre, and on 12,666 kilometres per vehicle per year from INSEE’s 2012 statistics);
- the emission of 371,000 tonnes of CO_2, or the equivalent of 210,000 cars in France (based on a maximum of 140 g CO_2/km and 12,666 kilometres per vehicle per year from INSEE’s 2012 statistics);
- the production of 7,460 tonnes of landfilled waste, or the amount of household waste produced by 20,000 French people (based on 373 kg of household waste per person per year in 2009, as published by ADEME in 2012);
- total waste produced rose by 28,070 tonnes, or the amount of household waste produced by 75,000 French people (based on 373 kg of household waste per person per year in 2009, as published by ADEME in 2012).

Training and informing employees about environmental stewardship

Dedicated training courses to support EMS deployment have raised environmental awareness among the more than 95,000 employees working on certified sites. The courses, which are tailored to each workstation, focus on the main impacts from the facility’s operations. In accordance with system requirements, employees are kept informed of environmental issues and encouraged to attend regular refresher courses.

Allocating resources to prevent environmental risks and pollution

In 2014, €41.6 million – 28% more than in 2013 – was committed to projects to enhance the environmental performance of the Group's production facilities. In the case of MFPM, these outlays totalled €8.6 million for the year, or 50% more than in 2013.

Budget allocation is analyzed in the two tables below. This environmental expenditure is consistent with the environmental information defined in French Decree 2012-557 of April 24, 2012.

The Group's outlays since 2013 primarily reflect the doubling of resources to support the sustainable use of energy resources and to lower greenhouse gas emissions (notably by converting boilers to natural gas at three sites in Canada).

The budget amounts are based on the definition recommended by the French Accounting Board (CNC recommendation 2003-R02 of October 21, 2003), which covers only outlays that are “supplementary” (*i.e.* excluding routine maintenance, operating, waste management and similar expenses) and “exclusively environmental” (*i.e.* excluding the environmental aspects of capital expenditure projects).

Group (in € thousands)	Total expenditure 2014	2013	2012
Air pollution prevention	6,400	5,321	6,372
Surface water pollution prevention	2,914	5,262	2,153
Soil and subsurface water pollution prevention	3,540	8,692	4,071
Waste reduction and recycling	2,445	1,820	
Sustainable use of water resources	1,298	1,937	
Sustainable use of energy resources	14,942	7,631	
Reduction of greenhouse gas emissions	7,716	209	
Other	2,411	1,479	3,814
TOTAL	**41,666**	**32,352**	**16,411**

MFPM (in € thousands)	Total expenditure 2014	2013	2012
Air pollution prevention	2,553	722	547
Surface water pollution prevention	980	431	367
Soil and subsurface water pollution prevention	414	687	2,733
Waste reduction and recycling	28	0	
Sustainable use of water resources	53	408	
Sustainable use of energy resources	2,956	2,177	
Reduction of greenhouse gas emissions	541	182	
Other	1,117	956	1,785
TOTAL	**8,641**	**5,563**	**5,432**

Provisions and guarantees for environmental risks

As of December 31, 2014, Group-wide aggregate provisions for environmental risk amounted to nearly €17 million. Of these, 80% covered risks related to site assessment and cleaning, the majority preventive measures. In the case of MFPM, no provisions for environmental risks were registered as of at December 31, 2014.

6.3.2 REDUCING DISCHARGES, MANAGING WASTE AND ADDRESSING ENVIRONMENTAL NUISANCES

At a time when discharges into the air, water and soil are carefully managed, Michelin is continuing to reduce the amount of landfilled waste. It also seeks to limit the odors and noise generated by its facilities, which could affect the surrounding environment.

Deploying measures to prevent, abate or remediate air, water and soil pollution

▸ Greenhouse gas emissions

A Groupwide decline in emissions

Total CO_2 emissions amounted to 1.16 tonnes per tonne of finished product in 2014, a decrease of 9.4% compared with 2010. Direct emissions from Group boilers stood at 0.52 tonnes per tonne of finished product, down 10% from 2010. Indirect emissions through the purchase of electricity and steam are estimated at 0.64 tonnes per tonne of finished product, a decline of 8.6% versus 2010.

Optimized operations management and deployment of the Group's best manufacturing practices drove a reduction in energy use, which declined by close to 7.3% in GJ per tonne of tire produced compared with 2010.

In European Union countries, direct carbon emissions from sites that operate boilers with over 20 MW capacity are subject to allowances issued under the EU's Emissions Trading Scheme (ETS). Decline of allowances continued in 2014 under the impact of the cross-sectoral correction factor, but the emissions will still be covered by the credits accumulated between 2008 and 2012.

In China, carbon emissions trading schemes were introduced in 2013 in seven cities and provinces. The one in Shanghai, covering an initial three-year period until 2015, involves both direct and indirect emissions. In 2013 and 2014, emissions from the two plants concerned fell slightly under the allowances.

For MFPM, a significant contribution from the production plants

A review of greenhouse gas emissions as of end-2012 demonstrated that the production plants accounted for the bulk of MFPM's CO_2 emissions.

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS BY MFPM UNIT

Tire production facilities	Storage facilities, research centre and headquarters	Vehicles and other mobile sources belonging to MFPM
90.60%	7.30%	2.10%

The review also showed that direct emissions from fuel use represented 80% of total MFPM greenhouse gas emissions, with indirect emissions from the purchase of electricity accounting for the rest.

▸ Other air emissions

A slight decline in VOC emissions

Volatile organic compound (VOC) emissions declined by a slight 3.9% in 2014 to 2.53 kg per tonne of finished product. Following distribution of the VOC Best Practices Guide in 2013, more than 45 facilities – or nearly all of the units concerned – performed gap analyses in late 2014 and deployed action plans to address the shortfalls. The deployment of innovative new production processes continued during the year, helping to reduce solvent use and emissions. It was led by cross-process working groups comprising members from the Materials, Process, Engineering, Quality and Production departments, which were formed in both the passenger car and truck tire product lines. In all, VOC emissions per tonne of finished product have been reduced by 14.4% since 2010.

Widely varying nitrogen oxide (NOx) and sulphur oxide (SOx) emissions

NOx emissions from Group boilers stood at 0.72 kg per tonne of finished product in 2014, compared with 0.74 kg in 2013 and 0.83 kg in 2010.

SOx emissions amounted to 0.76 kg per tonne of finished product, versus 0.86 kg in 2013 and 0.96 kg in 2010.

These data can vary widely from year to year, because they are calculated based on the periodic (often quarterly) measurement of emission concentrations. In addition, given that purchased steam is not included in the calculation, the mix between generated and purchased steam can have a significant impact on the final figure.

Beginning in 2016, the 2010/75/EU Industrial Emissions Directive will usher in more restrictive emission limit values for combustion plants with capacity over 50 MW. In Europe, of the five Michelin plants equipped with boilers of that size, two are now deploying remedial compliance plans, with the installation of a DeSOx/DeNOx treatment technology in Bassens, France and the replacement of current boilers with new ones in Victoria, Romania.

▸ Discharges to water

The main substances likely to be released in process water discharged by the tire plants are total suspended solids and residual hydrocarbons, which are inherent in most industrial processes and not specific to Michelin. Plants that treat metal cords or produce synthetic elastomers can generate effluents containing metals such as copper or zinc and residual hydrocarbons. Depending on its operations, each plant is equipped with appropriate wastewater treatment facilities to handle these discharges. After proper treatment, water is discharged either to the environment or to local wastewater treatment plants.

Following on from last year's installation of the Group's first zero-discharge wastewater treatment system at the new plant in Chennai, India, other improvement initiatives were pursued in all Geographic Zones.

South America: A closed loop system installed at the Bahia plant has reduced the volume of water withdrawn per tonne of finished product by 50%.

North America: In 2014, an initial series of five-year audits was performed in every plant by the contractors in charge of water treatment. Action plans were then implemented to optimize water management, with a focus on water quality.

Europe: Studies are underway to reduce the amount of process water discharged at the plant in Fossano, Italy, which accounted for 12% of the consolidated total in 2014.

To prepare for the future publication of additional data in compliance with France's Grenelle II environmental legislation, the independent auditors performed an initial estimate of the total suspended solids, chemical oxygen demand, zinc and total hydrocarbons in the Group's process water.

▸ Ground water discharge

To prevent the risk of accidental spills, the EMS includes a dedicated process comprising both physical systems, for soil protection and leak prevention, and standard operating procedures for activities at risk and in the event of an accident.

In addition, the Group Environmental Standards require that all new plants and equipment comply with the highest levels of soil protection over the long term. They were inspired by the strictest regulatory standards in this area, in particular EU directives, and often exceed local legislation.

Since 2006, Michelin has been implementing a process for managing potential brownfields. Whenever there is a change in a facility's operations, excavation work or an actual spill, a review is undertaken with the support of the environmental experts network to assess the pollution risk, based on recognized standards and in compliance with the local laws and regulations. The methods used and the service providers commissioned are managed at Group level to ensure the quality of the review and related works.

In 2014, a program was deployed in every production facility to pro-actively identify the historic operations presenting the greatest pollution risk.

Michelin can also manage risks by helping to implement, in association with regulatory authorities, soil remediation processes in compliance with local legislation. One example is the system for removing and safely storing coal fly ash that was installed at the Olsztyn plant in Poland.

Reducing the amount of waste generated per tonne of tire produced

Programs to reduce the volumes of generated and landfilled waste and improve the recovery and reuse of waste material continued apace in 2014. At 118.4 kg, however, the gross amount of waste generated per tonne of tire produced increased by 5.2% over the year due to a variety of factors, including the start-up of new production units and the large number of production cutbacks in response to the recession. On the other hand, the increase in the proportion of recovered waste material helped to maintain landfilled waste unchanged at 7.9 kg per tonne of tire produced. Fully 93.4% of waste was recovered in 2014, while more than 60% of waste materials were recovered and reused. Forty-nine facilities recovered more than 95% of their waste and 24 facilities reported zero waste landfilled during the year. Around 5% of total waste produced in 2014 was classified as hazardous under local legislation.

Since 2005, the amount of waste generated per tonne of tire produced has been reduced by 15% to 20% to around 110 to115 kg from 140 kg, and the amount of landfilled waste has fallen by more than 75% to 7.9 kg from 33 kg. The main initiatives carried out in 2014 to increase the recovery and reuse rate involved developing and deploying an innovative process to recycle steel plies by separating them mechanically or cryogenically from the rubber, then reusing both materials to make new steel or industrial rubber products.

With a waste management policy based on reuse and the development of outsourced recycling solutions, Michelin is continuing to deploy initiatives to reduce the amount of waste produced and landfilled.

Abating odours and noise pollution

Although entirely innocuous, odours are nonetheless an issue for Michelin plants, some of which are located in built-up areas. These odours may be generated by the process used to produce certain types of natural rubber components used in tire manufacturing.

The standard solution, based on the thermal oxidation of effluents, has now been retrofitted in six European plants and applied to new plants when necessary. Research is continuing into new, even more environmentally friendly techniques.

In the case of noise pollution, manufacturing operations, whose noise levels are not particularly significant, consistently comply with local legislation in every host community. When designing new facilities or extensions, guidelines are followed to ensure that noisy equipment, such as fans and other auxiliary systems, are installed far from the property boundaries.

More generally, the on-site teams work with Group experts to abate the odours, noise and other potential environmental nuisances that manufacturing operations may cause local residents.

6.3.3 ENSURING SUSTAINABLE USE OF EVERY RESOURCE

Michelin constantly strives to optimize the performance of its tires, while using less raw material in their production, extending their useful lives and supporting a circular economy with end-of-life tire recycling solutions. It also deploys teams of experts to help the production plants to reduce their water and energy consumption.

The Michelin 4R strategy for a circular economy

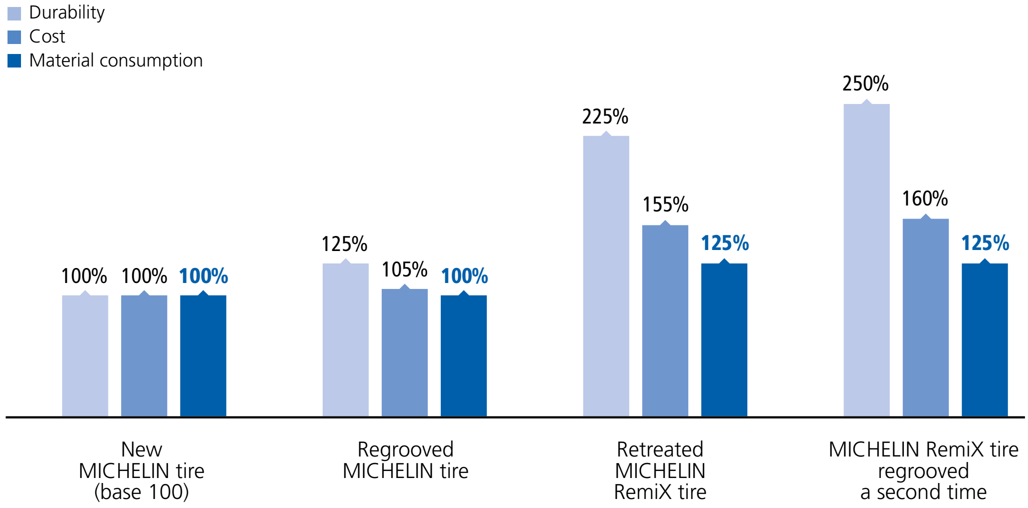
The tire industry uses 32 million tonnes of materials every year, three-quarters of which are fossil-based. At the same time, road mobility will double – maybe quadruple – between 2010 and 2050. This poses a variety of challenges, in securing supply, reducing the impact of mobility on health and biodiversity and limiting its effects on climate change. Throughout a tire's lifecycle, the impact on energy, raw materials, water and other natural resources must also be improved by taking a holistic, circular economy approach, bearing in mind that that 92% of a tire's environmental impact occurs during use.

Michelin's idea is to simultaneously activate four levers, thereby providing a combination of solutions to ensure that resources are used more wisely. This is what is known as the Michelin 4R strategy: Reduce, Reuse, Recycle and Renew.

Reduce. This aspect involves reducing the amount of resources used in production, while delivering the same performance by getting the most out of each gram of material used and each KWh consumed. This means making tires lighter and longer-lasting, thereby improving their fuel efficiency and also making it possible to sell tire-related services that can further lengthen their useful lives and save even more fuel. One example is Michelin solutions, which sells kilometres of mobility with its EFFITIRES™ solution, rather than just tires.

Reuse. Repairing, regrooving and retreading tires is another way to reduce raw materials use. In designing tires, Michelin optimizes this use by consistently seeking to deliver the same or better performance than previous generations, while using less material and without compromising on safety and quality standards. In the truck segment, for example, Michelin tires can be regrooved when the tread is worn, mold-cure retreaded using the Remix process, and regrooved a second time before the components are reused in end-of-life tire recovery solutions. Assuming a theoretical lifespan of 100 units for a heavy truck tire, regrooving can add 25 units without any more material; retreading then adds a further 100 units with 25 units in new material (or four times less than the amount of material needed to make a new tire); and lastly, the final regrooving increases total tread life by another 25 units. In all, with one retreading and two regroovings, a Michelin heavy truck tire can last 2.5 times longer than a new Michelin tire with just an additional 25 units of material.

These benefits are illustrated in the following chart:



Recycle. Even though today end-of-life tires are already recovered, their material is not generally reused to make new tires. This is why in 2014, Michelin launched the Tire RECycling (TREC) project to pursue two innovative means for recovering end-of-life tires. The first, TREC Regeneration aims to produce high-quality regenerated rubber from scrap tires and to reinject it into the new-tire production process, while continuing to improve tire performance.

The second, TREC Alcohol, is designed to support the emergence of an ethanol production process using scrap tires as raw material. Ethanol is a very good chemical intermediate that could be used to synthesize a number of materials. At the same time, Michelin is involved in the BioButterfly project, which is developing a process to produce butadiene (currently sourced from petroleum) from the alcohol supplied either from the TREC Alcohol process or directly from biomass sources.

For each of these projects, an industrial demonstration is the platform to illustrate the financial, social and environmental performance of the chosen solutions.

Renew. With renewable materials now accounting for 25% of its inputs (mostly natural rubber and some plant-based oils and resins), Michelin believes that it is time to move to the next level. To drive this new phase, two major projects have been launched: BioButterfly, described above, and a project to produce isoprene from biomass, working with Amyris in California and Braskem in Brazil.

By simultaneously activating these four levers – Reduce, Reuse, Recycle and Renew – Michelin is preparing for the future so it will be able to provide sustainable solutions to the world's growing mobility needs.

Paying particular attention to end-of-life tires. The annual review showed that 80% of tires manufactured and sold by Michelin around the world are collected at end-of-life and processed in each country in authorized recycling facilities in compliance with local legislation.

In 2014, Michelin continued to actively participate in end-of-life tire recovery processes, in particular through the programs conducted in association with Chinese authorities as part of the Tire Industry Project, a working group of the World Business Council for Sustainable Development. These included creating a database in China and sharing best practices among the European Tyre and Rubber Manufacturers' Association, the Rubber Manufacturers Association, the Japan Automobile Tyre Manufacturers Association and Chinese authorities. These collaborative programs are deepening the Group's commitment to the concept of extended producer responsibility.

In France, under Michelin's leadership, the Tire Recycling Committee (CORP) was created in February 2014 with members from the tiremaking, automaking, retailing, collection, recycling and retreading industries. It serves as a representative body in discussions with government authorities and also promotes the excellence of the French model based on the fully industry-financed collection of all end-of-life tires. This is widely recognized as the international benchmark in implementing quality standards and professionalizing this type of reuse and recovery business, which is often under estimated.

In October 2014, Michelin joined the Ellen MacArthur Foundation's "Circular Economy 100", which is dedicated to accelerating the transition to a circular economy in order to preserve natural resources yet still meet the needs of a fast-growing world population. Michelin is contributing its experience and expertise, while leveraging the strengths of the foundation and its members to make mobility more sustainable.

Reducing water withdrawals

Michelin plants mainly use water to cool installations and transfer heat. In 2014, a total of 11.24 m^3 was withdrawn per tonne of finished product, down 4% compared with 2013. Production facilities consistently withdraw water in compliance with local legislation. When requested by authorities, the plants scale back their withdrawal to guarantee fair use of water resources.

In 2014, the Group continued to develop a method of assessing water-related challenges. Watershed impact studies cover water quality based on ecotoxicological reference values, the volumes of water involved and the related local physical conditions. They are conducted with the help of consultants by an international team comprising plant or country EHS managers as well as local and corporate maintenance and engineering teams. The ISO 14046-based method combining a focus on both risk and impacts was tested at five sites in Europe and North America. The pilots will continue in 2015 at six other plants in North America, Europe and Asia before wider deployment in the future. Planning and responsiveness will be further enhanced by the identification of internal and external best practices by the newly created in-house Water Expert Team, which will gradually address the synergies between water, energy and biodiversity with a constant eye on total cost of ownership.

Improving energy efficiency by aligning energy use with output

In line with Michelin's commitment to reducing energy consumption, over the past two years, every plant has undertaken action plans to align energy use with changes in output. As a result, total energy consumption declined by 3% in 2014 to 13.3 GJ per tonne of tire produced. The European plants continued to improve, with a 5.2% reduction, while operations in North America (down 1.7%), South America and Asia maintained their performance.

Improvement is being led by a variety of drivers, including the installation of variable speed equipment, the systematic application of power-off procedures for unused equipment, wider use of daily performance management in the energy-intensive facilities and the investment of €15 million in energy efficiency systems.

Among the plants delivering the most progress were:

- the Cholet facility, which cut site energy use by 7.8% by systematically eliminating leakage and replacing the insulation in the curing press enclosures;
- the Aranda plant, which reduced site energy use by 24% with a wide array of continuous improvement initiatives, from energy-efficient production management to sustained use of combined heat and power systems.

In a commitment to improving both environmental and financial performance, Michelin is continuing to deploy a variety of renewable energy projects (see section 6.3.4 “Combating Climate Change – Greenhouse gas emissions” below).

Optimizing land use

Production facilities. Michelin’s production operations occupy much the same surface area as facilities in any other manufacturing industry. Its plants are generally located in pre-existing industrial parks and, when they are not, environmental impact studies are performed in order to obtain both the operating license and construction permit. In most cases, public hearings have been held as part of these permit applications. In India, plant construction in 2011 at an industrial park, created by the Tamil Nadu government in 2007, generated controversy over land use. In accordance with the recommendations of the OECD Guidelines for Multinational Enterprises, the Group conducted a human rights impact assessment in order to manage the impacts from this new facility, and it is currently undertaking an additional environmental impact assessment.

Testing facilities. The only operations that use a larger surface area are the rolling test tracks like the ones in Ladoux, France and Almeria, Spain. They do not conflict with any other land uses and may even have a beneficial impact on the environment, thanks to the programs undertaken by the Group to support biodiversity (see section 6.3.5 below).

Michelin agricultural tires. In 2014, Michelin celebrated the tenth anniversary of MICHELIN Ultraflex Technologies, a breakthrough innovation that enables agricultural tires to operate at low pressure, thereby protecting fields more efficiently and delivering superior harvests. MICHELIN Ultraflex Technologies provide a response to the two-part challenge of supporting developments in farm machinery that deliver productivity gains, while also improving soil protection. Field productivity is improved by the greater traction provided by low-pressure operation, which also enables tractors to carry heavier loads at higher speeds.

6.3.4 CLIMATE CHANGE MITIGATION

In addition to continuously optimizing energy efficiency, Michelin is also helping to fight against climate change with policies to reduce the carbon content of its energy mix to limit CO_2 emissions. This includes pursuing renewable energy projects, whose benefits cannot be measured exclusively in terms of emissions. The policies are supported by a risk management process to address the potential consequences of climate change, both at Group level and for each of the facilities, and by investments in carbon credits. Lastly, Michelin also offers fleet managers the benefits of its energy efficiency expertise.

Optimizing energy efficiency

Michelin is assertively contributing to global efforts to reduce greenhouse gas emissions in the road transportation and manufacturing industries. For example, carbon emissions from all of the Group's manufacturing operations, per tonne of product, were 23% lower in 2014 than in 2005.

Energy efficiency initiatives are being pursued across the organization *via* action plans based on site energy audits, with the aim of reducing energy use per tonne of tire produced by 25% between 2010 and 2020 (see paragraph 6.3.2).

Developing renewable energy projects

Since 2008, renewable energy projects have been developed whenever they offer the possibility of improving a facility's environmental and financial performance. Although these biomass, solar power and wind power projects have often long maturity cycles, they are already helping to sustainably reduce the Group's carbon footprint.

Rated output of the photovoltaic roof panels installed on several facilities in Germany (in Bad Fallingbostel, Bad Kreuznach, Bamberg, Homburg, Karlsruhe, Landau and Ulm) has risen from 9 MWp in 2006 to 16.5 MWp in 2010 and 21.5 MWp since year-end 2013. In Valladolid, Spain, 31,000 square meters of solar panels with peak capacity of 3.3 MWp were commissioned in 2010 and 2011.

Wind turbines have been generating roughly 20% of the electricity used by the Dundee plant in Scotland since 2007. The two wind turbines installed near the Ballymena plant in Northern Ireland in late 2012 provided 13% of the plant's electricity in 2014.

Commissioned in 2010, two biomass-fired boilers installed to replace natural gas-fired systems at the Bourges and Cholet plants in France avoided the emission of 12,500 tonnes of CO_2 in 2014.

Also in France, the rooftop solar power panels on the Le Puy-en-Velay plant began generating their first electricity in September 2011. Covering three hectares, or three-quarters of the roof's surface, the panels generated close to 3,500 MWh of power in 2014.

In Canada, a solar wall has replaced heavy fuel as a source of heat for the Waterville plant since late 2010.

In all, on-site renewable energy installations avoided the emission of more than 45,000 tonnes-equivalent of CO_2 in 2014, of which more than 35,000 tonnes directly reduced the Group's total carbon emissions.

Facility	Technology	Tonnes of CO_2 emissions avoided in 2014 (1)
Bassens, France	Purchase of heat generated by a waste incinerator	13,000 t (direct CO_2)
Cholet, France	Biomass-fired boiler	6,500 t (direct CO_2)
Bourges, France	Biomass-fired boiler	6,000 t (direct CO_2)
Vannes, France	Purchase of household waste methanation heat	250 t (direct CO_2)
La Combaude, France	Purchase of heat from biomass-fired facilities	1,750 t (direct CO_2)
Waterville, Canada	Solar wall	100 t (direct CO_2)
Dundee, Scotland	Wind turbines	3,000 t (direct CO_2)
Ballymena, United Kingdom	Wind turbines	4,000 t (direct CO_2)
Germany, seven facilities	Photovoltaic panels	9,000 t (power sold back to the grid)
Valladolid, Spain	Photovoltaic panels	1,200 t (power sold back to the grid)
Le Puy, France	Photovoltaic panels	250 t (power sold back to the grid)

(1) Based on national emissions factors published by the International Energy Agency in CO_2 Emissions from Fuel Combustion, 2013 Edition.

Today, 17 facilities use renewable energy solutions, of which three came on stream in late 2012: two wind-turbine installations at Ballymena, Northern Ireland; the purchase of biomass heat from an outside provider at the La Combaude facility in Clermont-Ferrand, France; and the purchase of household waste methanation heat from an outside provider at Vannes, France. Other projects currently in the feasibility phase in France include the purchase of biomass-sourced steam in Golbey, the use of geothermal heat in Clermont-Ferrand, and the use of steam from sunflower-husk fired boilers in Bassens. The project to install photovoltaic panels on the roof of the Chennai plant in India has been put on hold for two reasons. First, the unstable regulatory environment in Tamil Nadu State following the passage and then repeal of solar power legislation has discouraged expressions of interest from potential partners. Second, an in-house feasibility study showed that the project was not economically viable under current conditions.

Addressing the impact of climate change

Michelin's production plants are located in 17 countries. In line with recommendations issued by the Group's risk managers, risks associated with climate change have been reviewed and business continuity plans in the event of extreme weather events have been assessed. A flood risk analysis led the Group to build dikes to protect a facility in Thailand that was particularly exposed to flooding. Over the past ten years, one Michelin plant has been damaged by a tornado in North America. This type of weather phenomena concerns only a few facilities and has been integrated into the appropriate business continuity plans.

Reviews of the Group's sensitivity to energy supply have also shown that climate change would have only a moderate impact, because operations are well distributed, both geographically and by type of business.

The risks associated with climate change are also addressed in studies undertaken during the project design process for new facilities.

Manufacturing Michelin tires requires natural rubber, which is produced only in the planet's intertropical convergence zone. Climate change, combined with the growing scarcity of arable land, could have an adverse impact on the industry and pose a threat to future supply. The Group's agronomists and scientific partners are developing counter-measures by selecting productive, disease-resistant varieties and encouraging innovative farming practices that improve unit yield. The Group is also diversifying its sources of supply in every production basin.

In the case of sourced raw materials, certain suppliers deemed to be exposed to possible climate-related problems have been asked to take steps to protect their operations from the impact of extreme weather events.

Investing in socially responsible carbon credits

In 2014, Michelin invested €5 million in the Livelihoods Fund, which supports the efforts of poor rural communities in developing countries to restore their natural ecosystems, in order to improve their food security, increase their economic revenues and improve their livelihoods. Conducted in partnership with local NGOs, its projects offer investors a return in the form of carbon offsets and the high environmental and social value they create. The Group's investment in the Fund's large-scale projects in reforestation, agroforestry and clean cookstoves generated 18,700 carbon credits in 2014, saving the equivalent of 18,700 tonnes of CO_2.

Improving the energy performance of business fleets

With the company Michelin solutions, the Group enables truck and bus companies to holistically optimize the efficiency, productivity and carbon footprint of their fleets. Michelin solutions provides services such as EFFIFUEL™ and EFFITIRES™ that work to boost profitability and reduce fuel consumption in line with contractual commitment to results.

Introduced in Europe in 2013, Michelin solutions' Effifuel™ service reduces a fleet operator's fuel bill through a combination of eco-driving classes, telematics and tire management, supported by the supply of highly energy-efficient tires. In particular, onboard telematics help to deliver savings by collecting real-time vehicle data to analyze vehicle and driver performance depending on load and route. Michelin solutions is a long-term partner that works with customers on the basis of weekly indicators, a shared action plan and a quarterly review of actual fuel savings versus the guaranteed target.

6.3.5 PROTECTING BIODIVERSITY NEAR MICHELIN SITES

Michelin is especially committed to limiting the impact of its operations on biodiversity through a broad range of initiatives to preserve local ecosystems near its sites. It has also developed a method for assessing a facility's dependence on its environment.

Protecting the local ecosystems near each site

To conduct their operations smoothly and sustainably, companies rely on the benefits provided by natural ecosystems and biodiversity, such as plant-based raw materials, water supply and climate regulation. Michelin is no exception and, as such, participates in efforts to maintain the efficiency of natural ecosystems in a variety of ways. It develops products that are more environmentally responsible, such as lighter tires made with less raw material and energy; it promotes the use of sustainable practices in rubber farming, which accounts for around 40% of the rubber used; and it protects the local ecosystems near each of its sites.

Between 2008 and 2010, two methods of identifying a facility's impact and dependence on ecosystems were tested. The first was the Corporate Ecosystem Services Review (ESR) developed by the World Business Council for Sustainable Development (WBCSD) and the World Research Institute (WRI). The second, designed by an independent organization, also measured a plant's ecological vulnerability, determined by its proximity to areas of environmental concern.

Based on the findings of these two reviews, the Group decided not to focus on identifying impacts and dependences, but instead to continue assessing the proximity of its plants to protected areas.

Deploying a new indicator to monitor risks more effectively

In 2012, Michelin began conducting a review of the areas classified as protected under supranational, national or local regulations and located within a 15-kilometer radius of its plants or research centres. In places with surface or subsurface waterways, the review was extended where necessary to include protected areas downstream.

By end-2014, the review had been carried out by 69 of the 73 sites concerned, in 18 countries, revealing the presence of a total of 386 protected areas within the scope considered. When the data was analyzed with regard to the GRI-EN11 [(1)] indicator, the review also revealed that 27 facilities in seven countries, representing a total surface area of around 6,400 hectares, are located less than a kilometre from one or more protected areas.

(1) G4-EN11: Size and location of operational sites owned, leased or managed in or adjacent to protected areas or areas of high biodiversity value outside protected areas.

In the years ahead, the review to compile the GRI 4 EN11-compliant indicator for all of the plants and research facilities will be updated every five years.

In 2014, two specific changes were set in motion following the review. First, the ISO 14001-based application used to analyze a facility's environmental aspects and impacts is being upgraded so that the presence of neighbouring ecosystems and biodiversity can be identified more consistently in the prioritization of environmental issues. Second, protected areas are being more systematically taken into account during impact studies on projects to build new facilities or extensions.

In 2014, a new method of identifying a plant's local biodiversity was designed, in particular for implementation by non-specialists, in a commitment to raising employee awareness of the biodiversity around them. The method was tested during the year at two French plants, revealing some one hundred species present around each one. In 2015, it will be adapted in an English version for deployment in other countries.

Michelin is helping to limit the impact of its production operations on biodiversity by leading initiatives to protect fragile environments, such as in Almeria, Spain; Bahia, Brazil; Davydovo, Russia; Ladoux, France; and Louisville KY, United States, or else with programs that support the everyday biodiversity present in and around its sites, like in Karlsruhe, Germany.

Achieving a balance between manufacturing operations and environmental stewardship in Almeria, Spain

Initiatives under way at the Almeria Test Centre (CEMA) in Spain were presented by the WBCSD at the International Union for Conservation of Nature (IUCN) Congress devoted to preserving biodiversity and ecosystems, held in Jeju, South Korea, in September 2012.

Right from the beginning, Michelin's objectives for the CEMA were not only to build the test centre and efficiently use its capabilities but also to preserve the site's ecosystems. Environmental conservation targets where therefore included in the centre's day-to-day operating indicators. When the Andalusia government decided to protect the area's seacoast and landscape by creating the Cabo de Gata-Níjar Natural Park in 1987, Michelin also began working with park authorities to share best practices and enhance the conservation measures in place.

Michelin's efforts on the Almeria site are regularly commended by the government and in academia. Working hand in hand with local authorities – even well before the official agreement was signed in 1995 – Michelin successfully achieved a balance between its manufacturing operations and its commitment to environmental stewardship.

Created in 1973 and certified ISO 14001 since 2005, the Almeria Test Centre covers 4,500 hectares, of which 1,500 lie in the heart of the Cabo de Gata-Níjar Natural Park in Andalusia, in southern Spain. The park is located in an arid region with the lowest rainfall in Europe and is home to a number of endemic plant and animal species in a unique ecosystem. The Group's actions have helped to preserve, for example, a specimen of the Canary Islands Dragon Tree *(Dracaena Draco)* that is more than 500 years old.

Supporting a Centre for the Study of Biodiversity in Bahia, Brazil

As part of the *Ouro Verde* (Green Gold) project conducted on the experimental farm in Bahia, Brazil, Michelin has been working since 2003 to preserve a rare and threatened portion of the primary Atlantic Forest that is exceptionally rich in biodiversity.

Located on the plantation is a Centre for the Study of Biodiversity that offers scientists from around the world an open-air laboratory on the Atlantic Forest. The Centre can accommodate up to 16 researchers at a time, with the equipment necessary for their work. Michelin is helping to finance some of the Centre's research programs, including 36 biodiversity studies. Educational walking trails have been prepared for visitors and particular attention has been paid to raising awareness of environmental issues in the local community. The "Understanding the Atlantic Forest" program, for example, offers guided tours of the protected area for small groups or field trips for school children. In addition, the Michelin Environmental Reference Centre provides detailed information on the Atlantic Forest.

Earning Wildlife at Work certification at the Louisville, KY plant in the United States

In Kentucky in the United States, the Louisville facility joined forces with two other local companies to transform two nearby landfills into a 30-hectare wildlife refuge with forests, prairies, wetlands and wildflowers. Volunteers participated in a replanting campaign and the site now attracts birds, foxes, deer and other wild animals. The three-year project was completed in late 2011 and has earned Wildlife at Work certification from the Wildlife Habitat Council.

Protecting a special habitat at the Ladoux Technology Centre in France

In July 2011, an agreement was signed with the Auvergne Regional Nature Conservancy to ensure protection of a 3.5-hectare area containing continental salt meadows on the grounds of the Ladoux Technology Centre. Extremely rare in Europe, this type of habitat is home to protected maritime species in the Auvergne region (such as the sea plantain and *Juncus Gerardii* black grass) and has been designated as a priority for conservation.

Working with Wildlife and Industry Together in the United States

Since 1998, the Laurens Proving Grounds in South Carolina has partnered with the South Carolina Wildlife Federation to manage a protected nature area certified by Wildlife and Industry Together (WAIT). The facility has implemented various programs to protect the region's natural habitats, in particular by getting local schools involved to encourage environmental awareness among children. Michelin employees have also volunteered on several occasions to participate in such projects as maintaining walking trails around the site.

A number of other Michelin facilities in South Carolina have also obtained WAIT certification, including Sandy Springs, Starr, Lexington and the Research Centre in Greenville.

Protecting biodiversity at the Karlsruhe plant in Germany

In 2014, the Karlsruhe plant volunteered to participate in a national program initiated by the German Ministry of the Environment to promote biodiversity at industrial facilities. As part of the project, experts from the Global Nature Fund NGO reviewed the site's biodiversity potential and issued recommendations for action, which are now being evaluated. These include:

- installing insect hotels and bird nests;
- reducing the frequency of groundskeeping work, to enable the development of biodiversity and lower upkeep costs;
- installing peregrine falcon nesting boxes. As natural pigeon predators, the peregrines would help control the plant's pigeon population.

6.4 ASSURANCE REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED ENVIRONMENTAL, EMPLOYEE AND SOCIETAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

Year ended 31 December 2014

This is a free translation into English of the review report by one of the Statutory Auditors issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditor of the Compagnie Générale des Etablissements Michelin, appointed as Independent Third Party and accredited by COFRAC under number 3-1060 (1), we hereby present to you our report on the consolidated environmental, employee and societal information (hereinafter the "CSR Information") for the year ended 31 December 2014, presented in the management report. This report has been prepared in accordance with Article L.225-102-1 of the French Commercial Code.

Responsibility of the company

The Managing Chairman is responsible for preparing the company's management report including CSR Information in accordance with the provisions of Article R.225-105-1 of the French Commercial Code and with the guidelines used by the company (hereinafter the "Guidelines"), summarized in the management report and available on request from the company's head office.

Independence and quality control

Our independence is defined by regulations, the French code of ethics governing the audit profession and the provisions of Article L.822-11 of the French Commercial Code. We have also implemented a quality control system comprising documented policies and procedures for ensuring compliance with the codes of ethics, professional auditing standards and applicable law and regulations.

Responsibility of the Statutory Auditor

On the basis of our work, it is our responsibility to:

- Attest that the required CSR Information is presented in the management report or, in the event that any CSR Information is not presented, that an explanation is provided in accordance with the third paragraph of Article R.225-105 of the French Commercial Code (Statement of completeness of CSR Information);
- Express limited assurance that the CSR Information, taken as a whole, is, presented fairly, in all material respects, in accordance with the Guidelines (Reasoned opinion on the fairness of the CSR Information).

Our work was carried out by a team of six people between October 2014 and February 2015 and took around 24 weeks. We were assisted in our work by our corporate social responsibility experts.

We performed the work described below in accordance with the French auditing standards covering procedures relative to social and environmental information, included within the framework of reviews linked directly to the statutory auditors' engagement (NEP 9090), with the decree dated 13 May 2013 determining the manners in which the independent third party should carry out its work, and with ISAE 3000 (2) concerning our opinion on the fairness of the CSR Information.

1. Statement of completeness of CSR Information

On the basis of interviews with the individuals in charge of the relevant departments, we reviewed the company's sustainable development strategy with respect to the social and environmental impact of its activities and its social commitments and, where applicable, any initiatives or programmes it has implemented as a result.

We compared the CSR Information presented in the management report with the list provided for by Article R.225-105-1 of the French Commercial Code.

For any consolidated information that was not disclosed, we verified that the explanations provided complied with the provisions of Article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the company, its subsidiaries as defined by Article L.233-1 and the entities it controls as defined by Article L.233-3 of the French Commercial Code, within the limitations set out in the management report.

Based on these procedures and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

(1) The scope of this accreditation is available online at cofrac.fr
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

2. Reasoned opinion on the fairness of the CSR Information

Nature and scope of our work

We conducted around twenty interviews with the people responsible for preparing the CSR Information in the departments in charge of collecting the information, in order to:

- Assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, impartiality and understandability, taking into account best practices where appropriate;
- Verify that a data-collection, compilation, processing and control procedure has been implemented to ensure the completeness and consistency of the CSR Information and reviewed the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and controls according to the nature and importance of the CSR Information with respect to the characteristics of the company, the social and environmental impacts of its activities, its sustainable development strategy and best practices.

With regard to the CSR Information that we considered to be the most important (3):

- At parent entity level, we consulted documentary sources and conducted interviews to substantiate the qualitative information (organization, policy, action), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the data was consistent by cross-checking it with other information in the management report;
- At the entity level of a representative sample of entities selected (4) on the basis of their activity, their contribution to the consolidated indicators, their location and risk analysis, we conducted interviews to verify that procedures were followed correctly, and we performed tests of details, using sampling techniques, in order to verify the calculations made and reconcile the data with the supporting documents. The selected sample represents on average 18% of headcount and between 14% and 46% of quantitative environmental data.

For the other consolidated CSR information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations given for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes used, based on our professional judgment, allow us to express limited assurance; a higher level of assurance would have required us to carry out more extensive work. Because of the use of sampling techniques and other limitations intrinsic to the operation of any information and internal control system, we cannot completely rule out the possibility that a material irregularity has not been detected.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly, in all material respects, in accordance with the Guidelines.

Neuilly-sur-Seine, 9 February 2015

PricewaterhouseCoopers Audit

Éric Bulle	**Sylvain Lambert**
Partner	Partner of the Sustainable Development Department

(3) Quantitative information: total workforce and distribution by gender, age and geographical area; workplace accidents, and more specifically frequency and severity; the total amount of training hours; preventive, reduction or remedial measures against discharges to air, water and land use affecting severely the environment; measures implemented for waste prevention, recycling and disposal; water consumption, and water supply with respect to local hydric stress; energy consumption; greenhouse gas emissions.
Qualitative information: health and safety conditions at work; implemented training policies; measures taken to improve energy efficiency and the use of renewable energies; the integration of social and environmental stakes in the purchasing policy; the importance of subcontracting and the consideration of suppliers' and subcontractors' responsibility; anti-bribery actions; measures taken to support consumers' health and safety.

(4) Ardmore (USA), Bassens (France), Cuneo (Italy), Lasarte (Spain), Lexington (USA), Phrapadaeng (Thailand), Resende (Brasil), Shanghai Tsme (China), Tuscaloosa (USA), Valladolid (Spain), Victoria (Romania), Zalău (Romania).

7 CONSOLIDATED FINANCIAL STATEMENTS

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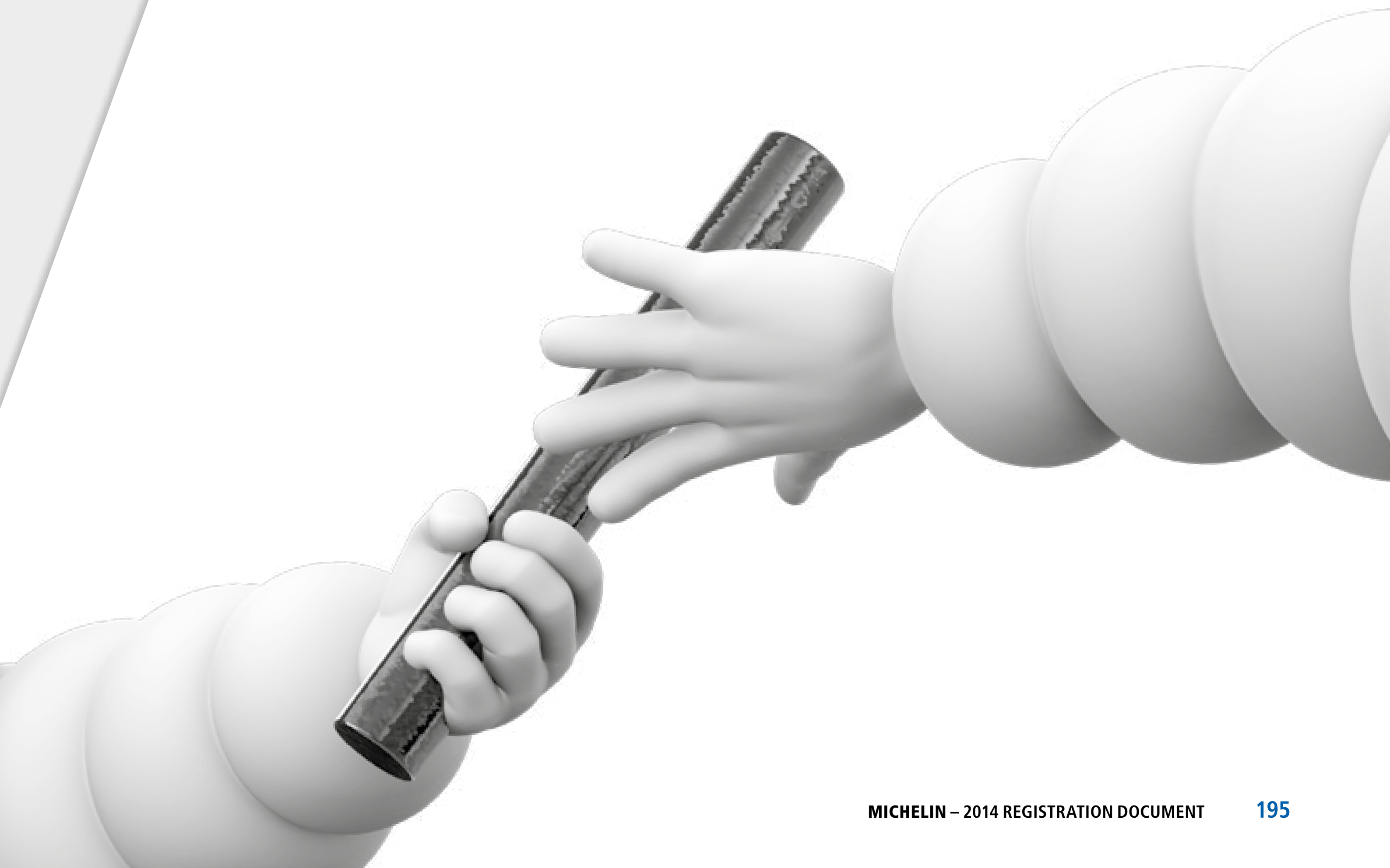

7.1 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2014

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CONSOLIDATED INCOME STATEMENT

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

CONSOLIDATED BALANCE SHEET

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

CONSOLIDATED CASH FLOW STATEMENT

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

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

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

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

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

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

NOTE 2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements:

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

2.2 Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

2.5 Critical accounting estimates and judgments

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

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

2.5.1 Impairment of non-financial assets

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

Quantitative information is provided in note 13.1 "Goodwill".

2.5.2 Employee benefit obligations

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

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

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

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

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

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

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

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

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

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

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

2.5.3 Income taxes

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

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

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

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

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

Quantitative information is provided in note 18 "Taxes".

NOTE 3 ACCOUNTING POLICIES

3.1 Consolidation

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

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

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

3.1.1 Subsidiaries

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

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

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

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

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

3.1.2 Joint ventures and associates

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

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

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

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

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

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

3.2 Segment reporting

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

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

3.3 Foreign currency

3.3.1 Presentation and functional currency

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

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

3.3.2 Transactions

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

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

3.3.3 Translation

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

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

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

3.3.4 Exchange rates of major currencies

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

3.4 Derivative financial instruments

Derivative financial instruments are used to manage financial exposures.

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

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

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

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

3.5 Hedging

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

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

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

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

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

3.5.1 Fair value hedges

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

3.5.2 Cash flow hedges

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

3.6 Fair value of financial instruments

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

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

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

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

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

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

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

3.7 Definition of certain indicators presented in the consolidated financial statements

3.7.1 Net debt

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

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

3.7.2 EBITDA before non-recurring income and expenses

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

3.8 Revenue recognition

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

Sales are recognized as follows:

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

Financial income is recognized as follows:

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

3.9 Cost of sales

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

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

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

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

3.10 Research and development

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

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

3.11 Non-recurring income and expenses

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

3.12 Income tax

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

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

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

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

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

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

3.13 Goodwill

Goodwill is computed at acquisition date as the difference between:

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

Goodwill is carried at cost less any accumulated impairment losses.

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

3.14 Intangible assets

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

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

3.15 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

3.16 Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

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

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

3.17 Non derivative financial assets

3.17.1 Asset categories

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

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

3.17.2 Transactions

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

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

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

3.17.3 Measurement

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

3.17.4 Impairment

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

3.18 Inventories

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

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

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

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

3.19 Trade receivables

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

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

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

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

3.20 Cash and cash equivalents

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

3.21 Share capital

Ordinary shares are classified as equity.

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

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

3.22 Non-derivative financial liabilities

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

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

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

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

3.23 Employee benefits

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

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

3.23.1 Pension and other post-employment benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.23.2 Share based payments

Employee share option plans

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

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

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

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

Performance share plans

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

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

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

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

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

Employee share purchase plans

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

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

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

3.24 Provisions

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

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

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

3.25 Trade payables

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

NOTE 4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk management policy

4.1.1 Organization of financial risk management

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

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

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

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

4.1.2 Liquidity risk

4.1.2.1 Risk factors

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

4.1.2.2 Risk management processes

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

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

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

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

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

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

4.1.3 Currency risk

4.1.3.1 Risk factors

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

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

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

4.1.3.2 Risk management processes

Currency transaction risk

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

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

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

Currency translation risk

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

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

4.1.4 Interest rate risk

4.1.4.1 Risk factors

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

4.1.4.2 Risk management processes

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

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

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

4.1.5 Equity risk

4.1.5.1 Risk factors

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

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

4.1.5.2 Risk management processes

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

4.1.6 Counterparty risk

4.1.6.1 Risk factors

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

4.1.6.2 Risk management processes

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

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

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

4.1.7 Credit risk

4.1.7.1 Risk factors

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

4.1.7.2 Risk management processes

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

4.2 Financial risk data

4.2.1 Liquidity risk

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

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

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

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

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

4.2.2 Currency risk

Transactional currency risk

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

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

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

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

Currency translation risk

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

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

4.2.3 Interest rate risk

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

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

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

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

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.

(2) For derivatives qualifying for hedge accounting (cash flow hedges).

(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

4.2.4 Equity risk

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

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

4.2.5 Counterparty risk

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

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

4.2.6 Credit risk

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

4.2.7 Commodities derivatives

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

4.3 Capital risk management

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

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

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

4.4 Fair value measurement hierarchy

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

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

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

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

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

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

NOTE 5 SEGMENT REPORTING

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

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

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

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

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

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

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

The segment information is as follows:

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

(1) Including the activities of Sascar.

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

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

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

The geographic information is broken down by zone hereunder:

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

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

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

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

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

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

NOTE 6 EXPENSES BY NATURE

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

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

NOTE 7 EMPLOYEE BENEFITS COSTS

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

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

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

NOTE 8 OTHER OPERATING INCOME AND EXPENSES

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

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

NOTE 9 NON-RECURRING INCOME AND EXPENSES

9.1 Year 2014

9.1.1 Canada

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

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

9.1.2 Hungary

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

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

9.1.3 Logistics and distribution

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

9.1.4 URSSAF audit

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

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

9.2 Year 2013

9.2.1 France

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

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

9.2.2 Colombia

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

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

9.2.3 Algeria

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

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

The subsidiary disposal plan has been deferred.

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

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

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

10.1 Derivatives not accounted for using hedge accounting

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

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

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

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

10.2 Ineffective hedges

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

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

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

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

Reconciliation of the Group effective income tax:

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

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

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

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

NOTE 12 EARNINGS PER SHARE

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

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

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

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

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

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

NOTE 13 GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill and intangible assets are as follows:

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

13.1 Goodwill

The amounts allocated to the CGUs are as follows:

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

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

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

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

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

13.2 Intangible assets

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

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

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

13.2.1 Software

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

13.2.2 Emission rights

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

13.2.3 Development costs

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

13.3 Impairment of intangible assets

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

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment are as follows:

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

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

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

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

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

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

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

NOTE 15 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

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

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

15.1 Available-for-sale financial assets

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

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

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

15.2 Loans and deposits

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

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

The balance includes loans to employees and customers.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

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

16.1 Derivatives recognized in assets

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

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

16.2 Derivatives recognized in liabilities

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

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

16.3 Derivative contractual amounts

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

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

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

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

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

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

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

NOTE 17 EQUITY METHOD INVESTMENTS

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

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

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

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the balance sheet are as follows:

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

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

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

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

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

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

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

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

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

The detail of unrecognized deferred tax assets is as follows:

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

18.2 Current taxes

Current taxes in the balance sheet are as follows:

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

NOTE 19 INVENTORIES

Inventories include the following:

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

Movements in inventory write-downs were as follows:

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

NOTE 20 TRADE RECEIVABLES

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

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

All trade receivables are due within twelve months.

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

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

Movements in impairment are broken down in the table below:

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

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

NOTE 21 CURRENT FINANCIAL ASSETS

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

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

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

NOTE 22 OTHER CURRENT ASSETS

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

(in € million)	December 31, 2014	December 31, 2013
Suppliers – advances	110	127
Current tax – advance payments	278	162
Other taxes receivable	288	232
Other	216	196
Less impairment	(9)	(10)
OTHER CURRENT ASSETS	**883**	**707**

Other tax receivables mainly relate to VAT.

NOTE 23 CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents is broken down in the table below:

(in € million)	December 31, 2014	December 31, 2013
Cash at bank and in hand	177	200
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)	990	1,363
CASH AND CASH EQUIVALENTS	**1,167**	**1,563**

The average effective interest rate on short-term bank deposits was 0.88% in 2014 (2013: 0.66%).

Cash and cash equivalents are essentially held in Euros (2014: 88% after hedge, 2013: 92%)

Cash and cash equivalents as well as cash management financial assets and borrowing collaterals are essentially managed by the Group central treasury team with the exception of €326 million (2013: €326 million) which are managed directly by the Group companies.

These amounts are less easily available to meet the needs of other Group companies and are related to:

- capital increases made in some companies to finance the capital investments planned in 2015 and/or constraints (foreign exchange control or others) in some countries preventing the immediate availability of the cash held (2014: €45 million, 2013: €84 million); and
- prudential rules in Ireland specific to captive insurance companies (2014: €113 million, 2013: €109 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2013: 182,556,713 shares outstanding	**365**	**3,508**	**3,873**
Issuance of 4,467,601 shares from the partial payment of dividend in shares	9	240	**249**
Cancellation of 1,809,260 shares	(3)	(133)	**(136)**
Issuance of 574,583 shares from the exercise of share options and the delivery of performance shares	1	26	**27**
Transactions on treasury shares (reduction of 30,000 shares)	-	-	**-**
Other (issuance of 6 shares)	-	-	**-**
At December 31, 2013: 185,759,643 shares outstanding	**372**	**3,641**	**4,013**
Issuance of 946,891 shares from the exercise of share options and the delivery of performance shares	2	44	**46**
Cancellation of 1,010,336 shares	(2)	(85)	**(87)**
Transactions on treasury shares (increase of 30,000 shares)	-	-	**-**
Other (issuance of 2 shares)	(1)	1	**-**
AT DECEMBER 31, 2014: 185,726,200 SHARES OUTSTANDING	**371**	**3,601**	**3,972**

The par value per share amounts to €2 (unchanged from 2013). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2014, the dividend payable for the year 2013 to the shareholders was €2.50 per share (2013: €2.40 per share). It has been fully settled in cash for a net amount of €464 million.

In 2013, the settlement was as follows:

- payment in cash for €189 million;
- issuance of new shares for a net amount of €249 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €2.50 per share in 2015 for the year 2014.

NOTE 25 RESERVES

(in € million)	Translation reserve	Other reserves	Retained earnings	Total
At January 1, 2013	**(62)**	**192**	**4,530**	**4,660**
Dividends and other allocations	-	-	(455)	(455)
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	11	11
Transactions on treasury shares (1)	-	(2)	(19)	(21)
Other	-	-	-	-
Transactions with the shareholders of the Company	**-**	**(2)**	**(463)**	**(465)**
Net income/(loss) attributable to the shareholders of the Company	-	-	1,127	1,127
Post-employment benefits	-	-	*573*	*573*
Tax effect – Post-employment benefits	-	-	*(294)*	*(294)*
Other items of comprehensive income that will not be reclassified to income statement	-	-	279	279
Available-for-sale financial assets – change in fair values	-	*(21)*	-	*(21)*
Tax effect – available-for-sale financial assets – change in fair values	-	*(4)*	-	*(4)*
Available-for-sale financial assets – (gain)/loss recognized in income statement	-	-	-	-
Currency translation differences	*(341)*	-	-	*(341)*
Other	-	*(4)*	*6*	*2*
Other items of comprehensive income that may be reclassified to income statement	(341)	(29)	6	(364)
Comprehensive income	**(341)**	**(29)**	**1,412**	**1,042**
At December 31, 2013	**(403)**	**161**	**5,479**	**5,237**
Dividends and other allocations	-	-	(486)	(486)
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	7	7
Transactions on treasury shares (2)	-	2	-	2
Other	-	-	-	-
Transactions with the shareholders of the Company	**-**	**2**	**(479)**	**(477)**
Net income/(loss) attributable to the shareholders of the Company	-	-	1,031	1,031
Post-employment benefits	-	-	*(484)*	*(484)*
Tax effect – Post-employment benefits	-	-	*85*	*85*
Other items of comprehensive income that will not be reclassified to income statement	-	-	(399)	(399)
Available-for-sale financial assets – change in fair values	-	*(26)*	-	*(26)*
Tax effect – available-for-sale financial assets – change in fair values	-	*4*	-	*4*
Available-for-sale financial assets – (gain)/loss recognized in income statement	-	-	-	-
Currency translation differences	*169*	-	-	*169*
Other	*(2)*	*(3)*	*5*	-
Other items of comprehensive income that may be reclassified to income statement	167	(25)	5	147
Comprehensive income	**167**	**(25)**	**637**	**779**
AT DECEMBER 31, 2014	**(236)**	**138**	**5,637**	**5,539**

(1) Purchases of 2,685,194 shares for €207 million; disposals of 845,934 shares for €69 million; and cancellations of 1,809,260 shares for €136 million.
(2) Purchases of 1,000,000 shares for €86 million; disposals of 19,664 shares for €2 million; and cancellations of 1,010,336 shares for €87 million.

The equity part of the OCEANE zero coupon convertible bond (note 26 "Financial debts") amounts to €65 million (2013: €70 million) after tax. It is included in "Other reserves".

NOTE 26 FINANCIAL LIABILITIES

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

(in € million)	December 31, 2014	December 31, 2013
Bonds	1,108	1,118
Loans from financial institutions and other	377	273
Finance lease liabilities	63	49
Derivative instruments	73	7
Non-current financial liabilities	**1,621**	**1,447**
Bonds and commercial paper	419	598
Loans from financial institutions and other	251	231
Finance lease liabilities	9	10
Derivative instruments	47	17
Current financial liabilities	**726**	**856**
FINANCIAL LIABILITIES	**2,347**	**2,303**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2014	December 31, 2013
Financial liabilities	2,347	2,303
Derivatives recognized as assets (note 16.1)	(88)	(100)
Borrowing collaterals (note 32.3.2)	(72)	(12)
Cash management financial assets (note 21)	(313)	(486)
Cash and cash equivalents (note 23)	(1,167)	(1,563)
NET DEBT	**707**	**142**

The fair value of non-current financial liabilities, calculated in accordance with note 3.6 "Fair value of financial instruments", is presented in the table below:

(in € million)	December 31, 2014	December 31, 2013
Bonds	1,091	1,127
Loans from financial institutions and other	377	273
Finance lease liabilities	63	49
Derivative instruments	73	7
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**1,604**	**1,456**

26.1 Bonds and commercial paper

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

	December 31, 2014		December 31, 2013	
(in € million)	Current	Non-current	Current	Non-current
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €400 million (2013: €400 million) ▶ issued in June 2012 and due in June 2019 ▶ nominal interest rate of 2.75% (0.26% after hedging) ▶ hedged through a €400 million interest rate swaps (2013: €400 million) expiring in June 2019 (fair value hedge) (note 16)	-	421	-	406
Liability component of zero-coupon convertible bonds (OCEANE) issued by Compagnie Générale des Établissements Michelin ▶ net proceeds received of €694 million ▶ annual gross yield of 3.07% ▶ effective interest rate of 4.76% at December 31, 2014 ▶ conversion and/or exchange ratio of 1 bond for 1.036 ordinary share ▶ issued in March 2007 and due in January 2017 ▶ amount redeemable at maturity date: €754 million	-	687	-	712
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €404 million (2013: €404 million) ▶ redeemed in April 2014 ▶ nominal interest rate of 8.625% ▶ effective interest rate of 8.63% (6.30% after hedging) in April 2014 ▶ step-up of 125bp if downgraded below investment grade by at least one rating agency ▶ hedged through a €404 million interest rate swaps (2013: €404 million) expired in April 2014 (fair value hedge) (note 16)	-	-	404	-
Commercial paper issued by Compagnie Générale des Établissements Michelin ▶ nominal value of €385 million (2013: €25 million) ▶ effective interest rate of 0.06% at December 31, 2014	385	-	25	-
Commercial paper issued by Compagnie Générale des Établissements Michelin and Michelin Luxembourg SCS ▶ nominal value of $41 million (2013: $233 million) ▶ effective interest rate of 0.21% at December 31, 2014	34	-	169	-
TOTAL	**419**	**1,108**	**598**	**1,118**

At December 31, 2014, the weighted average effective interest rate for bonds and commercial paper is 2.63% (1.86% after hedging).

26.2 Loans from financial institutions and other

Loans from financial institutions and other include mainly amounts drawn on credit lines, borrowings secured by trade receivables as mentioned in note 32.3.3 "Trade receivables" and liabilities arising from put options granted to minority shareholders of subsidiaries.

Loans from financial institutions and other at December 31, 2014 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	BRL	Other	Total
Fixed rates	-	-	116	7	123
Floating rates	228	86	106	85	505
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**228**	**86**	**222**	**92**	**628**
Average effective interest rate paid in 2014	**0.97%**	**4.27%**	**7.19%**	**7.83%**	**4.55%**

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

26.3 Rating

At December 31, 2014, the corporate credit ratings sought by the Group are as follows:

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

NOTE 27 EMPLOYEE BENEFIT OBLIGATIONS

According to the laws and regulations applicable in each country, as well as in application of its social responsibility policy, the Group takes part in pension, insurance, healthcare and end of service benefits, for which the amount of benefits paid varies based on a number of factors including the employee's years of service, salary, accumulated funds with an independent manager or contributions paid to insurers.

Such plans can be either defined benefit plans or defined contribution plans. In the case of defined benefit plans, Group commitments are measured using the Projected Credit Unit method. These commitments are calculated by independent actuaries. In the case of defined contribution plans, liabilities correspond to the contributions due.

Since 2003 the Group has been closing its defined benefit plans to new entrants and also, in some cases, to future accruals in order to reduce the risk on the Group's balance sheet and has put in place new or improved defined contribution plans.

Since 2005 the Group has a governance body, the Global Employee Benefit Board, that monitors benefits. This Board defines Group policies in term of benefits and ensures that local benefit programs comply with them (validation of the changes, introduction of new benefits, etc.), monitors asset returns and benchmarks, as well as the de-risking policies put in place by local boards or Trustees, and proposes an audit plan. The Board is assisted by two teams, the Global Benefit Policy Team composed of members from the accounting, finance and human resources departments and the Global Benefit Investment Team composed of the chairmen of the investment committees of the main funded pension plans. In countries with substantial benefit obligations similar organization exists.

27.1 Defined Benefit Plans

These plans are retirement plans and retiree healthcare plans, the vast majority of which are now closed to new entrants, even to future accruals, as well as some minor plans such as long service awards or end-of-service benefits.

In Europe, the discount rates are determined using the actuary's yield curve models. These rates are based on the yield of high quality corporate bonds and have the same durations as the liabilities. The discount rate in the USA is based on the actuary's AA Only Bond yield curve rates. The discount rate in Canada is based on the Canadian Institute of Actuaries Canadian Corporate Aa Bond yield curve rates. For countries having several plans (but only one material plan) the assumption of the main plan is used for all plans. For countries having several plans of comparable size different rates can be used depending on the duration of these plans.

The inflation assumptions are set using different methods. In most cases the target inflation set by the central banks are used. In the UK, the market implied inflation rate is also considered (differential between gilts and indexed linked gilts less a spread). In the USA, the cost of living increases for some pensions is set using historical averages.

The salary increase assumptions can be either spreads above inflation (either RPI or CPI) or absolute values. These assumptions take into account expected long-term yearly average salary increases as well as the effects of promotions. In some cases, assumptions by category of personnel can be used.

The post-employment mortality assumptions used for the pension plans which are funded through insured contracts are the insurers' tables. For the other main post-employment plans the following tables have been used: (i) USA: RP-2000 Fully Generational Combined Healthy Tables for Males and Females using Scale BB; (ii) Canada: 95% of CPM 2014 Private – Scale B; (iii) UK: Generational SAPS S2PA CMI 2013 adjusted with 1.25% underpin and (iv) Germany: Heubeck RT 2005 G.

	December 31, 2014				December 31, 2013			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	18.6	21.8	21.9	18.8	18.5	19.1	22.0	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	20.2	22.7	22.9	20.7	20.1	19.1	22.6	20.7
Life expectancy for females at 65 at the end of the reporting period	20.9	24.3	24.7	22.8	20.8	21.6	24.3	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.3	25.1	25.9	24.8	22.2	21.6	25.4	24.8

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

(in € million)	Pension plans	Other plans	December 31, 2014	December 31, 2013
Present value of fully or partly funded obligations	7,518	-	7,518	6,323
Fair value of plan assets	(6,142)	-	(6,142)	(5,182)
Funded status deficit/(surplus)	**1,376**	**-**	**1,376**	**1,141**
Present value of unfunded obligations	922	2,286	3,208	2,749
Unrecognized asset due to application of asset ceiling	28	-	28	5
NET DEFINED BENEFIT OBLIGATION	**2,326**	**2,286**	**4,612**	**3,895**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			4,612	3,895
NET LIABILITY			**4,612**	**3,895**

At December 31, 2014, the present value of the defined benefit obligation is made up of €4,615 million relating to active employees, €1,094 million relating to deferred members and €5,017 million relating to members in retirement (2013: respectively €4,018 million, €1,028 million and €4,026 million).

At December 31, 2014, the present value of the defined benefit obligation is made up of €8,239 million relating to vested benefits and €2,487 million relating to non-vested benefits (2013: respectively €6,917 million and €2,155 million).

Actuarial gains and losses on post-employment defined benefit plans are recognized in other comprehensive income when they occur.

The Group does not recognize as an asset any surplus in excess of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group immediately recognizes a liability for any surplus resulting from the contributions paid under the MFR which would not be fully recoverable through economic benefits available to the Group.

Any reduction in assets or increase in liabilities resulting from the asset ceiling application is recognized in other comprehensive income.

The movements in net defined benefit obligations recognized in the balance sheet are shown below:

(in € million)	Pension plans	Other plans	2014	2013
At January 1	**1,902**	**1,993**	**3,895**	**4,623**
Contributions paid to the funds	(70)	-	(70)	(185)
Benefits paid directly to the beneficiaries	(28)	(124)	(152)	(146)
Other movements	-	-	-	-
Items recognized in operating income				
Current service cost	64	57	121	133
Actuarial (gains) or losses recognized on other long term benefit plans	-	20	20	(2)
Past service cost resulting from plan amendments	(1)	(6)	(7)	-
Effect of plan curtailments or settlements	(17)	(10)	(27)	(6)
Effect of plan amendments recognized in non-recurring items	12	(1)	11	(14)
Other items	-	-	-	-
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	74	79	153	162
Items recognized in other comprehensive income				
Translation adjustments	78	106	184	(97)
Actuarial (gains) or losses	289	172	461	(574)
Portion of unrecognized asset due to the application of the asset ceiling	23	-	23	1
AT DECEMBER 31	**2,326**	**2,286**	**4,612**	**3,895**

The amount of actuarial gains or losses presented in the statement of comprehensive income and recognized in equity is detailed in the table below:

(in € million)	Pension plans	Other plans	2014	2013
At January 1	**1,236**	**329**	**1,565**	**2,139**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	99	35	134	102
▶ Due to experience	(39)	(69)	(108)	(62)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	763	201	964	(468)
▶ Due to experience	(532)	4	(528)	(147)
Unrecognized asset due to application of asset ceiling	24	-	24	1
AT DECEMBER 31	**1,551**	**500**	**2,051**	**1,565**
Of which actuarial gains or (losses)	*1,521*	*500*	*2,021*	*1,559*
Of which asset ceiling effect	*30*	*-*	*30*	*6*

In 2014, the net amount recognized in the consolidated income statement was an expense of €271 million (2013: expense of €273 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2014	Year ended December 31, 2013
Cost of services rendered during the year	64	57	121	133
Net interest on the defined benefit liability (asset)	74	79	153	162
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	20	20	(2)
Past service cost recognized during the year:				
▶ Due to the introduction of or modifications to defined benefit plans	(1)	(6)	(7)	(6)
▶ Due to curtailments of defined benefit plans	(1)	(10)	(11)	-
Effect of defined benefit plans settlements	(16)	-	(16)	-
Portion of defined benefit expenses recognized within non-recurring restructuring costs	12	(1)	11	(14)
TOTAL RECORDED IN THE INCOME STATEMENT	**132**	**139**	**271**	**273**

Annual charges are determined by independent actuaries at the beginning of each financial year based on the following factors:

- charge corresponding to acquisition of an additional year of rights ("cost of services rendered during the year");
- charge/income corresponding to the discounting adjustment to reflect the impact of the passage of time ("net interest");
- income or charge from annual recognition of actuarial gains or losses on other long term defined benefit plans ("Actuarial (gains) or losses recognized during the year");
- gain/loss resulting from changes or introduction of benefit plans ("past service cost recognized during the year");
- gain/loss resulting from curtailments of any benefit plans ("past service cost recognized during the year");
- gain/loss resulting from settlements of any benefit plans ("settlements").

27.1.1 Pension plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary.

Under defined benefit plans, future level of benefits are defined by the plan regulations. The valuation of such defined benefit plans is carried out by independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds or insurers specialized in managing these assets. In the case of unfunded plans such as the German pension plans, a provision is made in the consolidated balance sheet.

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

USA

There is one major defined benefit plan in USA, the Michelin Retirement Plan (MRP). It covers several groups of beneficiaries who participated in inherited plans (Michelin employees, Former Uniroyal Salaried Employees, Former UGTC – BFG Salaried Employees, BFG Wage Employees, UGTC Wage Employees, ASRC Employee). Only the main plan, applicable to Michelin employees is described below. The smaller plans were closed in 2014.

The plan was closed to new entrants as of January 1, 2004. After this date new entrants are enrolled in a defined contribution plan.

Some participants chose to stop participating in the Michelin Retirement Plan as of July 1, 2004 or as of July 1, 2007. Those participants may choose to receive the accrued frozen benefit as an annuity or as a lump sum on retirement. These participants have been enrolled In a defined benefit contribution plan.

For participants that did not choose to stop participating in the Michelin Retirement Plan as of July 1, 2007, accruals will be frozen under the Plan as of December 31, 2016. Those participants may only receive this benefit as an annuity. These participants will be enrolled in a defined contribution plan.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 and have completed at least 10 years of vesting service are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental benefit may be granted for employees reaching age 55 and who have completed 30 years of service until the employee is eligible for social security benefit.

The plan provides a guaranteed monthly benefit at retirement based on a defined formula (with a lower accrual rate on the social security wage bases) that takes into consideration the years of plan membership and total pensionable recurring earnings. Employees can opt for a lump sum instead of an annuity and a majority of them do so.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan's pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides a cost-of-living adjustment of the pension only for employees hired before January 1, 1991.

The plan is funded solely by employer contributions.

Canada

There is one major defined benefit plan in Canada, Michelin Retirement Plan (MRP). There are three other minor defined benefit plans inherited from BFG which are closed to new entrants whose membership is mostly deferred or retired. These plans are not detailed further.

The Michelin Retirement Plan (MRP) was closed to new entrants as from January 1, 2005. After this date new entrants are enrolled in a defined contribution plan. Accruals for most of the participants will be frozen under the plan as of December 31, 2015. These participants will be enrolled in a defined benefit contribution plan.

The plan sets the normal retirement age at 65. However, employees having 30 years of service or who have reached the age 55 are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental bridge is granted for employees having 30 years of service to partially compensate early retirement.

The plan provides a guaranteed monthly annuity at retirement based on a defined formula that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit or a beneficiary pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an annual increase of the pension based on a percentage inferior to Consumer Price Index.

The plan is funded solely by employer contributions.

United Kingdom

The defined benefit retirement plan in the UK is the Michelin Pension and Life Assurance Plan.

The plan was closed to new entrants as from December 6, 2004 and replaced by a defined contribution plan and as of January 1, 2009 it was closed for all future accruals.

Accruals up to December 31, 2008 are frozen but pensions are still linked to the average final salary at retirement.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 are eligible for early retirement with the Group's consent. In the case of early retirement, the accrued benefit is reduced by an actuarial reduction factor.

The plans provide for an annual pension based on the employee's pensionable earnings. Most employees take the maximum amount allowed by tax legislation in the form of a lump sum.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan's pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an indexation of the pension benefit based on a capped inflation rate.

The plan is funded solely by employer contributions.

Germany

There is one major defined benefit retirement plan in Germany, the *"Versorgungsordnung 1979 (VO 1979)"* of MRW (Michelin Reifenwerke AG).

The plan was closed to new entrants as from January 1, 2000. After this date new entrants are enrolled in defined contribution plans.

The plan sets the normal retirement age at 65.

The plans provide lifetime monthly annuity which are based on the employee pensionable compensation.

A flat rate applies to the compensation exceeding the social security ceiling and an additional rate takes into account the years of service on the total pensionable earnings.

The plan includes provision in case of death in service provisions as well as post-retirement spouse and orphan's pensions and disability provisions.

There is a legal obligation to adjust every three years the pension annuity by the inflation up to the average increase of the employees' salaries.

France

There is one major pension defined benefit plan in France, *"Régime de retraite supplémentaire MFPM"*.

In order to be eligible, employees must reach 10 years of service and be present at the retirement date.

This plan had been set up in 1996 in order to grant an additional retirement benefit to all employees when the retirement replacement ratio of the mandatory state plans is below the trigger threshold of 55%. At this point an additional benefit is calculated based on service and pensionable earnings (capped additional plan).

If mandatory state pension plus additional benefit from this plan reaches 55% of pensionable salary, the annuity paid by the plan is capped at this level. Closure of the plan was not possible for new entrants therefore as from January 1, 2013, the threshold of 55% is decreasing progressively until 2046 where it will be nil. In return, employees participate to a defined contribution plan (Article 83) and can also participate in other defined contribution plans.

The plan includes provision in case of post-retirement spouse's pensions and disability provisions.

Plan is insured for the retirees and covered by two insurance companies.

Adjustments or increase of annuity are possible but not automatic and are based on the reserves available.

The following table analyzes changes in the financial position of the Group defined benefit pension plans:

	2014				2013			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	3,486	3,553	40	**7,079**	4,031	3,483	49	**7,563**
Translation adjustments	378	152	-	**530**	(227)	(33)	(5)	**(265)**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Current service cost	33	28	-	**61**	38	27	1	**66**
Interest cost on the defined benefit obligation	174	148	2	**324**	140	132	3	**275**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	8	-	-	**8**	(26)	-	-	**(26)**
▶ Past service cost due to curtailments of defined benefit plans	4	(1)	-	**3**	-	-	-	**-**
▶ (Gains) or losses on settlements of defined benefit plans	(18)	-	-	**(18)**	-	-	-	**-**
Benefits paid	(260)	(147)	1	**(406)**	(230)	(140)	1	**(369)**
Other items	-	(1)	-	**(1)**	-	2	2	**4**
Actuarial (gains) or losses generated during the year	325	533	2	**860**	(240)	82	(11)	**(169)**
Present value of the obligations at the end of the year	**4,130**	**4,265**	**45**	**8,440**	**3,486**	**3,553**	**40**	**7,079**
Fair value of plan assets at the beginning of the year	3,056	2,103	23	**5,182**	3,162	2,007	26	**5,195**
Translation adjustments	325	127	-	**452**	(181)	(27)	(4)	**(212)**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Interest income on plan assets	150	95	2	**247**	109	82	2	**193**
Contributions paid to the plans	49	21	1	**71**	83	102	1	**186**
Administration costs	-	(5)	-	**(5)**	-	(4)	-	**(4)**
Benefits paid by the plans	(258)	(120)	2	**(376)**	(230)	(114)	1	**(343)**
Other items	-	-	-	**-**	-	-	(1)	**(1)**
Actual return on plan assets excluding interest income	409	162	-	**571**	113	57	(2)	**168**
Fair value of plan assets at the end of the year	**3,731**	**2,383**	**28**	**6,142**	**3,056**	**2,103**	**23**	**5,182**
Deficit/(Surplus) at the end of the year	**399**	**1,882**	**17**	**2,298**	**430**	**1,450**	**17**	**1,897**
Deferred items at the beginning of the year	(5)	-	-	**(5)**	(4)	-	-	**(4)**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Unrecognized asset due to application of the asset ceiling generated during the year	(23)	-	-	**(23)**	(1)	-	-	**(1)**
Deferred items at the end of the year	**(28)**	**-**	**-**	**(28)**	**(5)**	**-**	**-**	**(5)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**427**	**1,882**	**17**	**2,326**	**435**	**1,450**	**17**	**1,902**

In 2014, the Group announced a significant reduction of tire manufacturing capacity at its Pictou plant, Canada (note 9.1.1.). The impact of this restructuring on the Canadian pension plan results in a curtailment and a past service cost for a global amount of €12 million recognized in non-recurring expenses.

In 2014, the Group has decided to offer the possibility to the US pension plan participants to get their pension in form of a lump sum generating a partial settlement of the plan amounting to an income of €16 million recognized in operating income before non-recurring expenses and income.

For Canadian pension plans, the Group does not have any rights to a refund of the plan surplus. The economic benefits available are measured as the present value of future service cost. These pension plans are subject to a minimum funding requirement. The surplus recognized as an asset is the sum of:

- any prepaid amount that would reduce the future minimum funding requirement; and
- the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service.

Any amount exceeding this limit is immediately recognized within the other comprehensive income.

In 2014, the amount recognized resulting from the effect of the asset ceiling was to €23 million (2013: €1 million).

In 2014, the present value of defined benefit pension obligations increased by €1,361 million. This change was due to:

(in € million)	2014	2013
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(530)	265
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(860)	169
Difference between the costs (service cost and interest cost) and the benefits paid during the year	21	28
Changes in plan regulations	7	26
Changes in the scope of consolidation	-	-
Other items	1	(4)

The fair value of plan assets amounted to €6,142 million at December 31, 2014, showing an increase of €960 million compared to December 31, 2013. The factors behind this variation were as follows:

(in € million)	2014	2013
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	452	(212)
Difference between the contributions paid to the funds and the benefits paid by the funds	(310)	(162)
Actual return on plan assets	818	361
Changes in the scope of consolidation	-	-
Other items	-	-

The present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan and the experience adjustments are as follows for 2014 and the previous four periods:

(in € million)	2014	2013	2012	2011	2010
Defined benefit obligation	(8,440)	(7,079)	(7,563)	(6,634)	(5,981)
Plan assets	6,142	5,182	5,195	4,810	4,681
SURPLUS/(DEFICIT)	**(2,298)**	**(1,897)**	**(2,368)**	**(1,824)**	**(1,300)**
Experience adjustment to:					
▶ plan liabilities	32	(43)	(60)	8	86
▶ plan assets	538	166	227	(58)	191

The experience adjustments in percentage of the present value of the obligation and the fair value of plan assets are presented in the table below:

	2014	2013	2012	2011	2010
Experience adjustment to:					
▶ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.38%	0.61%	0.79%	-0.12%	-1.44%
▶ to the plan assets in percentage of the fair value of the assets	8.76%	3.20%	4.37%	-1.21%	4.08%

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

	December 31, 2014			December 31, 2013		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.97%	3.15%	11.50%	4.57%	4.05%	11.30%
Inflation rate	2.36%	2.71%	5.00%	2.36%	2.77%	4.50%
Rate of salary increases	2.88%	2.94%	6.42%	2.87%	3.07%	6.73%
Weighted average duration of the defined benefit obligation	13.0	15.6	11.9	13.5	15.2	14.0

The discount rates, salary increase and inflation are the main financial assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported.

All actuaries provide for each plan sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

For the sensitivity of the fair market value of plan assets due to the interest rates movement it is considered that all the yield curve is moving up or down by 0.5 point and only the value of the bonds are impacted, all other assets keeping their value. The sensitivity indicated is the overall change of the value of the total portfolio due to the change in the interest rates.

A 0.5-point shift in these rates, while holding all other assumptions constant, compared to those used for 2014 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.69%	7.36%
Discount rate on the aggregate of current service cost and interest cost on the obligation	3.63%	-4.54%
Inflation rate on the defined benefit obligation (DBO)	4.97%	-4.59%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	4.85%	-4.47%
Salary increase rate on the defined benefit obligation (DBO)	1.28%	-1.10%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	1.87%	-1.55%
Interest rates on the fair market value of plan assets	-4.07%	4.46%

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

	Year ended December 31, 2014				Year ended December 31, 2013			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	30	32	2	**64**	40	30	2	**72**
Interest cost on the defined benefit obligation	161	144	3	**308**	147	131	3	**281**
Interest income on plan assets	(139)	(92)	(3)	**(234)**	(114)	(80)	(3)	**(197)**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	**-**	-	-	-	**-**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	(1)	-	-	**(1)**	(28)	-	-	**(28)**
▶ Due to curtailments of defined benefit plans	-	(1)	-	**(1)**	-	-	-	**-**
Effect of defined benefit plans settlements	(16)	-	-	**(16)**	-	-	-	**-**
Portion of defined benefit expenses recognized within non-recurring restructuring costs	12	-	-	**12**	-	-	2	**2**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**47**	**83**	**2**	**132**	**45**	**81**	**4**	**130**
Actual return on plan assets	**559**	**257**	**3**	**819**	**221**	**139**	**(1)**	**359**

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

	December 31, 2014					December 31, 2013				
	Canada	USA	UK	Other	Total	Canada	USA	UK	Other	Total
Quoted securities										
Local equities	5.6%	16.0%	4.3%	2.4%	**9.4%**	7.5%	16.6%	6.1%	2.2%	**10.6%**
Foreign and global equities	10.8%	10.2%	14.5%	0.0%	**11.5%**	13.3%	12.0%	18.2%	0.0%	**14.0%**
Alternative investments	7.8%	7.9%	21.5%	0.0%	**12.4%**	7.9%	8.4%	23.4%	0.4%	**13.5%**
Real estate	0.0%	0.0%	7.2%	0.0%	**2.6%**	0.0%	0.0%	7.1%	0.2%	**2.6%**
Indexed linked bonds	0.2%	0.0%	8.8%	2.2%	**3.3%**	0.1%	0.0%	7.6%	0.0%	**2.8%**
Fixed income government and agencies	17.9%	5.7%	8.4%	4.2%	**11.1%**	16.6%	6.6%	8.0%	0.0%	**11.4%**
Corporate bonds	10.0%	23.2%	10.8%	2.6%	**15.7%**	9.7%	23.8%	8.6%	0.0%	**14.8%**
Other fixed income, multi-asset credit, emerging market bonds	30.7%	24.0%	19.2%	0.1%	**20.3%**	25.6%	20.3%	16.4%	8.0%	**16.4%**
Cash & cash equivalent	2.1%	3.2%	1.8%	0.8%	**2.4%**	2.5%	1.7%	3.1%	19.5%	**3.3%**
Total quoted securities	**85.1%**	**90.2%**	**96.5%**	**12.3%**	**88.7%**	**83.2%**	**89.4%**	**98.5%**	**30.3%**	**89.4%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	87.7%	**3.2%**	0.0%	0.0%	0.0%	69.1%	**2.8%**
Private placements (1)	7.0%	4.2%	3.5%	0.0%	**4.3%**	8.8%	5.2%	1.5%	0.6%	**4.2%**
Real estate	7.9%	5.6%	0.0%	0.0%	**3.8%**	8.0%	5.4%	0.0%	0.0%	**3.6%**
Total non-quoted securities	**14.9%**	**9.8%**	**3.5%**	**87.7%**	**11.3%**	**16.8%**	**10.6%**	**1.5%**	**69.7%**	**10.6%**
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Duration in years of the bond portfolio, excluding cash & cash equivalents	**19.9**	**18.1**	**15.6**	**N/A**	**16.9**	**19.2**	**17.3**	**16.8**	**N/A**	**16.7**

(1) Hedge funds and private equity.

In the above allocation, assets reported under "Quoted Securities" are assets which have a regular market value at which such assets can be sold and the ones under "Non-Quoted Securities" are assets managed by insurance companies and less liquid assets which could be sold at a discounted price.

An internal group of experts, composed by the chairmen of the main investment committees and Group specialists, has issued investment guidelines for the use of the local investment committees giving the investment best practices. Among other issues, these guidelines state not to invest directly in any Michelin securities or in any properties used by the Group. Fund managers do not have such restrictions. The Group has no significant amount invested in its own securities. Michelin does not occupy or use any of the real estate assets included in the various portfolios. Detailed information is not available about the underlying assets held in general insurance funds or alternative investments.

Alternative investments are composed of hedge funds and some funds of hedge funds. In the UK there are also diversified growth funds for which the managers can switch between main asset classes depending on market conditions. This kind of investment is expected to have an equity-like return for a lower volatility.

Other fixed income are composed of emerging market bonds, commingled funds, liability hedging portfolios for which the managers invest in government and corporate bonds as well as in derivatives, as well as in multi asset credit in the UK for which the managers can switch between main credit products depending on market conditions. This kind of investment is expected to have a corporate bonds like return with a lower volatility due to its diversification to asset backed securities, loans, high yield bonds as well as cash, government and corporate bonds.

For the UK portfolio the real estate investment is an investment into a Limited Price Index Property Fund with long term leases which is expected to hedge inflation risk.

In most countries assets are managed by local independent boards which are required under local pension laws. The boards are required by their articles of association as well as by law to act in the best interest of the fund and of all relevant stakeholders in the plan, *i.e.* current and future beneficiaries as well as employers.

Asset allocation studies are performed periodically, generally every three to five years, by an independent fiduciary body (Investment Board, Board of Trustees) based on recommendations made by independent advisors (actuaries, consultants, investment management firms). The asset allocation takes into account the structure of employee-related liabilities and their terms. In case of a large rise in funding ratio such asset allocation study should be performed to ensure the target allocation is still appropriate.

The largest pension plans have implemented a dynamic asset allocation, where the target asset allocations are based on plan funded status. An improvement in funding status results in the de-risking of the portfolios, allocating more funds to liability hedging assets (LHA) and less to return seeking assets (RSA). In case of a decrease of the funding ratio the target allocation remains unchanged, as re-risking of the portfolios is not permitted.

The RSA are diversified with the objective to target efficient portfolios where the level of volatility is minimized for the targeted return. These portfolios combine domestic and global equities with real estate and alternative assets such as hedge funds and private placements. Special attention is given to lower liquid asset classes which may complicate the de-risking process by creating concentrated positions or requiring transactions at discounted prices.

The LHA are hedging the duration risk as well as in some cases the credit spread and inflation risk. The LHA portfolios are primarily composed of government and corporate bonds. The larger plans also use completion managers to implement custom solutions in order to hedge key rate duration according to the policy set by each pension fund.

Foreign exchange risks might be covered when the exposure to foreign currency is considered as non-negligible. For instance the UK fund has a large exposure to non UK equities and has a policy to hedge 75% of its foreign currencies. In other cases, investment managers are given discretion to hedge currency exposure as they deem necessary.

Group contributions to pension plans and benefit payments made by these plans in 2014 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Contributions paid and benefits paid directly by the Group				
2014	48	48	3	**99**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2015	49	90	1	**140**
2016	15	107	-	**122**
2017	15	115	1	**131**
2018	29	105	-	**134**
2019	93	93	-	**186**
2020-2024	392	555	2	**949**

The Group makes contributions to fully and partly funded plans in order to meet its future benefit payment obligations to the beneficiaries. The level of contributions is periodically determined by the Group based on factors such as current funding levels, legal and tax considerations and local practice, in consultation, as the case may be, with local boards and actuaries.

In the US the following year contribution is determined annually using IRS rules including temporary funding relief provided by HATFA (Highway and Transportation Funding Act of 2014) legislation.

In Canada the contributions are determined on a tri-annual base and the funding plan is spread over five years as required under local regulations.

In the UK the contributions are determined based on tri-annual actuarial valuations as required by the Pension Act. In case of deficit the employer must agree a recovery plan with the Trustees. The current Recovery Plan matures in 2027.

In 2014, in addition to the ordinary contributions, it was decided to make a contribution in advance due in January 2015: €13 million in Canada.

In the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly via the relevant administrators.

The estimates of future payments for unfunded plans are based on data included in the calculation of the projected defined benefit obligation based on expected leaving dates each year. The same method is used for the constitutive funds for partially funded plans paid to insurance companies. For funded plans, the estimates of future contributions take into account the changes in regulations that are known to date (Pension Protection Act 2006 in the US and Pension Act 2004 in the UK).

27.1.2 Other Defined Benefit Plans

In many countries, Group employees receive other post-employment benefits and long-term benefits throughout their term of employment. The "other post-employment benefits" mainly include health insurance and end of service benefit. The "Other defined benefit plans" are mainly found in the United States, Canada and France. "Other long-term benefits" include deferred compensation plans that are mandatory in the countries where the Group operates or provided for under local company-specific agreements. Such defined benefit plans generally concern the Group European companies and are based on seniority.

As in the case of the above-described defined benefit plans, "other defined benefit plans" are valued by independent actuaries using actuarial techniques. The obligations under these plans are not covered by assets and are recognized as liabilities.

The main plans provided within the Group are:

USA

The Group offers retiree medical benefits that provide healthcare coverage for Pre-Medicare and Medicare eligible retirees and their dependents.

Eligible retirees are mainly those who were active prior to January 1, 2004 and will have at least 10 years of service at the date of retirement.

For the Medicare retirees, the health care coverage comes as an addition to the Medicare basis.

Medical and prescription drug expenses are covered by the plan. The retirees contribute to the cost of the post-retirement medical plan.

The Group pays a premium for the administrative services. This plan is not pre-funded

Canada

The Group offers retiree medical benefits that provide healthcare coverage for certain retirees and their dependents. Medical and prescription drug expenses are covered by the plan.

This plan was closed to new entrants as from January 1, 2005.

The Group pays a premium for the administrative services. This plan is not pre-funded.

France

The main plan is a mandatory rubber branch end-of-service benefit plan.

The plan provides that a lump sum payment is made upon retirement for employees being present at the retirement date. The normal age of retirement is 65. The calculation of the lump sum corresponds to a number of months of salary based on years of service at the time of retirement.

This plan is not pre-funded.

Changes in the financial position of "other defined benefit plans" are as follows:

(in € million)	December 31, 2014 North America	Europe	Other	Total	December 31, 2013 North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	946	1,024	23	**1,993**	1,222	999	31	**2,252**
Translation adjustments	105	-	1	**106**	(66)	-	(4)	**(70)**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Current service cost	12	42	2	**56**	14	42	2	**58**
Interest cost on the defined benefit obligation	47	34	2	**83**	43	32	2	**77**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	-	(7)	1	**(6)**	(1)	23	-	**22**
▶ Past service cost due to curtailments of defined benefit plans	1	(12)	-	**(11)**	-	(16)	-	**(16)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Benefits paid	(55)	(71)	(1)	**(127)**	(57)	(56)	(1)	**(114)**
Other items	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses generated during the year	39	149	4	**192**	(209)	-	(7)	**(216)**
Present value of the obligations at the end of the year	**1,095**	**1,159**	**32**	**2,286**	**946**	**1,024**	**23**	**1,993**
Fair value of plan assets at the beginning of the year	-	-	-	**-**	-	-	-	**-**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Contributions paid to the plans	-	-	-	**-**	-	-	-	**-**
Administration costs	-	-	-	**-**	-	-	-	**-**
Benefits paid by the plans	-	-	-	**-**	-	-	-	**-**
Other items	-	-	-	**-**	-	-	-	**-**
Actual return on plan assets excluding interest income	-	-	-	**-**	-	-	-	**-**
Fair value of plan assets at the end of the year	-	-	-	-	**-**	**-**	**-**	**-**
Deficit/(surplus) at the end of the year	**1,095**	**1,159**	**32**	**2,286**	**946**	**1,024**	**23**	**1,993**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**1,095**	**1,159**	**32**	**2,286**	**946**	**1,024**	**23**	**1,993**

The calculation formula of the benefit offered by the jubilee plan in Italy has been changed generating a past service cost amounting to €7 million recognized as an income within the operating income before non-recurring expenses and income.

A curtailment on the whole of the defined benefit plans in France, linked to the restructuring of Joué-les-Tours, has been recognized for an amount of €11 million as an income within the operating income before non-recurring expenses and income. At the same time, a provision for restructuring has been recognized in the expenses within the operating income before non-recurring expenses and income for an equivalent amount.

In 2014 the present value of "other defined benefit plans" increase by € 293 million, due to:

	2014	2013
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(106)	70
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(192)	216
Difference between the costs (service cost and interest cost) and the benefits paid during the year	(12)	(21)
Changes in plan regulations	17	(6)
Changes in the scope of consolidation	-	-
Other items	-	-

The present value of the defined benefit obligation and experience adjustments are as follows for 2014 and the previous four periods:

(in € million)	2014	2013	2012	2011	2010
Defined benefit obligation	(2,286)	(1,993)	(2,252)	(1,920)	(1,662)
Experience adjustments to plan liabilities	65	86	5	3	27
Experience adjustments to plan liabilities *(in % of present value of the obligation (DBO))*	2.84%	4.32%	0.22%	0.16%	1.62%

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

	December 31, 2014			December 31, 2013		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.97%	2.11%	7.19%	4.58%	3.34%	7.72%
Weighted average duration of the defined benefit obligation	13.6	11.9	10.4	13.9	11.3	10.4

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2014		December 31, 2013	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.33%	5.25%	7.50%	5.37%
Minimum long-term rate of annual growth in healthcare costs	5.00%	4.25%	5.00%	4.25%
Year in which the minimum growth rate will be achieved	2021	2023	2019	2023

The discount rate and the assumed health care cost trend rate are the main assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported. All actuaries provide for each plan sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and Cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

A 0.5-point shift in these rates, all else otherwise being equal, compared to those used for 2014 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-5.98%	6.56%
Discount rate on the aggregate of current service cost and interest cost on the obligation	0.67%	-0.88%
Healthcare cost trend on the healthcare defined benefit obligation	5.83%	-5.16%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	6.18%	-5.38%

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

	Year ended December 31, 2014				Year ended December 31, 2013			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	11	42	4	**57**	15	44	2	**61**
Interest cost on the defined benefit obligation	43	34	2	**79**	44	32	2	**78**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	20	-	**20**	-	(2)	-	**(2)**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	-	(7)	1	**(6)**	(1)	23	-	**22**
▶ Due to curtailments of defined benefit plans	-	(10)	-	**(10)**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	-	-	**-**
Portion of defined benefit expenses recognized within non-recurring restructuring costs	1	(2)	-	**(1)**	-	(16)	-	**(16)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**55**	**77**	**7**	**139**	**58**	**81**	**4**	**143**

Group payments made under "other defined benefit plans" in 2014 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2014	50	72	2	**124**
Estimates of benefit payments to be made				
2015	57	47	4	**108**
2016	59	62	2	**123**
2017	60	70	2	**132**
2018	61	61	2	**124**
2019	62	63	2	**127**
2020-2024	306	461	13	**780**

For unfunded plans, such payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators.

27.2 Defined contribution plans

In some Group companies, employees are covered by defined contribution plans. Such plans mainly provide benefits in addition to those of mandatory post-employment plans.

In 2014, the contributions paid to defined contribution plans and expensed amounted to €139 million (2013: €129 million).

These plans are mainly found in the United States of America, Canada, the United Kingdom and France.

USA

The defined contribution plans in the United States consist of the Michelin Retirement Account Plan (MRAP) and various 401(k) plans. The MRAP plan is fully funded by employer contributions. The contribution levels are based on age and years of service. The 401(k) plans are voluntary and are funded by employee contributions with employer matching contributions. In both the MRAP and 401(k) plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment Committee under the authority of the US Pension Board.

Canada

The defined contribution plans in Canada consist of the Defined Contribution Plan for the Employees of Michelin North America (Canada) Inc. and Participating Employers, and a registered retirement savings plan (RRSP). The defined contribution plan is funded by core employer contributions and optional employee contributions with employer matching. The core contribution levels are based on years of service and/or age. The RRSP plan is voluntary and is funded by employee contributions with employer matching contributions. In both the DC and RRSP plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment Committee under the authority of the US Pension Board.

United Kingdom

The main defined contribution pension plan in UK is the Michelin Pension and Life Assurance plan DC section (for Michelin and ATS employees). It has been implemented as from December 1, 2004 for the new entrants and for January 1, 2009 for all employees who did not opt out.

For Michelin employees, there are employee and employer contributions to this Plan which are based on a percentage of the eligible pay and age of the employee. Employees may also make optional contributions to the plan and the Group will match some of these optional contributions.

For ATS employees, there are employee and employer contributions. The range of contribution is chosen by the employee and matched by the employer. Contributions are a flat rate whatever the age of the employee.

All contributions to the plan are held in a Pension Account in a Trust. The employees choose how to invest these contributions among the different options made available for the Plan. The asset allocation choices are determined and monitored by the Board of Trustees.

France

There are two defined contribution pension schemes in France: the "Article 83" scheme and the "PERCO".

The defined-contributions "Article 83" retirement savings plan has been implemented as from January 1, 2012 in order to replace the defined benefit plan which will be progressively terminated. It is a mandatory retirement plan for all employees of the French companies concerned by the applicable agreement. Contributions are paid by the employee and the employer on the gross annual salary capped. An individual account is opened on the name of each employee. The employee can claim his additional retirement benefit at the date he is entitled to his pension in a compulsory retirement scheme.

The PERCO has been implemented on June 1, 2007 and revised as from January 1, 2012. It is a voluntary pension saving plan. Each employee can contribute to this plan and the Group will match the voluntary contributions made by the employee up to a cap.

NOTE 28 SHARE-BASED PAYMENTS

28.1 Stock option plans

Changes in the number of options granted under stock option plans and their weighted average exercise price are as follows:

	2014		2013	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**63.98**	**3,635,116**	**62.04**	**4,254,190**
Granted	-	-	-	-
Forfeited	60.56	(25,338)	75.52	(45,779)
Exercised	53.25	(866,320)	48.61	(573,295)
AT DECEMBER 31	**67.41**	**2,743,458**	**63.98**	**3,635,116**

2,349,432 of the 2,743,458 options outstanding as at December 31, 2014 are exercisable (2013: 2,980,002 in total and 3,635,116 exercisable).

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

			December 31, 2014		December 31, 2013	
Grant dates	Vesting dates	Expiry dates	Exercise prices *(in € per option)*	Number of options outstanding	Exercise prices *(in € per option)*	Number of options outstanding
May 2005	May 2009	May 2014	46.34	-	46.34	33,088
November 2005	November 2009	November 2014	46.34	-	46.34	254,775
May 2006	May 2010	May 2015	55.99	40,718	55.99	84,663
May 2007	May 2011	May 2016	87.85	1,052,978	87.85	1,130,347
May 2008	May 2012	May 2017	59.85	204,672	59.85	243,878
November 2009	November 2013	November 2018	51.16	836,800	51.16	1,233,251
May 2010	May 2014	May 2019	52.13	214,264	52.13	260,138
May 2011	May 2015	May 2020	66.00	252,900	66.00	252,900
June 2012	June 2016	June 2021	51.16	141,126	51.16	142,076
NUMBER OF STOCK OPTIONS OUTSTANDING				**2,743,458**		**3,635,116**

28.2 Performance share plans

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

	2014 Number of outstanding performance share rights	2013 Number of outstanding performance share rights
At January 1	**733,712**	**657,784**
Granted	396,718	81,400
Forfeited	(42,061)	(4,184)
Shares delivered	(80,571)	(1,288)
AT DECEMBER 31	**1,007,798**	**733,712**

In November 2014, 396,718 rights to performance shares of the Company have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2018 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (Group net sales growth percentage, increase in operating income, rate of return on capital employed and employee engagement level) are met. The fair value of a right to a performance share is estimated at €63.05. This fair value is based on the share price at the grant date, less the present value of expected dividends that will not be received by grantees during the vesting period. The total cost for the plans issued in 2014 is estimated at €19 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2014 Number of outstanding performance share rights	December 31, 2013 Number of outstanding performance share rights
	France	Other countries	France	Other countries	France	Other countries		
2011	2014	2015	2 years	None	37.49	35.49	163,008	282,632
2012	2015	2016	2 years	None	61.87	59.46	366,672	369,680
2013	2017	2017	None	None	69.43	69.43	81,400	81,400
2014	2018	2018	None	None	63.05	63.05	288,426	-
2014	2018	2018	None	None	63.05	63.05	108,292	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**1,007,798**	**733,712**

The expense recognized in 2014 for the performance share plans amounts to €6 million (2013: €7 million) and is included in "Other operating income and expenses".

28.3 Employee share purchase plans in 2013

In 2013, the Group launched a share offer for all its employees located in countries where the legal and fiscal requirements are met. This share purchase plan (Bib'Action), carried out under the Company savings plan *(Plan d'Épargne Groupe),* is a standard plan which employees invest in Michelin shares at a discount price. The shares acquired by the employees participating in the plan cannot be sold or transferred during a five-year period.

845,934 shares were purchased at a price including a discount to the reference price corresponding to the average over 20 trading days preceding the date the price is set.

The global expense recognized in income statement by the Group in relation with this plan amount to €18 million after deduction of the effect of the five-year restriction.

The main features of the plan and the assumptions used for the valuation of the cost linked to the shares acquired by the Group employees are as follows:

Maturity of the plan	5 years
Number of shares subscribed	845,934
Reference price *(in €)*	80.05
Subscription price *(in €)*	64.05
Five-year risk-free rate [(1)]	0.74%
Five-year market participant rate [(2)]	7.21%
Dividend yield	3.00%
Cost of the lock-up period *(in % of the reference price)*	26.75%
Cost recognized *(in € per share)*	**20.48**

(1) The risk-free interest rate is based on the yield on the French government debt with the appropriate maturity.
(2) The five-year market participant rate is an average of non affected 5-year individual loan rates.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions and other long-term liabilities amount to €1,476 million (2013: €1,184 million and include restructuring and litigation provisions as well as other provisions and long-term liabilities.

Movements in provisions during the year:

(in € million)	Restructuring	Litigation	Other provisions	Total
At January 1, 2014	**188**	**193**	**63**	**444**
Additional provisions	97	187	114	**398**
Provisions utilized during the year	(77)	(140)	(30)	**(247)**
Unused provisions reversed during the year	(3)	-	(3)	**(6)**
Translation adjustments	-	2	(7)	**(5)**
Other effects	1	(1)	-	**-**
AT DECEMBER 31, 2014	**206**	**241**	**137**	**584**

29.1 Restructuring

At December 31, 2014, the remaining restructuring provisions were related to restructuring taking place in the following countries:

	December 31, 2014	December 31, 2013
Spain	25	30
France	113	113
Canada	19	3
Hungary	24	-
Italy	6	6
Columbia	5	19
Other countries	14	17
RESTRUCTURING PROVISIONS	**206**	**188**

29.2 Other provisions

These amounts represent the risks arising from a commercial, technical, tax or social origin and have been identified by the Group with regard to its clients, suppliers and other third parties. These risks arise in the course of the Group ordinary activities.

NOTE 30 OTHER CURRENT LIABILITIES

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

(in € million)	December 31, 2014	December 31, 2013
Customers – Deferred rebates	935	863
Employee benefits	474	439
Social security liabilities	223	240
Restructuring liabilities	14	18
Current income tax payable	144	87
Other taxes	163	156
Other	255	228
OTHER CURRENT LIABILITIES	**2,208**	**2,031**

NOTE 31 DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flows are presented in the table below:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
(Gains)/losses on disposal of non-financial assets	6	(6)
Other	(1)	(8)
Other non-cash income and expenses	**5**	**(14)**
Change in employee benefit obligations	(117)	(206)
Change in restructuring provisions	(64)	(132)
Change in litigation and other provisions	(10)	16
Change in provisions, including employee benefit obligations	**(191)**	**(322)**
Interest and other financial expenses paid	(203)	(110)
Interest and other financial income received	25	22
Dividends received	34	18
Cost of net debt and other financial income and expenses paid	**(144)**	**(70)**
Change in inventories	(71)	269
Change in trade receivables and advances	234	536
Change in trade payables and advances	87	13
Change in other receivables and payables	(68)	(92)
Change in working capital, net of impairments	**182**	**726**
Purchases of intangible assets (note 13)	(131)	(138)
Purchases of PP&E (note 14)	(1,752)	(1,842)
Government grants received	11	14
Change in capital expenditure payables	33	-
Purchases of intangible assets and PP&E	**(1,839)**	**(1,966)**
Increase in other non-current financial assets	(8)	(8)
Decrease in other non-current financial assets	14	14
Net cash flows from cash management financial assets	172	(193)
Net cash flows from borrowing collaterals	(60)	20
Net cash flows from other current financial assets	3	(9)
Cash flows from other financial assets	**121**	**(176)**
Increase in non-current financial liabilities	122	84
Decrease in non-current financial liabilities	(96)	(163)
Repayment of finance lease liabilities	(13)	(11)
Net cash flows from current financial liabilities	(400)	(762)
Derivatives	107	(69)
Cash flows from financial liabilities	**(280)**	**(921)**
Details of non cash transactions:		
▶ New finance leases (note 14)	24	-
▶ Decrease of liabilities to minority shareholders	(15)	(5)
▶ New emission rights	9	1
▶ Dividends paid in shares (note 24)	-	249

NOTE 32 COMMITMENTS AND CONTINGENCIES

32.1 Commitments

32.1.1 Operating lease commitments

Future minimum payments under non-cancellable operating leases by maturity are as follows (not discounted):

(in € million)	December 31, 2014	December 31, 2013
Within one year	189	202
Between one and five years	347	384
More than five years	88	101
TOTAL FUTURE MINIMUM PAYMENTS	**624**	**687**

Total operating lease rents recognized in the income statement in 2014 amounted to €346 million (2013: €335 million).

32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2014, amounts to €179 million (of which €21 million is likely to be delivered from 2016).

32.1.3 Other commitments

The Group has various purchase commitments for goods and services. These commitments are in line with the level of activity expected in the first half of 2015. They are established under normal market conditions and arise in the course of the Group ordinary activities.

32.2 Contingencies

32.2.1 Michelin Pension Trust Ltd UK

Following the introduction of the "Pension Act 2004" in the United Kingdom, a multi-annual plan of contributions to the UK pension funds, "Recovery Plan", was established between Michelin Pension Trust Ltd U.K. and Michelin U.K. In order to limit the amount of the contributions and to stagger them over more than ten years, the Group a guarantee towards the pension fund to cover the stream of contributions which its subsidiary will have to make.

The calculation of the Recovery Plan is done every three years. The last one was carried out as at March 31, 2014. The actuarial assumptions used to evaluate the liability for the Recovery Plan are globally more conservative than the ones used to evaluate the defined benefit obligations under IAS 19.

The amount of the guarantee given is equal to the difference, if positive, between the present value of future contributions and the amount of the provision booked in the accounts. As of December 31, 2014, the present value of the future contributions is lower than the provision booked in the Group accounts.

32.2.2 URSSAF audit

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

- Certain claims were accepted for an amount of €6 million, expensed and paid in 2013;
- Claims which are not accepted and not provided represent an amount of €29 million, for which the Group has submitted for out-of-court and/or legal settlements. Despite the uncertainties inherent to this type of procedures, the Group believes it has good chances to make its point of view prevail;
- All other claims not accepted and for which the Group has submitted for out-of-court and/or legal settlements were fully taken into consideration in the consolidated financial statements.

32.2.3 Other contingencies

In the course of their ordinary activities, the Group companies may be involved in administrative proceedings, litigation and claims. Although provisions have been recognized when the risks are established and the cash outflows probable, there exist uncertainties concerning some of these administrative proceedings, litigation and claims.

In the opinion of the Group management, there is no other governmental, judicial or arbitration proceedings likely to have significant impacts on its net assets or cash flows.

32.3 Assets pledged as collateral

32.3.1 PP&E

PP&E pledged as collateral amounted to €28 million (2013: €38 million).

32.3.2 Financial assets

Loans and deposits amounting to €72 million (2013: €12 million) are pledged as collateral for financial borrowings (note 26 "Financial liabilities").

32.3.3 Trade receivables

The Group runs two separate programs whereby certain European and North American subsidiaries have transferred ownership interests in their eligible trade receivable portfolios. The maximum financing that can be drawn from these programs amounts to €465 million (2013: €446 million). Since the Group has retained substantially all the risks and rewards of ownership, the ownership interests in the trade receivable portfolios sold by the European and North American subsidiaries have not been derecognized and the financing received from the financial institutions, amounting to €15 million as at December 31, 2014 (2013: €15 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 ACQUISITIONS AND DIVESTMENTS OF BUSINESSES

On August 31, 2014, the Group acquired 100% of the shares and voting rights in Sascar, a Brazilian digital fleet management and freight security company. With 14 years of experience, Sascar offers solutions allowing transport managers to monitor vehicles in real time and collect data (fuel consumption, speed, mileage …) essential to keep their costs under control and to increase productivity.

The acquisition of this company will enable Michelin to expand its service offering for truckers and to speed up the growth of its truck tire business in Brazil. It will allow Sascar to get an access to the Group's large customers in Brazil and then in all of South America.

This acquisition, after taking into account the amount of cash acquired, generated a net cash outflow of €400 million included in "Equity investments in consolidated companies, net of cash acquired" in the Group consolidated cash flow statement.

At the acquisition-date, the fair value of the consideration transferred amounts to €479 million and has been fully paid in cash.

The measurement at their fair value of each large category of assets acquired and liabilities assumed are detailed in the following table:

(in € million)	August 31, 2014
Intangible assets (1)	103
Property, plant and equipment (PP&E) (2)	64
Non-current financial assets and other assets	1
Non-current assets	**168**
Inventories	3
Trade receivables and other current assets (3)	68
Cash and cash equivalents	55
Current assets	**126**
Non-current financial liabilities	91
Provisions and other non-current liabilities	47
Deferred tax liabilities	63
Non-current liabilities	**201**
Current financial liabilities	20
Trade payables and other current liabilities	44
Current liabilities	**64**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**29**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for both the trademark and technology and using an income approach for the client portfolio. The Sascar trademark has been valued at €49 million. Its useful life is indefinite. The fair value of the client portfolio has been measured at €19 million. It will be amortized over its remaining useful life of 6 years.

(2) The fair value of property, plant and equipment has been measured with the assistance of an external consultant using a market-based approach. It is comprised essentially of vehicle and cargo monitoring equipment and has been valued at €64 million.

(3) At the acquisition date, the net carrying amount of trade receivables amounted to €9 million, which properly reflected their fair value.

Recognized contingent liabilities amounted to €79 million. They relate to possible differing interpretation by the taxation authorities about the nature of taxes applying to Sascar's business, the tax treatment applied to previously realized business combinations and to potential disputes with the administration in charge of collecting social security contributions. In the previous table, €47 million are included in "Provisions and other non-current liabilities" and €32 million are included in "Deferred tax liabilities".

Of the total €79 million, €55 million are subject to indemnification assets guaranteed by a deposit and are included in "Trade receivables and other current assets (3) " in the previous table.

The allocation of the purchase price, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of a €450 million goodwill, calculated as follows:

(in € million)	August 31, 2014
Fair value of consideration transferred (1)	479
Fair value of net assets acquired (2)	29
GOODWILL (1) – (2)	**450**

The goodwill is attributable mainly to expected operating synergies: Sascar will speed up its growth by accessing the large fleets segment with the support of the Michelin sales force in Brazil. In addition, Michelin will be able to use the communication infrastructure and the customer base of Sascar to gain access to small and medium hauling companies as well as individual truckers. Finally, the range of products offered by Sascar is expected to be enriched by the contribution of complementary services like those offered by Michelin Solutions.

The amount of goodwill recognised expected to be deductible for income tax purposes is estimated at €302 million. However, tax deduction may only start after the completion of Sascar's merger into the Group's Brazilian subsidiary that holds its shares.

In the four months to December 31, 2014, Sascar contributed €39 million to the Group's net sales, €6 million to its operating income and €1 million to its net income. Had the acquisition taken place on January 1, 2014, the net sales in the consolidated income statement would have amounted to €19,659 million and consolidated net income for the year, after adjusting for Sascar's non-recurring elements in the pre-acquisition period, would have amounted to €1,035 million. In determining these amounts, the Group assumed that the fair value of the identifiable assets acquired and liabilities assumed as determined at the acquisition date would have been the same as if the acquisition had occurred on January 1, 2014.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1 Subsidiaries, joint ventures and associates

The list of the major Group subsidiaries is included in note 36 "List of main Group companies". Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated in consolidation.

Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2014	2013
Income statement		
Income for the sale of goods or supply of services	115	128
Expenses for the purchase of products or supply of services	(128)	(120)
Balance sheet		
Financial liabilities	(8)	(29)
Accounts payable	(7)	(6)
Accounts receivable	27	20

34.2 Senior Management and Supervisory Board

In 2014, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2013 net income and amounting to €1.2 million (2013: €1.2 million). Furthermore, he was entitled to a global compensation of €1.5 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin (2013: €1.2 million). A provision of €1.9 million (social charges included) was recognized as at December 31, 2014 (2013: €1.9 million) based on the present value of the vested rights in a long term incentive bonus program and a post-employment benefit plan.

The compensation paid in 2014 to the 11 members of the Group Executive Committee (2013: 11 members) was €14.1 million (2013: €12.9 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2014	Year ended December 31, 2013
Short term benefits	9.8	9.2
Post-employment benefits	2.7	2.5
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	1.6	1.2
COMPENSATION PAID TO MEMBERS OF THE GROUP EXECUTIVE COUNCIL	**14.1**	**12.9**

The attendance fees paid in 2014 to the Supervisory Board members for 2013 meetings were €0.3 million (2013: €0.3 million).

NOTE 35 EVENTS AFTER THE BALANCE SHEET DATE

The reported amounts of assets and liabilities at the balance sheet date were adjusted, if needed, up to the date when the Managing Chairman authorized for issue the 2014 consolidated financial statements.

NOTE 36 LIST OF MAIN GROUP COMPANIES

Countries are presented based on the Michelin geographical regions and within each regions are listed according to the alphabetical order of the French names.

Companies	Registered office	Nature	% Of interest
EUROPE			
Germany			
Laurent Reifen GmbH	Oranienburg	Manufacturing & commercial	100.00
Michelin Reifenwerke AG & Co. KgaA	Karlsruhe	Manufacturing & commercial	100.00
Euromaster GmbH	Kaiserslautern	Commercial	99.98
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Karlsruhe	Financial	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Denmark			
Euromaster Danmark A/S	Viborg	Commercial	99.94
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.80
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	99.94
Finland			
Suomen Euromaster Oy	Pori	Commercial	99.94
France			
Compagnie Générale des Établissements Michelin	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Avallon	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Bassens	Manufacturing	100.00
Euromaster France	Montbonnot-Saint-Martin	Commercial	98.41
Michelin Aircraft Tyre	Clermont-Ferrand	Commercial	100.00
Transityre France	Clermont-Ferrand	Commercial	100.00
Michelin Travel Partner	Boulogne-Billancourt	Commercial	100.00
Spika	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Montbonnot-Saint-Martin	Commercial	96.81
Greece			
Elastika Michelin A.E.	Halandri	Commercial	100.00
Hungary			
Michelin Hungaria Tyre Manufacture Ltd	Nyíregyháza	Manufacturing & commercial	100.00
Ireland			
Miripro Insurance Company Limited	Dublin	Miscellaneous	100.00
Italy			
Società per Azioni Michelin Italiana	Turin	Manufacturing & commercial	100.00
Luxembourg			
Michelin Luxembourg SCS	Luxembourg	Financial	100.00
The Netherlands			
Eurodrive Services and Distribution N.V.	Amsterdam	Commercial	99.94
Euromaster Bandenservice B.V.	Deventer	Commercial	99.94
Michelin Nederland N.V.	Drunen	Commercial	100.00
Transityre B.V.	Breda	Commercial	100.00
Michelin Finance (Pays-Bas) B.V.	Amsterdam	Financial	100.00
Poland			
Michelin Polska S.A.	Olsztyn	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% Of interest
Serbia			
Tigar Tyres d.o.o.	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Bucharest	Commercial	99.85
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Harrow	Commercial	99.94
Sweden			
Euromaster AB	Varberg	Commercial	99.94
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Petit-Lancy	Commercial	99.94
Nitor S.A.	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière du Groupe Michelin, “Senard et Cie”	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Granges-Paccot	Miscellaneous	100.00
Michelin Mexico Properties, Sàrl	Granges-Paccot	Miscellaneous	100.00
Turkey			
Michelin Lastikleri Ticaret A.S.	Istanbul	Commercial	100.00
AFRICA / INDIA / MIDDLE EAST			
South Africa			
Michelin Tyre Company South Africa Proprietary Limited	Johannesburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Commercial	100.00
Nigeria			
Michelin Tyre Services Company Ltd	Lagos	Commercial	60.28
India			
Michelin India TamilNadu Tyres Private Limited	Chennai	Manufacturing	100.00
Michelin India Tyres Private Limited	Faridabad	Commercial	100.00
NORTH AMERICA			
Canada			
Michelin North America (Canada) Inc.	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	New Glasgow	Commercial	100.00
Michelin Alberta ULC	Calgary	Financial	100,00
United States of America			
Michelin North America, Inc.	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Wilmington	Commercial	100.00
Tire Centers, LLC	Wilmington	Commercial	100.00
CR Funding Corporation	Wilmington	Financial	100.00
Michelin Corporation	New York	Financial	100.00
Oliver Rubber Company, LLC	Wilmington	Manufacturing	100.00
Mexico			
Michelin Mexico Holding, S.A. de C.V.	Queretaro	Financial	100,00
Industrias Michelin, S.A. de C.V.	Mexico City	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% Of interest
SOUTH AMERICA			
Argentina			
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Buenos Aires	Commercial	100.00
Brazil			
Sociedade Michelin de Participações, Indústria e Comércio Ltda	Rio de Janeiro	Manufacturing & commercial	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda	Rio de Janeiro	Miscellaneous	100.00
Michelin Monitoramento de Ativos do Brasil Ltda.	Rio de Janeiro	Miscellaneous	100.00
Sascar Participações S.A.	Santana Do Parnaíba	Miscellaneous	100.00
Sascar Tecnologia E Segurança Automotiva S.A.	Santana Do Parnaíba	Miscellaneous	100.00
Chile			
Michelin Chile Ltda	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Cali	Commercial	99.96
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
SOUTHEAST ASIA / AUSTRALIA			
Australia			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00
Malaysia			
Michelin Malaysia Sdn. Bhd.	Petaling Jaya	Commercial	100.00
Singapore			
Michelin Asia (Singapore) Co. Pte. Ltd	Singapore	Commercial	100.00
Michelin Asia-Pacific Pte Ltd	Singapore	Miscellaneous	100.00
Société des Matières Premières Tropicales Pte. Ltd	Singapore	Miscellaneous	100.00
Thailand			
Michelin Siam Company Limited	Bangkok	Manufacturing & commercial	100.00
Michelin Thai Holding Co., Ltd	Bangkok	Financial	100.00
Michelin Siam Group Co., Ltd	Bangkok	Financial	100.00
Vietnam			
Michelin Vietnam Company Limited	Ho Chi Minh City	Commercial	100.00
CHINA			
China			
Michelin Shenyang Tire Co., Ltd	Shenyang	Manufacturing	100.00
Shanghai Michelin Tire Co., Ltd	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd	Shanghai	Commercial	100.00
Taiwan			
Michelin Chun Shin Ltd	Taipei	Commercial	100.00
EASTERN EUROPE			
Russia			
Michelin Russian Tyre Manufacturing Company LLC	Davydovo	Manufacturing & commercial	100.00
Ukraine			
Michelin Ukraine LLC	Kiev	Commercial	100.00
JAPAN / KOREA			
Japan			
Nihon Michelin Tire Co., Ltd	Tokyo	Commercial	100.00
South Korea			
Michelin Korea Co., Ltd	Seoul	Commercial	100.00

7.2 STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2014

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of Compagnie Générale des Établissements Michelin

Ladies and Gentlemen,

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2014, on:

- the audit of the accompanying consolidated financial statements of Compagnie Générale des Établissements Michelin;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Managing Chairman. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2014 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

- Note 2.5 to the accounts related to the basis of preparation of the consolidated financial statements presents the main assumptions and estimates used by management, in particular with respect to impairment of non financial assets, to employee benefits and income tax.

  As mentioned in note 2.5.1 the actual future cash flows as well as the actual income and expenses may differ from the estimates used, depending upon market trends and significant changes in the economical environment.

  We have examined the process applied for the determination by the management of the assumptions and estimates used and their implementation, the related evaluation of assets and liabilities as well as the corresponding information disclosed in the notes to the consolidated financial statements.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine, February 9, 2015

The Statutory Auditors

PricewaterhouseCoopers Audit	Deloitte & Associés
Éric Bulle	Dominique Descours

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8.1 REVIEW OF THE FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Compagnie Générale des Établissements Michelin (CGEM) is the Group's parent company, which directly or indirectly owns all of its subsidiaries and associates. Its two main subsidiaries are:

- Manufacture Française des Pneumatiques Michelin (MFPM), a wholly-owned subsidiary that coordinates all the manufacturing, sales and research operations based in France;
- Compagnie Financière du Groupe Michelin "Senard et Cie" (CFM), a wholly-owned subsidiary that owns most of the Group's manufacturing, sales and research companies outside of France and coordinates their operations.

Services provided by CGEM and CFM to the operating companies are governed by contractual agreements.

They are delivered by MFPM, which bills the operating companies on a cost-plus basis.

Intra-group transactions involve sizeable volumes in such areas as intangible assets, a wide array of services, equipment and facilities, raw materials and semi-finished and finished products. The corresponding fees or prices are set using methods that vary by type of transaction. However, all of the methods are based on the arm's length principle as defined in the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

8.1.1 INCOME STATEMENT

CGEM reported net income of €555.4 million in 2014 *versus* €303.0 million in 2013.

8.1.1 a) Operating income

Operating income amounted to €91.3 million, compared with €147.3 million in 2013. Royalty revenue contracted by 7.5% during the year, reflecting a similar decline in net sales by Group companies, while operating expenses increased by €14.9 million to €412.7 million, *versus* €397.8 million in 2013.

8.1.1 b) Financial income

Net financial income amounted to €486.5 million in 2014 compared with €181.9 million the previous year, reflecting an increase in dividend income.

8.1.2 BALANCE SHEET

Equity amounted to €6,560 million at December 31, 2014, compared with €6,516 million a year earlier. The increase primarily reflected the rise in net income, which was partly offset by the decrease in retained earnings.

8.2 FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (PARENT COMPANY)

BALANCE SHEET AT DECEMBER 31, 2014

		December 31, 2014			December 31, 2013
ASSETS *(in € thousands)*	**Note**	**Cost**	**Depreciation, amortization & provisions**	**Net**	**Net**
Non-current assets					
Intangible assets					
Patents, licenses and other rights		26,191	26,191	0	0
Other intangible assets		61	61	0	0
	5	**26,252**	**26,252**	**0**	**0**
Property and equipment					
Land		102	0	102	102
Buildings		1,837	1,837	0	0
Other		346	346	0	0
	5	**2,285**	**2,183**	**102**	**102**
Investments (1)					
Shares in subsidiaries and affiliates	5-6-7-21-22	6,075,291	40,591	6,034,700	5,945,200
Loans and advances to subsidiaries and affiliates	5-7-9	350,503	0	350,503	900,847
Loans	5-6-7-9	524,010	16,046	507,964	181,921
Other equity interests	5-7-9-22	3,409	55	3,354	42,201
	5	**6,953,213**	**56,692**	**6,896,521**	**7,070,169**
(I)		**6,981,750**	**85,127**	**6,896,623**	**7,070,271**
Current assets					
Receivables (2)	7-9	736,085	0	736,085	560,526
Marketable securities	8	1	0	1	2,408
Cash		425,369	0	425,369	1,323
		1,161,455	**0**	**1,161,455**	**564,257**
Accruals					
Prepaid expenses (2)		118	0	118	34
(II)		**1,161,573**	**0**	**1,161,573**	**564,291**
Deferred charges and bond call premiums (III)		**0**	**0**	**0**	**0**
Conversion losses (IV)		**0**	**0**	**0**	**0**
ASSETS (I)+(II)+(III)+(IV)		**8,143,323**	**85,127**	**8,058,196**	**7,634,562**
(1) of which: short-term				*273,163*	*571,722*
(2) of which: long-term				*0*	*0*

Equity and Liabilities *(in € thousands)*		**Note**	**December 31, 2014**	**December 31, 2013**
Equity				
Share capital		11	371,452	371,579
Paid-in capital in excess of par		11	3,600,893	3,641,137
Revaluation reserves		12	624,772	624,772
Other reserves		12	1,285,034	1,284,549
Retained earnings		12	60,352	229,156
Net income for the year		12	555,428	302,985
Untaxed reserves		12	61,598	61,598
	(I)		**6,559,529**	**6,515,776**
Liabilities (1)				
Convertible bonds		10	709,871	747,445
Other bonds		10	11	12
Other borrowings		10	419,298	145,083
Other financial liabilities (2)		7-10	80,479	37
Accrued taxes and payroll costs		10	6,931	7,131
Other liabilities		7-10	282,077	219,078
			1,498,667	**1,118,786**
Accruals and other liabilities				
Deferred revenue			0	0
	(II)		**1,498,667**	**1,118,786**
Conversion gains	**(III)**		**0**	**0**
EQUITY AND LIABILITIES	**(I)+(II)+(III)**		**8,058,196**	**7,634,562**
(1) of which: long-term			*710,830*	*750,601*
of which: short-term			*787,837*	*368,185*
(2) of which: short-term bank loans and overdrafts			*0*	*0*

Notes 1 to 23 are an integral part of the financial statements of Compagnie Générale des Établissements Michelin.

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2014

(in € thousands)		Note	2014	2013
Revenue				
Royalties (of which, export revenues: 456,316)		14	503,954	545,071
Other revenue			22	50
Total revenue	**(I)**		**503,976**	**545,121**
Operating expenses				
External charges			398,473	369,221
Taxes other than on income			4,771	7,120
Wages and salaries		17-18	318	485
Payroll taxes			139	(119)
Other expenses			8,954	21,103
Total operating expenses	**(II)**		**412,655**	**397,810**
OPERATING INCOME	**(I)-(II)**		**91,321**	**147,311**
Financial income				
Dividends from subsidiaries and affiliates (1)			529,294	225,962
Interest income (1)			1,954	1,018
Provision reversals			144	0
Exchange gains			11,033	7,617
Total financial income	**(III)**		**542,425**	**234,597**
Financial expense				
Amortization and provision expense			20,500	16,191
Interest expense (2)			24,175	28,616
Exchange losses			11,284	7,920
Total financial expenses	**(IV)**		**55,959**	**52,727**
NET FINANCIAL INCOME	**(III)-(IV)**		**486,466**	**181,870**
INCOME BEFORE NON-RECURRING ITEMS AND TAX	**(I-II+III-IV)**		**577,787**	**329,181**
Non-recurring income				
From revenue transactions			0	0
From capital transactions			6	0
Total non-recurring income	**(V)**		**6**	**0**
Non-recurring expenses				
From revenue transactions			0	3
From capital transactions		13	0	13,452
Total non-recurring expenses	**(VI)**		**0**	**13,455**
NET NON-RECURRING INCOME (EXPENSE)	**(V-VI)**		**6**	**(13,455)**
INCOME TAX EXPENSE	**(VII)**	**15**	**22,365**	**12,741**
Total revenue	(I+III+V)		1,046,407	779,718
Total expenses	(II+IV+VI+VII)		490,979	476,733
NET INCOME			**555,428**	**302,985**
(1) Of which: income from related parties			*530,001*	*226,511*
(2) Of which: expenses paid to related parties			*0*	*484*

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NOTE 1 GENERAL INFORMATION

The Company's financial year covers the 12 months from January 1 to December 31.

The following notes and tables form an integral part of the financial statements.

The financial statements were approved for publication by the Chief Executive Officer on February 5, 2015 after being reviewed by the Supervisory Board.

Unless otherwise specified, all amounts are presented in thousands of euros.

NOTE 2 SIGNIFICANT EVENTS OF THE YEAR

In 2014, Compagnie Générale des Établissements Michelin (the Company) carried out the following operations:

- cancellation of 1,010,336 shares, of which 1,000,000 bought back in 2014;
- capital increase of €110,000 thousand at Spika.

NOTE 3 BASIS OF PREPARATION

The financial statements of Compagnie Générale des Établissements Michelin have been prepared and presented in accordance with French generally accepted accounting principles (*Plan Comptable Général*, 1999). These principles have been applied consistently in all periods presented unless otherwise specified.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Intangible assets

"Concessions, patents and other rights" are stated at historical cost. Concessions and patents are amortized over 12 months. Other rights, corresponding primarily to software licenses, are amortized over periods of either 12 months or 3 years, depending on their type.

Expenses incurred for the creation and protection of brands are recognized as expenses for the year.

"Other intangible assets" consist of vehicle parking rights, which are amortized over 40 years.

4.2 Property and equipment

4.2.1 Cost

Property and equipment are stated at historical cost, except for assets held at the time of the 1976/1978 legal revaluation, which are stated at valuation.

4.2.2 Depreciation

Property and equipment are depreciated on a straight-line basis over the following estimated useful lives:

- Buildings: 30 years;
- Equipment: 10 years, except for computer hardware, which is depreciated over 5 years.

4.3 Investments

4.3.1 Shares in subsidiaries and affiliates

Cost: shares in subsidiaries and affiliates are stated at historical cost, except for investments held at the time of the 1976/1978 legal revaluation, which are stated at valuation.

Net book values: shares in subsidiaries are written down in the event of a lasting decline in value in use to below cost. Value in use generally corresponds to the Company's share in the investee's underlying adjusted or unadjusted net assets or consolidated net assets, as adjusted for its earnings outlook.

4.3.2 Other equity interests

This item includes shareholdings that the Company intends to retain, but which are not held for purposes directly related to the Company's business.

Other equity interests are measured in the same way as shares in subsidiaries and affiliates.

4.3.3 Loans

Loans are stated at nominal value and a provision for impairment is recognized to cover any risk of non-recovery.

4.4 Receivables

Accounts receivable are stated at nominal value and a provision for impairment is recognized to cover any risk of non-recovery.

4.5 Paid-in capital in excess of par

This item corresponds to premiums on shares issued for cash or on conversion of bonds, after deducting issuance costs net of tax. When shares are cancelled, the difference between their purchase cost and par value is recorded as a deduction from paid-in capital in excess of par.

4.6 Untaxed reserves

Substantially all untaxed reserves correspond to reinvested capital gains qualifying for rollover relief under the former Article 40 of the French General Tax Code *(Code général des impôts)*.

4.7 Conversion of foreign currencies

Revenues and expenses in foreign currencies are converted at the transaction date exchange rate.

Foreign currency receivables and payables are converted at the year-end exchange rate.

Foreign currency forward contracts that are outstanding at the balance sheet date are marked to market in the balance sheet. Their notional amounts are recognized in off-balance sheet items.

4.8 Income taxes

Income tax expense in the income statement includes the Company's current taxes, the net income of the tax group and the surtax on dividends.

NOTE 5 NON-CURRENT ASSETS

Changes in intangible assets, property and equipment and the corresponding depreciation/amortization can be analyzed as follows:

5.1 Changes in non-current assets

(in € thousands)	Cost at January 1, 2014	Additions, new loans, increases in accrued interest	Disposals, decommissioning, reduction in loans and accrued interest	Cost at December 31, 2014
Intangible assets	26,252			26,252
Property and equipment	2,285			2,285
	28,537			**28,537**
Shares in subsidiaries and affiliates	5,965,291	110,000		6,075,291
Loans and advances to subsidiaries and affiliates	900,847		550,344	350,503 (1)
Loans	198,112	325,898		524,010 (2)
Other equity interests	42,256		38,847	3,409
	7,106,506	**435,898**	**589,191**	**6,953,213**
TOTAL	**7,135,043**	**435,898**	**589,191**	**6,981,750**

(1) Positive current account balances with subsidiaries are now presented in loans and advances. An amount of €253,330 thousand has been reclassified in respect of 2013.
(2) Loans are granted to related companies.

5.2 Depreciation and amortization

	At January 1, 2014	Increase for the year	Decrease for the year	At December 31, 2014
Accumulated amortization (intangible assets)	26,252		-	26,252
Accumulated depreciation (property and equipment)	2,183		-	2,183
TOTAL	**28,435**		**-**	**28,435**

NOTE 6 PROVISIONS

	At January 1, 2014	Increase for the year	Decrease for the year	At December 31, 2014
Provisions for impairment of shares in subsidiaries and affiliates and other equity interests	20,146	20,500	-	40,646
Provisions for impairment of loans	16,191	-	145	16,046
TOTAL	**36,337**	**20,500**	**145**	**56,692**

NOTE 7 ITEMS RELATING TO SEVERAL BALANCE SHEET ITEMS

	Transactions involving	
Balance sheet items	**Related companies**	**Other companies in which the Company holds an equity interest**
Shares in subsidiaries and affiliates (net book value)	6,034,700	-
Loans and advances to subsidiaries and affiliates	350,503	-
Loans	507,964	-
Other equity interests	-	3,334
Receivables	570,631	-
Other financial liabilities	80,479	-
Other liabilities	281,080	-

NOTE 8 TREASURY STOCK

The Company did not hold any treasury stock at December 31, 2014 (30,000 treasury shares held at December 31, 2013).

NOTE 9 MATURITIES OF LOANS AND RECEIVABLES

	Total	Due within one year	Due in more than one year
Non-current assets			
Loans and advances to subsidiaries and affiliates	350,503	503	350,000
Loans	524,010	272,660	251,350
Other equity interests	3,409	-	3,409
Current assets			
Receivables	736,085	736,085	-
TOTAL	**1,614,007**	**1,009,248**	**604,759**

NOTE 10 MATURITIES OF PAYABLES AND LONG- AND SHORT-TERM DEBT

	Total	Due within one year	Due in one to five years	Due in more than five years
Convertible bonds	709,871 (1)	-	709,871	-
Other bonds	11	11	-	-
Other borrowings	419,298 (2)	419,298	-	-
Other financial liabilities	80,479	80,479	-	-
Accrued taxes and payroll costs	6,931 (3)	5,972	959	-
Other liabilities	282,077 (4)	282,077	-	-
TOTAL	**1,498,667**	**787,837**	**710,830**	**-**

(1) 2007-2017 convertible bond issue. The related issuance costs were expensed.
(2) The commercial paper program totaled €1.5 billion, with the nominal amounts outstanding as of December 31, 2014 representing €385.5 million and USD 41 million.
(3) An accrual of €3,101 thousand was recorded in respect of Non-General Managing Partners' rights to long-term incentive plan payments that vested in prior years.
(4) Including €281,080 thousand in liabilities toward related companies and €634 thousand in accrued expenses.

NOTE 11 SHARE CAPITAL AND PAID-IN CAPITAL IN EXCESS OF PAR

Share capital and paid-in capital in excess of par break down as follows:

	Share capital	Paid-in capital in excess of par	Total
At January 1, 2014: 185,789,643 shares	**371,579**	**3,641,137**	**4,012,716**
Issuance of 946,893 shares on exercise of stock options	1,894	44,399	46,293
Cancellation of 1,010,336 shares	(2,021)	(84,643)	(86,664)
AT DECEMBER 31, 2014: 185,726,200 SHARES	**371,452**	**3,600,893**	**3,972,345**

The shares have a par value of €2.

All outstanding shares are registered and fully paid.

NOTE 12 OTHER EQUITY

	Revaluation reserve	Other reserves	Retained earnings	Net income for the year	Untaxed reserves	Total
At January 1, 2014	**624,772**	**1,284,549**	**229,156**	**302,985**	**61,598**	**2,503,060**
Appropriation of 2013 net income		646	(168,900)	(302,985)		(471,239)
Dividends on treasury stock			96			96
Deduction for performance share issuance		(161)				(161)
2014 net income				555,428		555,428
AT DECEMBER 31, 2014	**624,772**	**1,285,034**	**60,352**	**555,428**	**61,598**	**2,587,184**
The revaluation reserve concerns:						
▶ land	32					
▶ shares in subsidiaries and affiliates	624,740					
Other reserves break down as follows:						
▶ legal reserve, including €26,943 thousand corresponding to long-term capital gains		37,158				
▶ special long-term capital gains reserve		881,419				
▶ other reserves		366,457				

NOTE 13 SHARE-BASED PAYMENTS

Stock option plans

The number of options granted under stock option plans and the average weighted exercise price may be analyzed as follows:

	2014		2013	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**63.98**	**3,635,116**	**62.04**	**4,254,190**
Granted	-	-	-	-
Cancelled	60.56	(25,338)	75.52	(45,779)
Exercised	53.25	(866,320)	48.61	(573,295)
AT DECEMBER 31	**67.41**	**2,743,458**	**63.98**	**3,635,116**

Of the 2,743,458 options outstanding at December 31, 2014, 2,349,432 were exercisable at that date (2013: 2,980,002 out of 3,635,116).

Stock option plans in effect at December 31, 2014:

			December 31, 2014		December 31, 2013	
Grant date	Start of exercise period	End of exercise period	Exercise price *(in €)*	Number of options outstanding	Exercise price *(in €)*	Number of options outstanding
May 2005	May 2009	May 2014	46.34	-	46.34	33,088
November 2005	November 2009	November 2014	46.34	-	46.34	254,775
May 2006	May 2010	May 2015	55.99	40,718	55.99	84,663
May 2007	May 2011	May 2016	87.85	1,052,978	87.85	1,130,347
May 2008	May 2012	May 2017	59.85	204,672	59.85	243,878
November 2009	November 2013	November 2018	51.16	836,800	51.16	1,233,251
May 2010	May 2014	May 2019	52.12	214,264	52.13	260,138
May 2011	May 2015	May 2020	66.00	252,900	66.00	252,900
June 2012	June 2016	June 2021	51.16	141,126	51.00	142,076
NUMBER OF OPTIONS OUTSTANDING				**2,743,458**		**3,635,116**

Performance share plans

The number of performance share rights outstanding may be analyzed as follows:

	2014	2013
	Number of performance share rights outstanding	Number of performance share rights outstanding
At January 1	**733,712**	**657,784**
Granted	396,718	81,400
Cancelled	(42,061)	(4,184)
Delivered	(80,571)	(1,288)
AT DECEMBER 31	**1,007,798**	**733,712**

In November 2014, 396,718 rights to shares of Company stock, subject to certain performance conditions (performance shares) were granted to Group employees. The rights are subject to a four-year vesting period ending in November 2018 without any lock-up period. The shares will vest at the end of this period if the performance objectives concerning growth in net sales and operating income, return on capital employed and the employee engagement level have been met. The fair value of each performance share right is estimated at €63.05, based on the share price at date of grant less the discounted value of the estimated dividends that the grantee will not receive over the vesting period.

Performance share plan data:

							December 31, 2014	December 31, 2013
Grant date	Vesting date		Lock-up period		Fair value at date of grant		Number of performance share rights outstanding	Number of performance share rights outstanding
	France	Other countries	France	Other countries	France	Other countries		
2011	2014	2015	2 years	None	37.49	35.49	163,008	282,632
2012	2015	2016	2 years	None	61.87	59.46	366,672	369,680
2013	2017	2017	None	None	69.43	69.43	81,400	81,400
2014	2018	2018	None	None	63.05	63.05	288,426	-
2014	2018	2018	None	None	63.05	63.05	108,292	-
NUMBER OF PERFORMANCE SHARE RIGHTS OUTSTANDING							**1,007,798**	**733,712**

Employee share issues

In 2013, the Group launched the Bib'Action employee share issue open to all employees resident in countries where the plan was authorized under local legal and tax rules. Carried out in connection with the Group Employee Stock Ownership Plan (PEG), Bib'Action gave employees an opportunity to purchase Michelin shares at a discount to their market price, subject to a five-year lock-up.

A total of 845,934 Michelin shares were purchased at a discount to the average of the prices quoted over the 20 trading days preceding the pricing date.

The cost corresponding to the difference between the price at which the shares were bought back on the market and the price at which they were sold to employees, in the amount of €13,452 thousand, was recorded in non-recurring expenses.

The following table presents the main features of the plan and the key assumptions used to determine the plan costs:

Lock-up period	5 years
Number of shares purchased	845,934
Reference price *(in €)*	80.05
Purchase price for employees *(in €)*	64.05
Five-year risk-free interest rate (1)	0.74%
Market interest rate (2)	7.21%
Dividend yield	3.00%
Cost of not being able to transfer the shares during the lock-up period *(as a % of the reference price)*	26.75%
Cost recorded *(in € per share)*	20.48

(1) The risk-free interest rate is based on the yield of French government bonds with an equivalent maturity.
(2) The market interest rate is the average of the interest rates charged for five-year loans for general corporate purposes.

NOTE 14 REVENUE

Revenue for the year totaled €503,954 thousand, consisting entirely of royalties received from:

France	47,638
Outside France	456,316
TOTAL	**503,954**

NOTE 15 INCOME TAX

Compagnie Générale des Établissements Michelin is the parent company of a tax group that also comprises thirteen French subsidiaries that are at least 95%-owned directly or indirectly.

Under the terms of the group relief agreement, each subsidiary in the tax group continues to record the income tax expense that it would have paid if it had been taxed on a stand-alone basis and any group relief is recorded at the level of Compagnie Générale des Établissements Michelin.

The income tax that would be payable by the thirteen subsidiaries if they were taxed on a stand-alone basis amounted to €7,272 thousand for 2014, before taking into account tax credits of €39,688 thousand.

Income tax recognized in the CGEM financial statements includes current taxes.

Income tax reported in the income statement can be analyzed as follows:

Current tax due from CGEM alone	14,419
Group relief	(7,568)
3% surtax on distributed income	14,126
Other	1,388
TOTAL	**22,365**

NOTE 16 MARKET RISKS

16.1 Interest rate risk

The Company does not hold any interest rate instruments.

16.2 Currency risk

At December 31, 2014, the Company had receivables corresponding to royalties with a net book value of €144 million. These receivables have been converted into euros at the year-end exchange rate. The policy is to hedge currency risk through currency futures.

16.3 Equity risk

The Company holds shares in subsidiaries and affiliates and other equity interests that are valued at value in use.

NOTE 17 MANAGEMENT COMPENSATION

As per its bylaws, the Company is administered by one or several Managing General Partners who are entitled to a share of the income distributed among all the General Partners in accordance with the provisions of the bylaws. The Managing Partner(s) do not receive any other compensation or benefits in kind.

The statutory share of 2013 profit allocated to the Chief Executive Officer and Managing General Partner in 2014 amounted to €1.15 million (2013: €1 million in respect of 2012 profit).

NOTE 18 AVERAGE NUMBER OF EMPLOYEES

	Employees on the payroll
Managers	1
Employees	7
	8

NOTE 19 RETIREMENT BENEFITS

The Company is liable for the payment of length-of-service awards to employees on retirement, in accordance with the terms of the applicable Collective Bargaining Agreement. The present value of the related obligation at December 31, 2014 was approximately €0.9 million (2013: €0.8 million). No provision has been recorded for this amount.

NOTE 20 FEES PAID TO THE STATUTORY AUDITORS

Audit fees recognized in the 2014 financial statements amount to €541 thousand.

NOTE 21 SECURITIES PORTFOLIO AT DECEMBER 31, 2014

	Number of securities	Book value
Shares in subsidiaries and affiliates		
Compagnie Financière du groupe Michelin "Senard et Cie"	25,022,824 shares	4,324,989
Manufacture Française des Pneumatiques Michelin	13,263,056 shares	1,614,296
Spika S.A.	200,000 shares	95,415
		6,034,700
Other equity interests		
Siparex Croissance	43,222 shares	677
Siparex Associés	152,292 shares	2,377
Société Financière d'Innovation du Sud-Est "Sudinnova"	21,786 shares	280
Other		20
		3,354

NOTE 22 LIST OF SUBSIDIARIES AND AFFILIATES

				Book value of shares						
Subsidiaries and affiliates *(in € thousands unless otherwise specified)*	Share capital (1)	Other equity excl. income (1)	% interest	Cost	Net	Outstanding loans and advances	Guarantees given by the Company	Last published revenue	Last published profit/(loss) (1)	Dividends received during the year
A. Detailed information about subsidiaries and affiliates (investments with a book value in excess of 1% of the Company's capital)										
Compagnie Financière du groupe Michelin "Senard et Cie" Route Louis-Braille 10, 1763 Granges-Paccot (Switzerland)	2,502,355 *(in CHF thousands)*	7,315,618 *(in CHF thousands)*	99.99	4,324,989	4,324,989	421,415	-	-	1,251,639 *(in CHF thousands)*	513,759
Manufacture Française des Pneumatiques Michelin Place des Carmes-Déchaux, 63000 Clermont-Ferrand	504,000	1,174,906	99.99	1,614,296	1,614,296	350,503	-	5,164,158	21,911	-
Spika S.A. 23, rue Breschet, 63000 Clermont-Ferrand	113,000	(21,362)	100.00	135,915	95,415	-	-	-	(16,662)	-
B. Aggregate information about other subsidiaries and affiliates:										
1. Subsidiaries not listed under A:										
▶ French companies				-	-	-	-			-
▶ Foreign companies				-	-	-	-			
2. Affiliates not listed under A										
▶ French companies					-	-	-			-
▶ Foreign companies				91	-	-	-			-

(1) In local currency.

NOTE 23 FINANCIAL COMMITMENTS

23.1 Lines of credit

	2014	2013
Lines of credit granted by the Company to related companies	1,082,000	620,000
Drawdowns	(564,850)	(550,000)
AVAILABLE AT DECEMBER 31	**517,150**	**70,000**

These lines of credit expire in 2015 (€331,000 thousand), 2016 (701,000 thousand) and 2017 (€50,000 thousand).

23.2 Currency futures

At December 31, 2014, the value in euros of the currency futures was as follows:

- currency to be received €105,167 thousand;
- currency to be delivered €102,493 thousand.

8.3 STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders of Compagnie Générale des Établissements Michelin

Ladies and Gentlemen,

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2014, on:

- the audit of the accompanying financial statements of Compagnie Générale des Établissements Michelin ("The Company");
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Managing Chairman. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sample techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2014 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matters:

- The Company makes an annual assessment of the inventory value of its shares in subsidiaries and affiliates using the method described in the note 4 to the financial statements "Accounting policies – Investments".
- We have examined the methodology used by the Company and its implementation based on the available information, and we have assessed the fairness of the estimates made by the Company.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III.Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Managing Chairman, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information relating to the statutory allocation and the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code *(Code de commerce)* relating to remunerations and benefits received by the Managing Partners and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine, February 9, 2015

PricewaterhouseCoopers Audit	Deloitte & Associés
Éric Bulle	Dominique Descours

The Statutory Auditors

Members of "Compagnie Régionale de Versailles"

8.4 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES FOR THE YEAR ENDED DECEMBER 31, 2014

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English-speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the shareholders of Compagnie Générale des Établissements Michelin

Ladies and Gentlemen,

In our capacity as Statutory Auditors of Compagnie Générale des Établissements Michelin ("the Company"), we hereby report on regulated agreements and commitments with third parties.

It is our responsibility to communicate to you, based on information provided to us, the principal terms and conditions of these agreements and commitments brought to our attention which we or may have identified as part of our engagement, without expressing an opinion on their usefulness or their merit or searching for other agreements or commitments. It is your responsibility, pursuant to Article R. 226-2 of the French Commercial Code *(Code de commerce),* to assess the interest of entering into these agreements with a view to approving them.

Where applicable, it is our responsibility to communicate to you the information pursuant to Article R. 226-2 of the French Commercial Code *(Code de commerce)* relating to carrying out the agreements and commitments already approved by the Shareholders' Meeting during the year.

We conducted the procedures we deemed necessary in accordance with professional standards applicable in France.

▸ Agreements and commitments to be submitted for the approval of the Shareholders' Meeting

We were not informed of any agreement or commitment to be submitted for approval at the Shareholders' Meeting pursuant to the provision of article L. 226-10 of the French Commercial Code.

▸ Agreements and commitments authorized in prior years by the Shareholders' Meeting

We inform you that we have not been advised of any agreements and commitments, approved by the Shareholders' Meeting in prior years, having continuing effect during the year.

Neuilly-sur-Seine, February 9, 2015

PricewaterhouseCoopers Audit	Deloitte & Associés
Éric Bulle	Dominique Descours

The Statutory Auditors

Members of "Compagnie Régionale de Versailles"

8.5 STATEMENT OF CHANGES IN EQUITY

(in € thousands and € per share)	2014	2013
Net income		
Accounting profit		
Total: Net income/(loss)	555,428	302,985
Per share: Net income/(loss)	2.99	1.63
Recommended dividend		
Total	464,316	464,474
Per share	2.50	2.50

Statement of changes in equity *(in € thousands)*		2014	2013
A)	**1 – Equity at December 31, 2013**	**6,515,776**	**6,520,780**
	2 – Dividend approved by the Annual Shareholders Meeting	(471,239)	(447,559)
B)	**Equity at January 1, 2014**	**6,044,537**	**6,073,221**
C)	**Movements for the year:**		
	1 – Par value of shares issued during the year	(127)	6,466
	2 – Increase in paid-in capital in excess of par	(40,244)	133,107
	3 – Change in reserves	(65)	(3)
	4 – Net income for the year	555,428	302,985
	Equity at December 31, 2014 before dividends	**6,559,529**	**6,515,776**
E)	**TOTAL CHANGES IN EQUITY DURING THE YEAR**	**514,992**	**442,555**
F)	*Of which changes due to changes in Group structure*	-	-
G)	**TOTAL CHANGES IN EQUITY DURING THE YEAR EXCLUDING CHANGES IN GROUP STRUCTURE**	**514,992**	**442,555**
Notes:			
C3 – Amounts transferred to the revaluation reserve during the year		*(161)*	*(3)*
C3 – Dividends on treasury shares credited to retained earnings		*96*	*-*

8.6 APPROPRIATION OF 2014 NET INCOME

(in € thousands)		
Amount to be appropriated		
Retained earnings brought forward from prior year		60,352
Net income for the year		555,428
Recommended appropriations		
Dividend	464,316 (1)	
Statutory share of income attributed to the General Partners	5,000 (1)	
Retained earnings	146,464	
TOTAL	**615,780**	**615,780**

(1) Subject to approval by shareholders at the Annual Meeting on May 22, 2015.

8.7 FIVE-YEAR FINANCIAL SUMMARY

(in € thousands and in € per share, unless otherwise specified)	2010	2011	2012	2013	2014
I – Capital at December 31					
a) Share capital	353,216	360,038	365,113	371,579	371,452
b) Number of common shares outstanding	176,607,845	180,018,897	182,556,713	185,789,643	185,726,200
II – Results of operations					
a) Net revenue	479,974	532,552	566,610	545,071	503,954
b) Earnings before tax, depreciation, amortization and provisions (EBTDA)	214,443	382,027	477,181	331,917	598,149
c) Income tax	29,187	21,646	(7,993)	12,741	22,365
d) Net income	184,932	360,146	465,119	302,985	555,428
III – Per share data					
a) Earnings per share after tax, before depreciation, amortization and provision expenses (EBDA)	1.05	2.00	2.66	1.72	3.10
b) Basic earnings per share	1.05	2.00	2.55	1.63	2.99
c) Dividend per share	1.78	2.10	2.40	2.50	2.50 (1)
IV – Employee data					
a) Average number of employees	18	14	10	8	8
b) Total payroll	2,706	4,245	1,434	485	318
c) Total benefits	824	1,436	648	(119)	139

(1) Subject to approval by shareholders at the Annual Meeting on May 22, 2015.

9

ADDITIONAL INFORMATION

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9.3 2012 AND 2013 FINANCIAL STATEMENTS INCORPORATED BY REFERENCE 286

9.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Person Responsible for the Registration Document and the Annual Financial Report

Jean-Dominique Senard, Managing Chairman.

▸ Statement by the person responsible for the Registration Document and the Annual Financial Report

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions, the information contained in the Registration Document is in accordance with the facts and no information has been omitted that would be likely to affect its import.

I further declare that, to the best of my knowledge, (i) the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included the consolidation, and (ii) the management report (Section 2 of this Registration Document) presents fairly the business and earnings performance and the financial position of the Company and the undertakings in the consolidation, as well as the principal risks and uncertainties they face.

I obtained a statement from the Statutory Auditors at the end of their audit affirming that they have verified the information regarding the financial position and the accounts contained herein and have read the entire Registration Document.

The consolidated financial statements for the year ended December 31, 2014 have been audited by the Statutory Auditors. Their report is provided in Section 7.2 of this Registration Document.

The consolidated financial statements for the year ended December 31, 2013, incorporated by reference in Section 9.3 of this Registration Document, have been audited by the Statutory Auditors. Their report includes an observation on a technical matter.

The consolidated financial statements for the year ended December 31, 2012, incorporated by reference in Section 9.3 of this Registration Document, have been audited by the Statutory Auditors.

Clermont-Ferrand, March 2, 2015

Jean-Dominique Senard,
Managing Chairman

9.2 STATUTORY AUDITORS

9.2.1 STATUTORY AUDITORS

Under French law, the accounts of listed companies are required to be audited by two independent Statutory Auditors. The purpose of this requirement is to provide assurance that the financial statements have been properly prepared and comply with the true and fair view principle.

The Statutory Auditors are appointed by the Annual Shareholders Meeting for a six-year term, based on a recommendation made by the Supervisory Board following a selection process overseen by the Audit Committee. They may be re-appointed for successive terms. They test the fairness of financial statements and carry out all of the statutory audit work required by law. Michelin does not ask them to perform any other engagements that might impair their independence.

The Statutory Auditors of Compagnie Générale des Établissements Michelin, Michelin's holding Company are:

PricewaterhouseCoopers Audit

Registered member of the *Compagnie régionale des Commissaires aux Comptes* de Versailles

63, rue de Villiers
92200 Neuilly-sur-Seine, France

Represented by Éric Bulle, Partner
Substitute Statutory Auditor, Pierre Coll, Partner, PricewaterhouseCoopers Audit

Deloitte & Associés

Registered member of the *Compagnie régionale des Commissaires aux Comptes* de Versailles

185, avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine

Represented by Dominique Descours, Partner
Substitute Statutory Auditor, BEAS,

195, avenue Charles-de-Gaulle,
92524 Neuilly-sur-Seine

There are no legal or financial ties of any sort between the two accounting firms or the lead partners.

The Statutory Auditors' term of office will expire at the end of the Annual Shareholders Meeting to be held in 2016 to approve the 2015 accounts.

9.2.2 FEES PAID TO THE STATUTORY AUDITORS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (CGEM)

The following tables set out the details of fees, excluding tax, paid in 2013 and 2014 by the Michelin Group to its Statutory Auditors

	PricewaterhouseCoopers				Deloitte				Total			
	(in € thousand)		*(%)*		*(in € thousand)*		*(%)*		*(in € thousand)*		*(%)*	
Years 2014 and 2013	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Audit												
Statutory audits, opinions, reviews of standalone and consolidated financial statements												
▶ CGEM	291	285	6.1%	7.2%	265	245	7.7%	7.9%	556	530	6.8%	7.5%
▶ French subsidiaries	742	631	15.6%	15.9%	701	588	20.4%	18.8%	1,443	1,219	17.7%	17.2%
▶ Foreign subsidiaries	2,688	2,527	56.7%	63.6%	1,854	1,845	54.1%	59.1%	4,542	4,372	55.6%	61.7%
Other services directly linked to the statutory audit work												
▶ CGEM	-	-	0.0%	0.0%	-	-	0.0%	0.0%	-	-	0.0%	0.0%
▶ Subsidiaries	454	211	9.6%	5.3%	298	134	8.8%	4.3%	752	345	9.1%	4.8%
Sub-total Audit	**4,175**	**3,654**	**88.0%**	**92.0%**	**3,118**	**2,812**	**91.0%**	**90.1%**	**7,293**	**6,466**	**89.2%**	**91.2%**
Other services rendered by Auditors networks to subsidiaries												
Legal, tax and social	459	296	9.7%	7.5%	98	171	2.9%	5.5%	557	467	6.8%	6.6%
Others	110	21	2.3%	0.5%	212	137	6.1%	4.4%	322	158	4.0%	2.2%
Sub-total Others	**569**	**317**	**12.0%**	**8.0%**	**310**	**308**	**9.0%**	**9.9%**	**879**	**625**	**10.8%**	**8.8%**
TOTAL	**4,744**	**3,971**	**100.0%**	**100.0%**	**3,428**	**3,120**	**100.0%**	**100.0%**	**8,172**	**7,091**	**100.0%**	**100.0%**

The other services directly linked to the statutory audit work relate essentially to:

- financial and accounting agreed-upon procedures,
- a review of the annual and sustainable development report, as well as
- sundry certificates (notably linked to government grants).

The other services rendered by Auditors networks to subsidiaries relate essentially to conformity reviews of the transfer pricing documentation or the tax returns, as well as legal reviews.

9.3 2012 AND 2013 FINANCIAL STATEMENTS INCORPORATED BY REFERENCE

The following information is incorporated by reference in this Registration Document:

- Consolidated financial statements for the period ended December 31, 2012 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with the AMF on March 1, 2013 (D.13-0094), respectively on pages 164 to 222 and 223.
- Consolidated financial statements for the period ended December 31, 2013 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with the AMF on March 5, 2014 (D.14-0116), respectively on pages 196 to 260 and 261.

10 ANNUAL SHAREHOLDERS MEETING OF MAY 22, 2015

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10.1 REPORT OF THE CHIEF EXECUTIVE OFFICER AND PROPOSED RESOLUTIONS

Introduction

Ongoing dialogue between shareholders and issuers, both before and after Annual Shareholders Meetings, is essential to enable shareholders to effectively exercise their role, and for companies to enhance their communications.

One of the ways that companies can ensure the effectiveness of such dialogue is by making additional efforts to clearly explain the content, rationale and import of the resolutions submitted for shareholder approval.

In its "Final Report on General Meetings of Shareholders of Listed Companies" published on July 2, 2012, a working group set up by the French securities regulator (AMF) proposed, *inter alia,* that the titles of resolutions put forward at shareholders meetings should be more understandable and that the wording of the statement of reasons for each proposed resolution should be improved in order to clarify what is to be voted on and what is at stake in shareholders' decisions. Following this proposal, the AMF called on the trade associations concerned to draft a guide that explains the objectives and procedures for each type of resolution.

In response to this request, the Committee of Corporate & Securities Law and Corporate Governance that forms part of France's Employers Federation (MEDEF) coordinated the preparation of a guide concerning *"Proposed resolutions submitted to the vote of shareholders of listed companies"* (hereinafter referred to as the "MEDEF Guide" or the "Guide"), which is available (in French only) on the MEDEF's website at www.medef.com/medef-corporate/publications. Consequently, for each financial authorization to be submitted for approval at the May 22, 2015 Annual Shareholders Meeting, this report refers to the corresponding information sheet in the Guide.

The resolutions set in blue type below are the resolutions proposed by the Company that will be included in the notice of meeting published in the *Bulletin des annonces légales obligatoires.* Each shareholder will also be sent a copy of the notice of meeting within the period prescribed by law.

10.1.1 ORDINARY RESOLUTIONS

First and second resolutions

▸ Approval of the Company financial statements for the year ended December 31, 2014

▸ Appropriation of net income for the year ended December 31, 2014 and approval of the recommended dividend

The first and second resolutions concern approval of the Company's 2014 financial statements and appropriation of net income for the year.

Shareholders are invited to approve the transactions reflected in the Company's income statement and balance sheet, as presented, and to appropriate net income for the year which amounts to €555,427,932.14.

After deducting €5,000,249.80 attributable to the General Partners in accordance with the bylaws, the balance of €550,427,682.34 plus €60,351,857.68 in retained earnings brought forward from prior years represents a total of €610,779,540.02 available for distribution to shareholders.

We are recommending paying a 2014 dividend of €2.50 per share.

In order to qualify for the dividend payment, beneficiaries must be shareholders of record at midnight (CET) on May 20, 2015 (the record date).

The ex-dividend date will be May 27, 2015.

The dividend will be paid as from May 28, 2015.

The amount of the dividend corresponding to the treasury shares held on the payment date will be allocated to retained earnings.

First resolution
(Approval of the Company financial statements for the year ended December 31, 2014)

Having considered the reports of the Chief Executive Officer, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the Company financial statements for the year ended December 31, 2014 which show net income for the period of €555,427,932.14.

The Ordinary Shareholders Meeting also approves the transactions reflected in these financial statements and referred to in these reports, including those relating to the various provision accounts.

Second resolution
(Appropriation of net income for the year ended December 31, 2014 and approval of the recommended dividend)

On the recommendation of the Chief Executive Officer (as approved by the Supervisory Board), the Ordinary Shareholders Meeting notes that the total amount available for distribution is as follows:

- Net income for the year: €555,427,932.14
- Share of profits attributed to the General Partners in accordance with the bylaws: €5,000,249.80
- Balance: €550,427,682.34
- Plus retained earnings brought forward from prior years: €60,351,857.68
- Total amount available for distribution: €610,779,540.02

And resolves:

- to pay an aggregate dividend of: €464,315,500.00
- representing €2.50 per share
- to appropriate the balance of: €146,464,040.02 to retained earnings

The dividend will be paid as from May 28, 2015.

The amount of dividend corresponding to the treasury shares held on the payment date will be allocated to retained earnings.

For individual shareholders domiciled in France for tax purposes, the total dividend will be subject to:

- the progressive tax scale applied to personal income tax, after the application of the 40% allowance provided for under Article 158-3-2° of the French General Tax Code *(Code général des impôts);*

- a 21% compulsory withholding tax. This tax, which is withheld at source by the paying agent, corresponds to a prepayment of personal income tax and will be deducted from the shareholders' final income tax payment for the year or refunded in the case of an excess payment. *(However, shareholders filing a single tax return whose personal taxable income for 2013 was less than €50,000 (less than €75,000 for shareholders filing a joint tax return) may apply for an exemption from this withholding tax. In order to make such an application, eligible shareholders should have lodged a declaration of honour with the bank holding their shares, by November 30, 2014, stating that their personal taxable income is below the applicable threshold);*
- the applicable social security and additional contributions withheld at source by the paying agent at a rate of 15.5%, of which 5.1% is deductible for tax purposes.

In accordance with Article 119 *bis* of the French General Tax Code, dividends paid to shareholders not domiciled in France for tax purposes are subject to withholding tax at the rate applicable to the country in which the shareholder is domiciled.

As required under Article 243 *bis* of the French General Tax Code, the shareholders note that dividends paid for the past three years were as follows:

Year	Total dividend payout *(in €)*	Dividend per share* *(in €)*
2011	378,039,683.70	2.10
2012	438,136,111.20	2.40
2013	464,474,107.50	2.50

* *The full amount of the dividend was eligible for the 40% tax allowance provided for in Article 158-3-2° of the French General Tax Code.*

Third resolution

▸ Approval of the consolidated financial statements for the year ended December 31, 2014

The purpose of the third resolution is to approve the consolidated financial statements for the year ended December 31, 2014, which show net income for the period of €1,031,090 thousand.

The Registration Document, the Annual and Sustainable Development Report and the Shareholders' Guide, which can be downloaded from the Finance/Individual Shareholders/Documents section of Michelin's website (www.michelin.com), contain an analysis of the consolidated financial statements and year-on-year changes. These documents can also be sent to shareholders on request.

Third resolution
(Approval of the consolidated financial statements for the year ended December 31, 2014)

Having considered the reports of the Chief Executive Officer, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the consolidated financial statements for the year ended December 31, 2014 which show net income for the period of €1,031,090 thousand.

Fourth resolution

▸ Related-party agreements

As no related-party agreements were entered into during 2014, shareholders are invited to place on record that there are no such agreements to approve.

In addition, no related-party agreements entered into in previous years remained in force during 2014.

Fourth resolution
(Related-party agreements)

Having considered the Statutory Auditors' special report on related-party agreements governed by Article L. 226-10 of the French Commercial Code *(Code de commerce),* the Ordinary Shareholders Meeting approves said report and places on record that no such agreements requiring shareholder approval were entered into in 2014.

Fifth resolution

▸ Authorization for the Chief Executive Officer to put in place a share buyback program, except during a public offer period, based on a maximum purchase price per share of €140

In the fifth resolution, shareholders are invited to renew the authorization for the Company to buy back its own shares over a period of 18 months. The maximum purchase price per share under this authorization would be €140 and the maximum number of shares purchased would not exceed 10% of the total shares outstanding at the time of the transaction(s). This authorization would supersede the previous authorization granted for the same purpose at the Annual Shareholders Meeting held on May 16, 2014 and would not be able to be used while a takeover bid is in progress. During 2014, the Company used the previous authorization to buy back and cancel just over one million shares, resulting in a corresponding capital reduction.

This type of proposed resolution is explained in detail in Information Sheet 4 of the MEDEF Guide ("Share buybacks"), on page 42.

Fifth resolution
(Authorization for the Chief Executive Officer to put in place a share buyback program, except during a public offer period, based on a maximum purchase price per share of €140)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, as well as the description of the share buyback program drawn up in accordance with the requirements of the General Regulations of the AMF, the Ordinary Shareholders Meeting authorizes the Chief Executive Officer, in accordance with Articles L. 225-209 et seq. of the French Commercial Code, to put in place a program for the Company to buy back its own shares at a maximum purchase price per share of €140.

In the event of any corporate actions, such as a bonus share issue paid up by capitalizing reserves or a stock split or reverse stock split, the above maximum purchase price will be adjusted accordingly.

The number of shares that may be bought back under this authorization may not represent more than 10% of the total shares outstanding at the time of each transaction and the Company may not hold more than 10% of its own share capital at any time. The total number of shares purchased for the purpose of maintaining a liquid market, as set out below, will be calculated after deducting the number of shares sold over the duration of the share buyback program.

The maximum amount that may be invested in the share buyback program, within the meaning of Article R. 225-151 of the French Commercial Code, is set at €2,600,166,800, corresponding to 18,572,620 shares bought back at the maximum purchase price per share of €140 and representing less than 10% of the Company's share capital at the date of this Meeting.

The objectives of the share buyback program are as follows:

- to purchase shares for sale or allocation to employees of Group companies in accordance with the conditions set down by law, including (i) on exercise of stock options, (ii) under performance share plans and (iii) in connection with employee rights issues;
- to maintain a liquid market for the Company's shares through a liquidity contract complying with a Code of Ethics approved by the AMF;
- to purchase shares for allocation on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;
- to purchase shares to be held and subsequently sold, exchanged or otherwise transferred in connection with external growth transactions. The maximum number of shares purchased for the purpose of being held and subsequently sold or exchanged in connection with a merger, de-merger or asset contribution may not exceed 5% of the Company's share capital;
- to implement any other market practices that may be authorized in the future by the applicable laws and the AMF;
- to acquire shares for cancellation under a shareholder-approved capital reduction.

The purchase, sale or transfer of shares may be effected at any time, except during a public offer period, and by any method, on the basis and within the limits prescribed by the laws and regulations in force on the transaction date(s), *via* regulated markets, multilateral trading facilities, systematic internalizers or over-the-counter, including through (i) block purchases or sales, (ii) public offers of purchase or exchange, (iii) the use of options or other forward financial instruments traded *via* regulated markets, multilateral trading facilities, systematic internalizers or over-the-counter, or (iv) the allocation of shares on conversion, redemption, exchange or exercise of securities carrying rights to the Company's shares or by any other means, either directly or *via* an investment services provider. The entire buyback program may be implemented through a block trade.

The Chief Executive Officer shall have full powers – which may be delegated – to (i) place buy and sell orders, (ii) enter into any and all agreements, (iii) make any and all filings, (iv) carry out all other formalities, (v) allocate or reallocate the purchased shares to any of the various purposes of the program and (vi) generally, do everything necessary to carry out the share buyback program.

This authorization shall be valid for a period of 18 months from the date of this Meeting and supersedes the authorization granted for the same purpose in the fifth resolution of the Annual Shareholders Meeting held on May 16, 2014.

Sixth resolution

▸ Advisory vote on the components of the compensation due or awarded for 2014 to Jean-Dominique Senard, Chief Executive Officer

As prescribed in Article L. 225-37 of the French Commercial Code, the Company bases its corporate governance framework on the Corporate Governance Code for listed companies published by AFEP and MEDEF, as revised on June 16, 2013 (the AFEP/MEDEF Code), and on the Code's implementation guidance, as revised on December 23, 2014.

Companies that elect to apply the recommendations in Article 24.3 of the AFEP/MEDEF Code are required to provide their shareholders with an advisory "say-on-pay" vote relating to the components of compensation due or awarded for the previous year to each executive officer. Said components may include:

- the fixed portion of the executive officer's compensation;
- the annual variable portion and, where applicable, the multi-year variable portion, including a description of the objectives that must be met in order for this variable portion to be awarded;
- stock options, performance shares and any other type of long-term compensation;
- benefits related to taking up or terminating office;
- supplementary pension benefits;
- any other benefits.

Michelin's Supervisory Board and Management have elected to apply this recommendation.

Consequently, on the recommendation of the Supervisory Board and with the approval of the Board and of the Non-Managing General Partner (SAGES), in the sixth resolution the Chief Executive Officer is asking shareholders to give a positive advisory vote on the components of the compensation due or awarded for 2014 to Jean-Dominique Senard, who is the Company's Chief Executive Officer and sole executive officer.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee are presented in the table below (all of the information shown is based on the standard tables provided in the AFEP/MEDEF Code which are set out in section 4.3.1 of the 2014 Registration Document).

Compensation due or awarded for 2014	Amounts (or accounting value) submitted to the shareholder vote *(in €)*	Presentation
Fixed compensation	1,100,000	This corresponds to the gross annual fixed compensation due by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, as consideration for the duties performed by Mr. Senard in his capacity as Non-General Managing Partner of that company. Its amount was set by MFPM's General Partner on April 29, 2014 based on the recommendation of CGEM's Compensation and Appointments Committee.
Annual variable compensation	750,037	**Shared features** The annual variable components of Mr. Senard's compensation are paid out of the share of profit allocated to the two General Partners of CGEM – Jean-Dominique Senard and SAGES – that is now split between them on a mutually agreed basis. No new agreement or commitment has been entered into between CGEM and Mr. Senard concerning his compensation. In accordance with article 30, paragraph 3, of the Company's bylaws (as presented in section 5.1.2 e), 12% of profit for the year, net of dividend income corresponding to distributions of profit or reserves by Manufacture Française des Pneumatiques Michelin and Compagnie Financière du groupe Michelin (CFM), is allocated to the General Partners. The allocated share of profit is capped at 0.6% of the Group's consolidated net profit. For 2014, the allocated share of profit was a base amount of €5.0 million, representing 12% of profit for the year net of dividends received in 2014 from CFM. **Single-criterion annual variable component** This component corresponds to 8% of the allocated share of profit, *i.e.* €400,020 for 2014, less €50,000 corresponding to the allocated share of profit payable by CFM as compensation for Mr. Senard's role as General Managing Partner of this subsidiary. **Multi-criteria annual variable compensation** For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose any details of these performance targets. This component corresponds to between 0% and 14% of the allocated share of profit, depending on the level of achievement in 2014 of the following eight criteria set by the Supervisory Board: ▶ four quantitative criteria – the same as those applied to determine the 2014 variable compensation of the Executive Committee members – which together count for up to 100/150ths: – annual growth in unit sales, – annual savings from the Efficiency project to reduce overheads, measured on the basis of an appropriate SG&A/gross margin ratio, – annual free cash flow (after capital expenditure and financial investments), – annual increase in market share in certain tire segments; ▶ four qualitative criteria linked to the Group's strategy, management and financial communications, which together count for up to 50/150ths. Note that: ▶ if the cumulative achievement rate for the eight criteria is less than 50/150ths, Mr. Senard will not be entitled to any multi-criteria variable compensation; ▶ he will be awarded the maximum 14% of the allocated share of profit for this component only if the cumulative achievement rate for the eight criteria is 150/150ths. The Compensation and Appointments Committee carefully reviewed each of the quantitative and qualitative criteria: Based on its analysis concerning the multi-criteria annual variable component, the Committee considered that the cumulative achievement rate for the quantitative and qualitative criteria was 80/150ths. Applying this rate to the criteria assessment grid puts the multi-criteria annual variable component at €350,017, to be paid out of the share of profit allocated for 2014.

Compensation due or awarded for 2014	Amounts (or accounting value) submitted to the shareholder vote *(in €)*	Presentation
Deferred variable compensation	No deferred variable compensation was due for 2014	**Long-term incentive (long-term variable component)** The long-term incentive is calculated on a base amount of €1,800,000, as adjusted to reflect Michelin's stock market performance over the period 2014/2015/2016. The adjustment is based on performance over the three-year period against the following three criteria: ▶ growth in the Michelin share price compared with that of the CAC 40 index, for 33.3%; ▶ average annual growth in Group net sales, for 33.3%; ▶ average annual return on capital employed (ROCE), for 33.3%. The targets for the second and third criteria concern like-for-like growth in net sales and ROCE (*i.e.* based on a comparable structure and at constant exchange rates, excluding any changes in accounting policies and any non-recurring items), and may be revised following the occurrence of any exceptional events. The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full. The final amount receivable under the long-term incentive plan will be: ▶ capped at 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2014, 2015 and 2016; ▶ paid out of the share of profit allocated to the General Partners in respect of 2016 and payable in 2017 after the 2016 financial statements have been approved: – subject to the availability of profit shares payable in 2017 in respect of 2016 profit, and – up to the amount of said available profit shares after deducting the annual variable and multi-criteria variable components due for 2016. As this is a long term incentive plan, the Supervisory Board noted that no amount was due in respect of 2014.
Exceptional compensation	N/A	No exceptional compensation
Stock options, performance shares and other long-term compensation	Stock options = N/A Performance shares = N/A Other long-term compensation = N/A	No stock options granted No performance shares granted No other long-term compensation awarded
Attendance fees	N/A	Mr. Senard does not receive any attendance fees
Value of fringe benefits	6,894	Company car
Signing bonus	N/A	Mr. Senard was not paid any signing bonus

Components of compensation due or awarded for 2014 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments*	Amounts submitted to the shareholder vote *(in €)*	Presentation
Compensation for loss of office	No compensation for loss of office was due for 2014	In accordance with Article 13-2 of the bylaws, as approved by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if Mr. Senard were to be removed from office before the end of his term as a result of a change of strategy or a change of control of the Company, provided such removal was not due to gross misconduct, he would be entitled to compensation for loss of office to be decided by the Non-Managing General Partner and subject to the prior approval of the Supervisory Board. The amount of any such compensation would not exceed the equivalent of Mr. Senard's total compensation for the two years preceding the year of his removal from office. In accordance with the internal rules of both the Compensation and Appointments Committee and the Supervisory Board, the Supervisory Board approved the performance criteria to be applied for the calculation of the compensation for loss of office, as recommended by the Committee, and informed the Chief Executive Officer of these criteria in 2014. The final amount of compensation for loss of office paid pursuant to Article 13-2 of the bylaws would depend on the average 'multi-criteria annual variable compensation' to the Chief Executive Officer of the allocated share of profit for the three years preceding his removal from office (the Three-year Average), as follows: ▶ Three-year Average of less than 40%: no compensation for loss of office; ▶ Three-year Average of between 40% and 60%: compensation for loss of office equal to 50% of the Reference Base; ▶ Three-year Average of between 60% and 100%: compensation for loss of office equal to 100% of the Reference Base, where the Reference Base corresponds to the aggregate compensation paid for the two years preceding the year of his removal from office. The compensation for loss of office would be reduced, if applicable, so that any other severance payments due to Mr. Senard would not result in his receiving an aggregate severance package in excess of two years' compensation, as recommended in the AFEP/MEDEF Code.
Non-compete indemnity	No indemnity was due under a non-compete clause in 2014	In the same way as Michelin employees who have specific expertise that needs to be protected to prevent its use by a competitor in a manner that is detrimental to the Company's interests, Mr. Senard is subject to a non-compete clause, which was signed on July 26, 2011 after prior approval by the Supervisory Board. This clause replaced the one contained in his employment contract that was terminated following his election as General Managing Partner. If the Company were to decide to apply this non-compete clause, for a two-year period it would have to pay to Mr. Senard the equivalent of up to 16 months' compensation based on the most recent aggregate compensation paid to him by Group companies. The Company is, however, entitled to waive the application of this clause. Any compensation for loss of office that would be due to Mr. Senard in the event of a change of control or strategy would be reduced or withheld entirely if necessary so that his aggregate severance package, including the non-compete indemnity referred to above, did not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP/MEDEF Code.
Supplementary pension benefits	No supplementary pension benefits were due in 2014	Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard is a member of the supplementary pension plan set up for MFPM senior executives. His benefit entitlement under this plan is determined by reference to the fixed compensation paid to him by that company (reference compensation). The cost of this supplementary plan, which is not restricted to Non-General Managing Partners (executive officers), is recognized as a liability in the balance sheet in accordance with accounting standards as applied by the Group. Its main characteristics are as follows: ▶ participants must have served for at least five years as a senior executive; ▶ 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the three best years of compensation out of the last five years preceding the beneficiary's retirement); ▶ the replacement rate including benefit entitlements under compulsory plans is capped at 35%. To be entitled to benefits under this plan, Mr. Senard must end his career with MFPM as an executive employee or corporate officer, in accordance with Article L. 137-11 of the French Social Security Code. Calculated using the general actuarial assumptions applied to measure the Group's obligation in accordance accounting standards as applied by the Group, Mr. Senard's total benefit entitlement under the plans would represent a gross replacement rate of less than 10% of his reference compensation. As this reference compensation represents less than half of the aggregate amount received by Mr. Senard for 2014 (fixed compensation and variable share of profit as stipulated in the bylaws), his actual gross replacement rate would be around one half of the above-mentioned replacement rate, and therefore well below the 45% ceiling recommended in the AFEP/MEDEF Code.

* *Unlike for joint stock companies (sociétés anonymes, or SAs) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or SCA) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).*

The fact that the specific system applicable to SAs concerning related-party commitments does not apply to SCAs is corroborated by Article L. 226-10-1 of the Commercial Code, which states that the Chairman of the Supervisory Board is required to prepare a report reviewed by the Statutory Auditors whose content explicitly excludes information related to the "principles and rules concerning the compensation and benefits granted to executive officers", whereas this information is compulsory for SAs pursuant to Articles L. 225-37 and L. 225-68 of the Commercial Code. This difference in the applicable legal regimes does not have any effect on (i) the rules concerning public disclosures of the amounts and underlying principles relating to the compensation of the Company's executive officers and (ii) the application, adapted to the context, of the AFEP/MEDEF Code's recommendations.

Sixth resolution
(Advisory vote on the components of the compensation due or awarded for 2014 to Jean-Dominique Senard, Chief Executive Officer)

Having considered the report of the Supervisory Board and having noted the approval of the Non-Managing General Partner, the Ordinary Shareholders Meeting issues a positive advisory vote on the components of the compensation due or awarded for 2014 to Jean-Dominique Senard, Chief Executive Officer, as presented in section 4.3.3 of the 2014 Registration Document.

Seventh and eighth resolutions: election and re-election of Supervisory Board members

▸ Michelin's Supervisory Board plays a vital role for the Group

The current members of Michelin's Supervisory Board are Barbara Dalibard, Anne-Sophie de La Bigne, Laurence Parisot, Olivier Bazil, Pat Cox, Jean-Pierre Duprieu and Michel Rollier. All of them have very solid business experience acquired through working with leading corporations as well as a good knowledge of the Michelin Group. They actively participate in the work of both the Board and its Committees, as illustrated by the attendance rates for meetings held in 2014 (97.8% for Board meetings and 100% for meetings of the Audit Committee and the Compensation and Appointments Committee).

The Supervisory Board members perform their duties independently and have total freedom of judgment.

A summary of the work carried out by the Supervisory Board in 2014 is included in the report of the Chairman of the Supervisory Board on the Board's membership structure and practices, set out in section 4.5 of the 2014 Registration Document.

▸ Michelin's General Partners do not take part in the election or re-election of Supervisory Board members

Michelin is a *société en commandite par actions* (partnership limited by shares) and as such its Supervisory Board is entirely made up of non-executive members (almost all of whom are independent) who represent the shareholders. Only the Supervisory Board itself may put forward proposals for the election or re-election of its members at Annual Shareholders Meetings.

With a view to clearly segregating management and supervisory powers, no General Partner may play a role in the nomination process – neither the Managing General Partner (the Chief Executive Officer), nor the Non-Managing General Partner (SAGES), which is responsible for ensuring the Company's continuity of leadership.

The General Partners may not be involved in decisions to recommend candidates for election to the Supervisory Board at Shareholders Meetings.

Likewise, in accordance with the law and the Company's bylaws the General Partners may not take part in any votes cast at Shareholders Meetings concerning the election or re-election of Supervisory Board members, and their shares are not included in the quorum for the related resolutions.

For further information on Michelin's corporate governance principles please see sections 4.1 and 4.2 of the 2014 Registration Document ("Administrative, Management and Supervisory Bodies, and Senior Management" and "Practices of the Administrative, Management and Supervisory Bodies").

▸ The Supervisory Board is recommending that shareholders re-elect one Supervisory Board member and elect one new member

The term of office of Barbara Dalibard is due to expire at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ended December 31, 2014.

In addition, the Supervisory Board has decided to put forward a new candidate for election to replace Louis Gallois, who resigned from the Board in February 2014.

The candidate selection process, the criteria applied by the Compensation and Appointments Committee and a presentation of the candidates are set out in the report of the Supervisory Board on the proposed resolutions (see the Notice of Meeting for the 2015 Annual Shareholders Meeting and section 10.2 of the 2014 Registration Document).

Following this process the Board unanimously decided to ask the Chief Executive Officer to recommend at the Annual Meeting that the shareholders:

- re-elect Barbara Dalibard (who did not take part in the Supervisory Board vote on her nomination for re-election);
- elect Aruna Jayanthi as a new member of the Board.

These Supervisory Board members would be elected/re-elected for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2018.

Seventh resolution
(Re-election of Barbara Dalibard as a member of the Supervisory Board)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting re-elects Barbara Dalibard as a member of the Supervisory Board for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2018.

Eighth resolution
(Election of Aruna Jayanthi as a member of the Supervisory Board)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting elects Aruna Jayanthi as a member of the Supervisory Board for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2018.

10.1.2 EXTRAORDINARY RESOLUTIONS

The three extraordinary resolutions proposed at the 2015 Annual Shareholders Meeting concern the following:

- the renewal, on the same terms and conditions, of the authorization previously given by shareholders to reduce the Company's capital by cancelling shares;
- amendments to the Company's bylaws required due to a change in the record date applicable for Annual Shareholders Meetings;
- powers to carry out the required formalities related to the Annual Shareholders Meeting.

Ninth resolution

▸ Authorization for the Chief Executive Officer to reduce the Company's capital by cancelling shares

In the ninth resolution, shareholders are invited to authorize the Chief Executive Officer to reduce the Company's capital by cancelling treasury shares purchased under shareholder-approved buyback programs.

This authorization is being sought for a period of 18 months and would supersede the authorization granted for the same purpose in the twentieth resolution of the May 16, 2014 Annual Shareholders Meeting, which was used to cancel just over a million shares in 2014, with a corresponding capital reduction (see the Company's press release issued on November 4, 2014 as well as section 5.5.7 b) of the 2014 Registration Document).

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.10 of the MEDEF Guide ("Authorizations to carry out capital reductions"), on page 67.

Ninth resolution
(Authorization for the Chief Executive Officer to reduce the Company's capital by cancelling shares)

Having considered the reports of the Chief Executive Officer, the Statutory Auditors special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

- to authorize the Chief Executive Officer to:
  - cancel, at his sole discretion, on one or more occasions, all or some of the shares purchased under shareholder-approved buyback programs, provided that the number of shares cancelled does not exceed 10% of the Company's capital,
  - charge the difference between the cost of the cancelled shares and their par value against any available premium or reserve account;
- to grant the Chief Executive Officer full powers – which may be delegated in accordance with the law – to (i) carry out the capital reduction(s) following the cancellation(s) of shares authorized under this resolution, (ii) make the corresponding accounting entries, (iii) amend the bylaws to reflect the new capital and (iv) generally, carry out all necessary formalities.

This authorization shall be valid for a period of 18 months from the date of this Meeting and supersedes any authorization previously granted for the same purpose.

Tenth resolution

▸ Change in the record date for Annual Shareholders Meetings

Following the adoption of EU Regulation 909/2014 on improving securities settlement and regulating central securities depositories, Decree 2014-1466 was issued in France on December 8, 2014 setting a new timeframe for record dates (corresponding to the date on which issuers of securities listed on a regulated market establish the list of persons and entities authorized to take part in meetings of shareholders or bondholders). Consequently, Article R. 225-85 of the French Commercial Code has been amended to change the deadline for the record date to two business days before the Meeting concerned (compared with three business days previously).

The purpose of the tenth resolution is to amend the Company's bylaws in line with these new compulsory regulatory provisions, which have been effective since January 1, 2015.

Tenth resolution
(Amendment of the Company's bylaws to change the record date for Annual Shareholders Meetings)

Having (i) considered the report of the Chief Executive Officer, (ii) noted the approval of both of the General Partners, and (iii) noted the amendment to Article R. 225-85 of the French Commercial Code resulting from Decree 2014-1466 of December 8, 2014 which amends the deadline and terms and conditions applicable to record dates for meetings of shareholders and bondholders of commercial companies, the Extraordinary Shareholders Meeting resolves to amend the last sentence of Article 22 of the Company's bylaws.

Accordingly, the wording of said sentence, which is currently: *"Only those shareholders registered as shareholders in the Company's books three days at least before the date of the Meeting shall be entitled to participate in the Meeting",* shall be amended to read as follows: *"Only those shareholders registered as shareholders in the Company's books two days at least before the date of the Meeting shall be entitled to participate in the Meeting."*

Eleventh resolution

▸ Powers to carry out formalities

The purpose of the eleventh resolution is to give powers to carry out the formalities related to the Annual Shareholders Meeting.

Eleventh resolution
(Powers to carry out formalities)

The shareholders give full powers to the bearer of an original, copy or extract of the minutes of this Ordinary and Extraordinary Shareholders Meeting to carry out all legal and administrative formalities and to make all filings and publish all notices required by the applicable laws.

10.1.3 SUMMARY OF FINANCIAL AUTHORIZATIONS SUBMITTED FOR SHAREHOLDER APPROVAL

Corporate action	Applicable ceilings *(nominal amount)*	Duration (expiration date)
Share buyback program *(Fifth resolution)*	18.57 million shares at a maximum per-share purchase price of €140	18 months *(November 2016)*
Share cancellations *(Ninth resolution)*	10% of the Company's capital	18 months *(November 2016)*

10.2 REPORT OF THE SUPERVISORY BOARD

To the shareholders,

You will find below our report to the 2015 Annual Shareholders Meeting.

10.2.1 RECOMMENDATIONS ON THE APPROVAL OF THE FINANCIAL STATEMENTS, FINANCIAL AUTHORIZATIONS AND AMENDMENTS TO THE BYLAWS RELATED TO THE RECORD DATE

Concerning the ordinary resolutions, the Chief Executive Officer's report and the accounting and financial information communicated to you present the Group's operations and results for 2014 (for the purposes of the first, second and third resolutions).

We have no comments on the Statutory Auditors' reports on the financial statements.

As no new related-party agreements requiring shareholder approval were entered into in 2014, you are asked to place on record that there are no such agreements to approve (in the fourth resolution).

In the fifth resolution, the Company is seeking an authorization to renew its share buyback program based on a maximum purchase price of €140 per share, unchanged from the previous program. An authorization to cancel shares bought back under the program is also being sought (in the ninth resolution) to replace the authorization granted in 2014, which was used by the Company during the year.

Lastly, shareholders are being asked to approve an extraordinary resolution (the tenth resolution), whose purpose is to amend the Company's bylaws in order to comply with the new deadline applicable to record dates for shareholders meetings as set in the Decree issued in France on December 8, 2014 which entered into force on January 1, 2015.

In 2014 the Group once again met its main performance targets, recording a year-on-year increase in consolidated operating income (excluding the currency effect) and generating a high level of free cash flow which enabled it to further strengthen its financial structure.

In addition, the Group is still on track to meet its major strategic objectives.

In view of this, we have every confidence in the Chief Executive Officer and recommend that you vote in favour of the first, second, third, fourth, fifth, ninth and tenth resolutions being submitted for your approval.

10.2.2 SIXTH RESOLUTION: ADVISORY "SAY-ON-PAY" VOTE ON THE CHIEF EXECUTIVE OFFICER'S COMPENSATION FOR 2014

As prescribed in Article L. 225-37 of the French Commercial Code, the Company bases its corporate governance framework on the Corporate Governance Code for listed companies published by AFEP and MEDEF, as revised on June 16, 2013 (the AFEP/MEDEF Code), and on the Code's implementation guidance, as revised on December 23, 2014.

Michelin's Supervisory Board elected to apply the "say-on-pay" recommendations in the AFEP/MEDEF Code as from when the Company adopted the Code.

Consequently, with the approval of the Non-Managing General Partner (SAGES), we are asking you to approve the sixth resolution and to issue a positive advisory vote on the components of the compensation due or awarded for 2014 to Jean-Dominique Senard, the Company's Chief Executive Officer and sole executive officer.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee are described in the table included in the presentation of the sixth resolution in the Chief Executive Officer's report, and in section 4.3.3 of the 2014 Registration Document.

10.2.3 SEVENTH AND EIGHTH RESOLUTIONS: ELECTION AND RE-ELECTION OF SUPERVISORY BOARD MEMBERS

The term of office of Barbara Dalibard is due to expire at the close of the May 22, 2015 Annual Shareholders Meeting and the Compensation and Appointments Committee recommended to the Supervisory Board that she be re-elected.

In addition, following a review of candidates, the Supervisory Board is recommending the election of a new Board member to replace Louis Gallois, who resigned on February 11, 2014 due to his new position as Chairman of PSA's Supervisory Board.

Because Mr. Gallois' resignation was tendered so soon before the May 16, 2014 Annual Shareholders Meeting, as explained in the Supervisory Board's report on the resolutions for that Meeting, the Compensation and Appointments Committee decided to review the candidates for his replacement after the Meeting so as to conduct the selection procedure in the best possible conditions.

Proposal to re-elect Barbara Dalibard as a Supervisory Board member

▸ Barbara Dalibard

SNCF Direction Générale Voyageurs

2, place aux Étoiles

93210 La Plaine-Saint-Denis, France

Barbara Dalibard was born in 1958 and is a French national. She is Chief Executive Officer of SNCF Voyageurs and owns 485 Michelin shares.

The Compensation and Appointments Committee examined Ms. Dalibard's candidacy for re-election and particularly noted:

- her in-depth understanding of the Group's main challenges;
- her contribution to determining the Group's main research and development strategies;
- her expertise in issues related to the digital economy;
- her availability and involvement in the Board's work;
- the fact that she is an independent member of the Board and has no conflicts of interest.

Barbara Dalibard has been a Supervisory Board member since 2008 and following the latest review of the independence of its members the Board classified her as independent because:

- she does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board;
- she is not currently and never has been an employee of Michelin or any of its subsidiaries;
- she has not been a member of the Supervisory Board for more than 12 years;
- she is not a corporate officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which a corporate officer of Michelin has a seat on the Board;
- she is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin;
- she has not been an auditor of Michelin in any of the past five years;
- she is not a shareholder or a corporate officer of SAGES, which is one of Michelin's General Partners.

Following its assessment process, the Compensation and Appointments Committee decided that it would be in the best interests of the Company's shareholders to continue to benefit from Barbara Dalibard's skills and experience and therefore asked her if she was willing to be re-elected. Ms. Dalibard agreed, and the Supervisory Board decided to accept the Compensation and Appointment Committee's recommendation issued on October 13, 2014 and voted to put her forward for re-election for a further four-year term at the 2015 Annual Shareholders Meeting. Ms. Dalibard did not take part in this Supervisory Board vote.

Proposal to elect Aruna Jayanthi as a new Supervisory Board member

As requested by the Supervisory Board, the Compensation and Appointments Committee based its search for the new Supervisory Board member on best market practices as adapted to the Company's specific situation.

The Committee assigned the initial selection process to a leading independent recruitment firm which shortlisted around ten potential candidates.

After carefully reviewing each individual candidacy on the shortlist, the Committee decided to recommend Aruna Jayanthi for election.

▸ Aruna Jayanthi

Capgemini India Pvt.Ltd

Godrej & Boyce Compound

LBS Road, Vikhroli (West)

Mumbai 400079 (India)

Aruna Jayanthi was born in 1962 in Visakhabatnam (India) and is an Indian national. She speaks French fluently.

Ms. Jayanthi has been the Chief Executive Officer of Capgemini India since 2011 and in this role she oversees all of the Capgemini group's operations in India, covering Consulting, Technology and Outsourcing Services provided by some 50,000 employees.

After graduating from the Narsee Monjee Institute of Management Studies in Mumbai, Ms. Jayanthi held a number of different IT services positions between 1984 and 2000 (including in Europe and the United States), such as with Tata Consulting Services and Aptech.

She joined the Capgemini group in 2000.

The Compensation and Appointments Committee carried out an in-depth review of Ms. Jayanthi's candidacy, which included a face-to-face interview. The Committee concluded that the main strengths she would bring to the Supervisory Board would be:

- her multi-national and multi-cultural experience;
- her expertise in consulting, IT services and eco-digital solutions;
- her managerial experience within a major international group;
- her knowledge of the Indian market and emerging markets;
- her desire to actively participate in the work carried out by the Supervisory Board.

The Committee also reviewed Ms. Jayanthi's independence in relation to Michelin and noted that:

- she does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board;
- she is not currently and never has been an employee of Michelin or any of its subsidiaries;
- she is not a corporate officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which a corporate officer of Michelin has a seat on the Board;
- she is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin;
- she has not been an auditor of Michelin in any of the past five years;
- she is not a shareholder or a corporate officer of SAGES, which is one of Michelin's General Partners.

Aruna Jayanthi agreed to stand for election as a Supervisory Board member and undertook to acquire 200 Michelin shares before the May 22, 2015 Annual Shareholders Meeting, and then, within a reasonable timeframe, to increase the number of shares she holds to at least 400, as required by the Supervisory Board's internal rules.

The Chairman of the Compensation and Appointments Committee reported back to the Supervisory Board on its selection process and recommended that Aruna Jayanthi be put forward for election as a new independent member of the Supervisory Board for a four-year term.

Consequently, at its February 5, 2015, the Supervisory Board decided that at the May 22, 2015 Annual Shareholders Meeting it would recommend that shareholders elect Aruna Jayanthi as a new Board member and that they re-elect Barbara Dalibard.

The election of Ms. Jayanthi and re-election of Ms. Dalibard will:

- give the Board a complementary mix of business expertise and corporate cultures;
- strengthen the Board's international dimension;
- enrich the Board's range of skills;
- maintain the proportion of women on the Board at 37.5% [(1)]
- maintain the number of independent Supervisory Board members at six, representing 75%.

If Ms. Jayanthi and Ms. Dalibard are elected/re-elected, after the Annual Shareholders Meeting the expiration dates of the Supervisory Board members' terms of office will be effectively staggered, as follows:

EXPIRATION DATES OF SUPERVISORY BOARD MEMBERS' TERMS OF OFFICE

	2016 Annual Shareholders Meeting	2017 Annual Shareholders Meeting	2018 Annual Shareholders Meeting	2019 Annual Shareholders Meeting
Olivier Bazil		X		
Pat Cox			X	
Barbara Dalibard *(standing for re-election at the 2015 Annual Shareholders Meeting)*				X
Anne-Sophie de La Bigne	X			
Jean-Pierre Duprieu	X			
Laurence Parisot			X [(1)]	
Cyrille Poughon			X	
Michel Rollier		X		
Aruna Jayanthi *(standing for election at the 2015 Annual Shareholders Meeting)*				X
NUMBER OF EXPIRATIONS BY YEAR	**2**	**2**	**3**	**2**

(1) Ms. Parisot's term was due to expire on this date, but she tendered her resignation with effect from July 24, 2015 (see section 4.5.1. a) of the 2014 Registration Document).

February 5, 2015

Michel Rollier

Chairman of the Supervisory Board

(1) Considering the resignation of Laurence Parisot, with effect from July 24, 2015.

10.3 STATUTORY AUDITOR'S REPORTS

10.3.1 STATUTORY AUDITORS' REPORT ON THE CAPITAL REDUCTION

Combined Shareholders' Meeting of May 22, 2015 (9th resolution)

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of Compagnie Générale des Établissements Michelin and pursuant to Article L. 225-209 of the French Commercial Code *(Code de commerce)* concerning capital reductions carried out by cancelling bought-back shares, we hereby present our report on our assessment of the reasons for and terms of the proposed capital reduction.

The Managing Chairman has proposed that you delegate, for a period of eighteen months as of the date of this meeting, the powers to cancel, for up to 10% of its share capital, the bought-back shares, as authorized by your Company under the aforementioned article.

We performed the procedures that we considered necessary in accordance with the French professional standards issued by our professional body, *Compagnie nationale des Commissaires aux Comptes,* for this type of engagement. Those procedures consisted of examining whether the reasons for and the terms of the proposed capital reduction, which does not undermine shareholder equality, comply with applicable legal provisions.

We have nothing to report concerning the reasons for and the terms of the proposed capital reduction.

Neuilly-sur-Seine, February 9, 2015

The Statutory Auditors

PricewaterhouseCoopers Audit
Éric Bulle

Deloitte & Associés
Dominique Descours

10.3.2 OTHER STATUTORY AUDITORS' REPORTS

The Statutory Auditors' reports to the Annual Shareholders Meeting of May 22, 2015 that are not presented below can be found in the following sections of this Registration Document:

- Report on the Company financial statements: in section 8.3;
- Special report on regulated agreements and commitments with third parties: in section 8.4;
- Report on the consolidated financial statements: in section 7.2;
- Report on the Chairman of the Supervisory Board's report on the Company's internal control and risk management procedures: in section 4.6;
- Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated environmental, labour and social information presented in the management report: in section 6.4.

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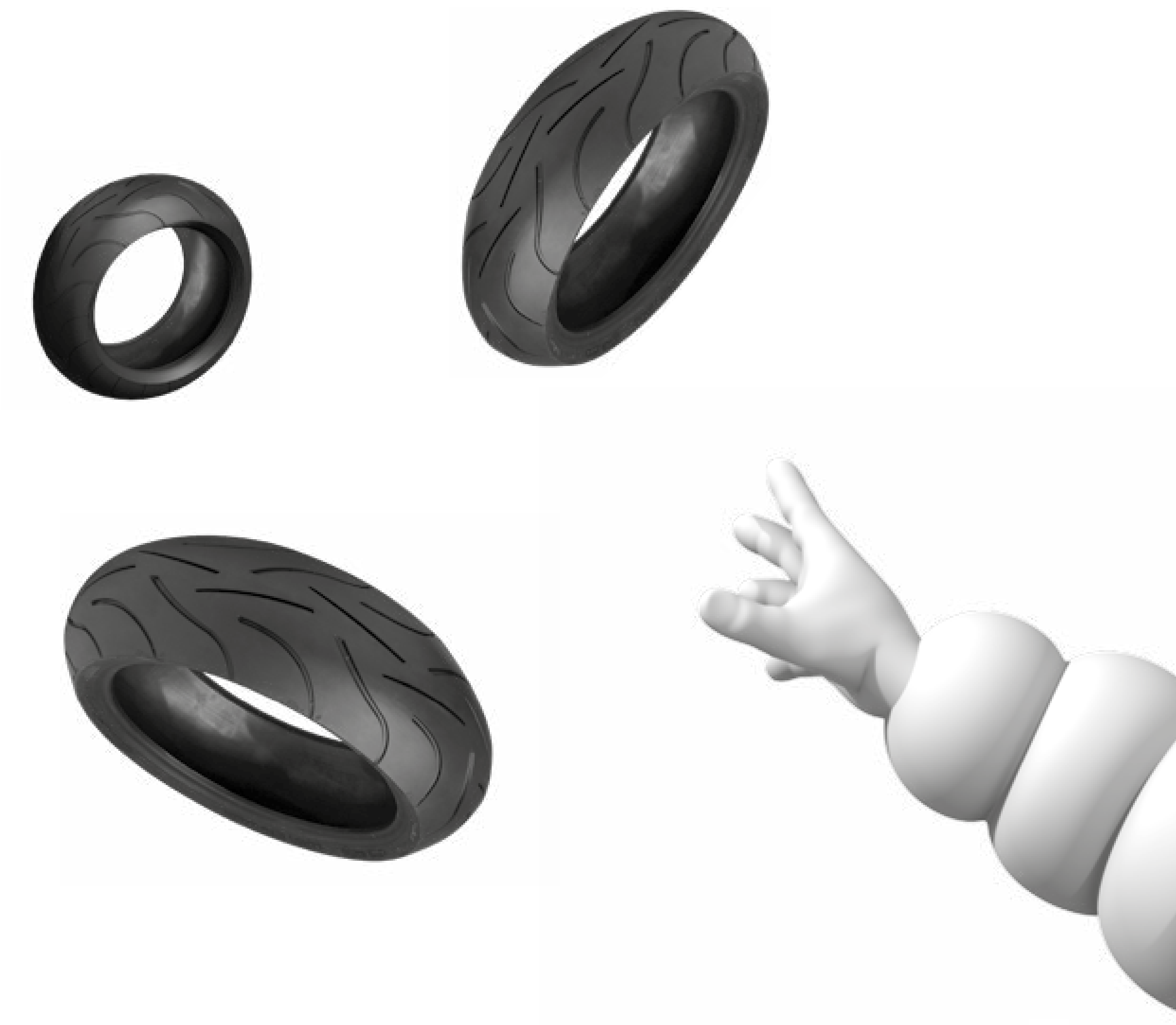

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11.3 TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT

In order to facilitate reading of the Registration Document, please consult the following contents table to identify the disclosures required under European Commission Regulation No. 809/2004 dated April 29, 2004.

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