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, 2013 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 3 and no more than 10 members, elected by the Annual Shareholders Meeting for a term of 4 years. 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 is currently made up of the following 7 members:

- 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 and former member of the Irish Parliament;
- Barbara Dalibard, Chief Executive Officer of SNCF Voyages, a Director of Eurostar International Limited and member of the Supervisory Board of Wolters Kluwer;
- 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;
- Laurence Parisot, Vice-Chairman of the Management Board of IFOP;
- Michel Rollier, Chairman of Michelin’s Supervisory Board, Chairman of the Plateforme de la Filière Automobile and a former Managing Partner of Michelin.


4.5.1 b) Recent corporate governance developments

In conjunction with the Non-Managing General Partner (SAGES), Michelin’s Supervisory Board and Management have introduced a continuous improvement process for the Group’s corporate governance practices, with a view to ensuring that these evolve in line with the latest market developments while leveraging the benefits of the Company’s legal form as a French partnership limited by shares, which clearly segregates management and supervisory powers.

In recent years, the Company has made significant changes to the practices of its corporate governance bodies as well as to its bylaws and the Supervisory Board’s internal rules. These include:

- introducing a single 4-year term of office for Managing Partners, renewable by way of a joint decision taken by the Supervisory Board and the Non-Managing General Partner. Previously there was no set term of office for Managing General Partners;
- extending the oversight powers of the Supervisory Board to include analyzing investment strategies and reviewing significant projects concerning commitments, acquisitions and asset disposals;
- giving the Supervisory Board greater powers in relation to setting and overseeing the compensation of Managing Partners, including their aggregate compensation, termination benefits (compensation for loss of office) and consideration paid for non-compete clauses;
- introducing a clause in the bylaws enabling a Managing Partner to be removed from office by way of a joint decision by the Supervisory Board and the Non-Managing General Partner, whereas previously a Managing General Partner’s term of office could not be terminated;
- restricting the potential entitlement to compensation for loss of office solely to cases where there is a change in control of Michelin’s ownership structure or a change in strategy. Payment of this compensation is subject to the endorsement of the Supervisory Board, which sets the applicable performance criteria in advance and assesses whether they have been met at the time of the beneficiary’s departure;

(1) 5 years for members elected prior to 2009 and 2, 3 or 4 years for members elected on May 17, 2013, for the purpose of staggering terms of office.
(2) Louis Gallois, French General Commissioner for Investment and Member of the Supervisory Board of Peugeot SA resigned on February 11, 2014.
4.5.1 c) Report on the Supervisory Board’s work during 2013

Role and responsibilities

In 2013, the Supervisory Board fulfilled its role of overseeing the Company’s management, including:
- reviewing the annual and interim separate and consolidated financial statements as well as the quarterly financial information, as 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.

Description of the work conducted by the Board during the year

The Supervisory Board met 6 times in 2013 – on February 7, April 26, May 17, July 22, November 28 and December 2 and 3 – with an average attendance rate of 91.6%. At its meetings on February 7 and July 22 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2012, and (ii) the interim financial statements for the 6 months ended June 30, 2013. It also examined and expressed its opinion on the financial information communicated to the markets.

The issues examined by the Supervisory Board – based in some cases on presentations made by the Managing Partner or by members of line management – were as follows:
- analyses of quarterly financial information and of interim and annual results;
- internal control and risk management;
- the Audit Committee report;
- competitor analyses;
- tire market forecasts;
- the Group’s innovation strategy;
- the Group’s “materials” strategy;
- compensation policies;
- preparations for the Annual Shareholders Meeting;
- the Supervisory Board’s future membership structure;
- appointment of the Chairman of the Supervisory Board;
- appointment of members of the Audit Committee and Compensation and Appointments Committee;
- review of the organizational structure and practices of the Board Committees;
- annual assessment of the independent status of Supervisory Board members;
- annual self-assessment of the Board’s work.

A number of these topics are discussed in further detail in this report.

Training for Supervisory Board members

As part of its training policy for Supervisory Board members, and particularly in view of the election of 4 new members at the May 17, 2013 Annual Shareholders Meeting, during the year the Company organized a special training program on the Group’s operations. The sessions were over several days and gave all of the members hands-on insight into how our various businesses are run in a number of different countries.

First, the members attended a presentation given at the Ladoux Technology Center in France, focused on our business strategy, innovation capabilities, and research and process engineering resources. They were also shown how some of our activities are carried out in practice, including track tests, digital simulations and process expertise, and were able to visit a number of units like the tire performance rating facility and motorsports shops. They then visited the Cataroux site, also in France, where they observed the manufacturing processes used in several of our product categories.

Lastly, the Board attended a 2-day seminar in North America where in particular they learnt more about Michelin’s regional market presence and the strategy being deployed to support local operations and capital programs. They also visited 4 manufacturing facilities and met with many local line managers who explained exactly what their work involves.

Preparing recommendations for electing/re-electing Supervisory Board members at the 2013 Annual Shareholders Meeting

A major part of the Board’s work in late 2012 and early 2013 entailed preparing for the expiration of Supervisory Board members’ terms of office and introducing a system to ensure that in the future their terms will be effectively staggered. The terms of office of 6 of the 8 Supervisory Board members expired at the Annual Shareholders Meeting held on May 17, 2013 to approve the financial statements for the year ended December 31, 2012, namely Barbara Dalibard, Éric Bourdais de Charbonnière, Louis Gallois, François Grappotte, Pierre Michelin and Benoît Potier.

Éric Bourdais de Charbonnière (Chairman), François Grappotte (Board Member and Chairman of the Audit Committee) and Pierre Michelin and Benoît Potier (both members of the Board and the Audit Committee) informed the Board that they did not wish to stand for re-election due to personal reasons. The Chief Executive Officer thanked them all for their dedicated service on the Board and their extremely fruitful discussions with Management throughout their terms of office.
The former Chairman of the Supervisory Board, Éric Bourdais de Charbonnière, was in charge of reviewing the profile of nominees for the Board’s new members and selecting the final candidates. Following this process the Board unanimously decided to ask the Chief Executive Officer to recommend at the Annual Meeting that shareholders re-elect 2 existing Supervisory Board members and elect 4 new members.

Acting in its capacity as the Compensation and Appointments Committee, and as part of its role in planning the succession of Supervisory Board members, the Board examined its future membership structure in order to put forward the most suitable candidates for election and re-election. The Chairman contacted several potential candidates for the upcoming vacant seats and met with a dozen of them before shortlisting those who most closely matched the selection criteria. The shortlisted candidates were each interviewed by at least 3 other Supervisory Board members and were then individually presented by the Chairman of the Board to the Chief Executive Officer. In view of the number of nominees concerned, when preparing its recommendations the Board looked carefully not only at the candidates’ individual qualities, but also at how they would contribute to bringing a complementary mix of skills to the Board and achieving an overall balance in its future membership structure. The main selection criteria used by the Board are described below.

**Skills and experience.** The nominees were required to have (i) a broad range of experience in executive, manufacturing and operational management gained in both national and international environments, and (ii) complementary skills in the areas of internal control, accounting and finance, industrial strategy issues and institutional relations.

**Independence and availability.** The Board individually assessed the independent status of each nominee and expressed its findings in its report to the Annual Shareholders Meeting. In this regard, nearly 89% of the future members were considered to be independent based on the criteria in the AFEP/MEDEF Code.

In addition, the Board verified the number and importance of any other offices held by the candidates. With a view to ensuring that it maintains the high quality of its work and discussions, the Board focused on selecting candidates with sufficient time and availability to prepare for Board and Committee meetings and to actively participate in them.

**Diversity.** By having 3 women out of a total of 8 members, Michelin’s Supervisory Board was seeking to comply, in advance of the compulsory timeframe, with Article 2-ill of French Act 2011-103 dated January 27, 2011 on the balanced representation of men and women on Boards of Directors and Supervisory Boards and gender equality in the workplace.

At the same time, the percentage of non-French members on the new Supervisory Board would still be 15.5%.

Based on this overall analysis, the Supervisory Board unanimously recommended that shareholders at the May 17, 2013 Annual Meeting:

- re-elect Barbara Dalibard and Louis Gallois for 2-year terms;
- elect (i) Anne-Sophie de La Bigne and Jean-Pierre Duprieu for 3-year terms, and (ii) Olivier Bazil and Michel Rollier for 4-year terms, to replace the 4 outgoing Supervisory Board members.

The Board was able to propose these different durations for its members’ terms of office because at the same Meeting it also asked shareholders to approve a resolution to amend the Company’s bylaws for the purpose of staggering the dates on which the Board members’ terms expire.

### 4.5.1 d) Review of the practices of the Supervisory Board and its Committees

Half of the Supervisory Board’s members – including its Chairman – were replaced in 2013 following the election of 4 new members at the Annual Shareholders Meeting, as described above. The same day, the Board met just after the Shareholders Meeting to appoint its new Chairman, Michel Rollier, as well as the members of its entirely new Audit Committee. That evening, these appointments were announced in a press release.

Under the leadership of its new Chairman, in mid-2013, the Board undertook an in-depth review of its governance, focusing on the organization and practices of the Board and its Committees. The review process took into account the amendments made in June 2013 to the AFEP/MEDEF Code. Every Board meeting during the second half systematically included an agenda item on changes in the Board’s governance structure.

The main changes made to the Board’s governance structure are summarized below.

#### Redeployment of the Compensation and Appointments Committee

The Compensation Committee previously comprised all of the members of the Supervisory Board and was also responsible for defining Michelin’s policy concerning the appointment of executive officers and senior managers.

In 2013, the Board decided to create a separate Compensation and Appointments Committee made up of 3 members, including a Chairman who is an independent member (Laurence Parisot), another independent member (Pat Cox) and a non-independent, non-executive member (Michel Rollier).

The Committee’s roles and responsibilities – as set out in its internal rules – were extended to include making recommendations concerning nominations and appointments, executive career development plans and succession plans. The Committee was also tasked with assessing the independence of Board members based on the criteria in the AFEP/MEDEF Code, in preparation for the Supervisory Board’s annual independence review. In addition, the Committee Chairman now participates in the assessment of the Board’s practices, which is performed annually by the Chairman of the Board through individual meetings with each member.

As well as examining the fixed and variable components of the Chief Executive Officer’s compensation and providing the Board with related recommendations, the Committee now 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 to prepare its report for the say-on-pay vote at the Annual Shareholders Meeting.
CORPORATE GOVERNANCE


All of these changes have been incorporated into the new internal rules of the Compensation and Appointments Committee, which were unanimously approved by the Supervisory Board on February 6, 2014.

Minimum required shareholding for Supervisory Board members

Each Board member is now required to hold at least 400 Michelin shares (600 in the Chairman’s case) for the duration of his or her term of office.

This rule has been incorporated into the new internal rules of the Supervisory Board.

Assessment of business relations between Michelin and members of the Supervisory Board

As part of its annual review of the independent status of its members, the Board is now required to assess, on a case-by-case basis, whether or not any business relations that exist between Michelin and any Board members can be considered material.

This rule has been incorporated into the new internal rules of the Supervisory Board.

Variable component of Supervisory Board members’ attendance fees

Attendance fees were previously allocated by the Board based on a portion divided equally among all of its members and an additional portion paid to the Chairman of the Board, members of the Board’s Committees and Committee Chairmen. This allocation is now based on a fixed portion and a variable portion. The variable portion accounts for the majority of each member’s fees and its payment is contingent on members’ actual attendance at Board and Committee meetings.

This rule has been incorporated into the new internal rules of the Supervisory Board.

Number of directorships and other positions held

In the event that a Supervisory Board member envisages taking up a new office or any other new professional responsibilities, he or she is now required to inform the Board thereof in advance. In particular, Board members must comply with the recommendations in the AFEP/MEDEF Code concerning the number of offices held.

This rule has been incorporated into the new internal rules of the Supervisory Board.

4.5.1 e) Review of the independent status of Supervisory Board members

Every year, the Supervisory Board reviews its members’ independence based on specific criteria. In 2013, however, in view of the significant changes in the Board’s membership structure and the working practices of its Committees, it decided to carry out a more formalized process than in the past, notably by referring to the full set of independence criteria in the AFEP/MEDEF Code. Consequently, the criterion that was not previously applied – i.e. that Board members must not have served on the Board for more than 12 years – has now been incorporated into the independence review.

The Compensation and Appointments Committee was tasked with performing the 2013 independence review and it subsequently put forward its recommendations to the Board, which discussed and approved them.

Highlights of the review were as follows. In December 2013, a specific, individual review of their independent status was performed for members who also work for a company or corporation likely to have a material business relationship with Michelin. For Board members who are also on the Compensation and Appointments Committee, the member concerned did not take part in the Committee’s discussions and analysis and also abstained from the Supervisory Board’s related vote.

The Committee therefore reviewed Laurence Parisot’s status taking into account any business relations that may exist between Michelin and IFOP, as Ms. Parisot is Vice-Chairman of IFOP’s Management Board. The analysis showed that in 2013 the revenue generated by IFOP with Michelin did not represent a material amount for Michelin and likewise did not make up a significant proportion of IFOP’s annual revenue. Consequently, the business relations between Michelin and IFOP were not deemed to be material.

Anne-Sophie de La Bigne’s status was reviewed in light of her position in Airbus Group, where she is currently Vice-President, in charge of civil affairs in the Public Affairs Division, France. The Committee noted that Ms. de La Bigne does not hold an executive position in either the Purchasing or Sales Departments of Airbus Group and that her geographical remit mainly concerns France. However, it still decided to examine the volume of business carried out between Michelin and Airbus Group.

The analysis performed showed that some Airbus Group subsidiaries – notably Airbus itself – may buy Michelin products and/or services. In view of the structure of the aerospace markets in which Michelin operates and the market players involved, the Committee analyzed the revenue derived by Michelin in 2013 from the sale of products and services not only to all Airbus Group companies, but also to the customers of these companies, which are aircraft owners or lessees. This figure was then compared with Michelin’s consolidated net sales for 2013, which showed that the revenue concerned accounted for well below 1% of the Group’s total net sales for the year.

As a result, the Committee recommended that the Board consider as non-material the business relations that indirectly exist between Anne-Sophie de La Bigne and Michelin through her position at Airbus Group.

The Committee then analyzed the independent status of Louis Gallois, first in light of his role as France’s General Commissioner for Investment and second with respect to his responsibilities as a Member of the Peugeot SA Supervisory Board.

The Committee began by examining the legal framework applicable to someone serving as the French State’s General Commissioner for Investment while sitting on the Supervisory Board of a French corporation.

In addition, irrespective of the individual role that a General Commissioner for Investment may play in the French government’s process of selecting investment projects, the Committee considered that government financing granted to Michelin by the French State only represents a very small amount compared with the Group’s annual capital expenditure.

In view of the above, the Committee felt nothing prevented Louis Gallois from qualifying as an independent member of Michelin’s Supervisory Board.

The Committee members then analyzed Mr. Gallois’ situation with regard to his position as a Member of the Supervisory Board of Peugeot SA based on the information disclosed in the PSA Peugeot Citroën Group’s 2012 registration document (particularly on pages 207 and 208). Louis Gallois is neither an employee nor executive officer of Peugeot SA. Instead, as a Supervisory Board Member – particularly in his capacity as the senior independent Member – and
as a Member of the Strategy Committee and a Member of the Appointments, Compensation and Governance Committee he has purely an oversight role as far as PSA Peugeot Citroën’s operations and corporate governance structure are concerned.

Despite Mr. Gallois’ clear independence from Peugeot SA’s executive management, Michelin’s Compensation and Appointments Committee nevertheless decided to determine the proportion of the Group’s total net sales derived from products and/or services sold to PSA Peugeot Citroën. In view of the structure of the automotive markets and the stakeholders involved, the Committee decided to exclude from its analysis revenue derived from the sale of replacement tires, particularly because vehicle owners and/or users have a wide range of choice when it comes to purchasing such tires. Total sales generated with PSA Peugeot Citroën were then compared with Michelin’s consolidated net sales for 2013, which showed that the proportion was less than 1.5%. In view of this low percentage and the nature of Mr. Gallois’ role within PSA Peugeot Citroën, the Committee concluded that there was nothing to prevent Mr. Gallois from qualifying as an independent member of Michelin’s Supervisory Board.

The Committee accordingly recommended that the Board consider as non-material the business relations that indirectly exist between Mr. Gallois and Michelin, both with respect to his position as a General Commissioner for Investment and his role as a Member of the Supervisory Board of PSA Peugeot Citroën.

Louis Gallois tendered his resignation as Supervisory Board member to the Chairman of the Board on February 11, 2014. Mr. Gallois indicated that the evolution of his activities resulted in a charge to the extent that he was no longer able to pursue his commitment to Michelin as intensely as he would like.

This decision does not call into question the findings of the 2013 review of his independence as a member of the Board. Lastly, the Committee reviewed the independent status of Michel Rollier, Chairman of Michelin’s Supervisory Board, Chairman of the Plateforme de la Filière Automobile and a Director of Lafarge. When Mr. Rollier was put forward for election as a Supervisory Board Member at the May 17, 2013 Annual Shareholders Meeting, the Board felt he could not be formally considered as independent because it had not been 5 years since the end of his executive duties with Michelin, despite the fact that these duties had been gradually transferred to Jean-Dominique Senard as from early 2011, as announced by Mr. Rollier at the time.

The Board did not consider that this would affect Mr. Rollier’s freedom of judgment as a Supervisory Board Member because:

- he does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board;
- he is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which Michelin’s Chief Executive Officer has a seat on the Board;
- he is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin;
- he had not been an auditor of Michelin in any of the preceding 5 years;

The Supervisory Board at the time (chaired by a different person) based its review of Michel Rollier’s candidature on 2 main factors. First, it took into account Mr. Rollier’s personal qualities as well as his extensive executive management experience and deep knowledge of Michelin’s markets and the automobile industry in general, which it considered would be major assets for the Board. Second, it noted that the significant changes in Michelin’s governance structure that were necessary due to Édouard Michelin’s tragic death in 2006 – when Mr. Rollier had been Managing Partner for just a year – were only achieved thanks to the excellent working relationship established between Mr. Rollier and the Supervisory Board throughout the entire duration of his term as Managing Partner.

Lastly, Mr. Rollier, as promised, disposed of his interests in SAGES, a Michelin General Partner.

Michelin’s new Compensation and Appointments Committee – of which Michel Rollier has been a Member since October 28, 2013 – deemed that the findings reached by the previous Board concerning Mr. Rollier’s independent status were still valid, stating that the only reason why he could not qualify as an independent member of the Board was that he had been an executive officer of Michelin within the past 5 years. Mr. Rollier did not take part in the Committee’s discussions and did not contribute to its recommendations in relation to the assessment of his own independence.

Based on all of these analyses, the Supervisory Board concluded, on a case-by-case basis and without the relevant Supervisory Board Member being present, that apart from Michel Rollier, all of its members qualify as independent based on the criteria in the AFEP/Medef Code. Consequently, out of the Board’s current 7 members, 6 are independent, representing 85.7%. This 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.

4.5.1 f) Assessment of the Supervisory Board’s practices

At its meeting on February 6, 2014 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 main objectives of this self-assessment were as follows:

- 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 current Board members during the year, particularly those elected at the May 17, 2013 Annual Shareholders Meeting. He said that the assessment revealed that the Board’s members are 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. In addition, they appreciate the free and frank discussions that take place in Board meetings.
The Board members stressed the need to maintain the same, clear, high-quality presentations on the implementation of the Group's business strategy, and to ensure that these presentations include information on Michelin's corporate social responsibility policy. They also said that they would like to continue to be informed of developments related to risk management and succession planning. In conclusion, all of the Board's members considered that the Board operates in a manner that enables it to fully perform its duties.

4.5.1 g) Implementation of the “comply 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 1963.

4.5.1 h) Recommendations concerning the re-election of Supervisory Board members at the May 16, 2014 Annual Shareholders Meeting

As part of its preparatory work for the Annual Shareholders Meeting to be held on May 16, 2004, the Supervisory Board examined the individual situation of its members whose terms of office are due to expire at that Meeting. The Board notably considered:

- the advantages of re-electing them;
- the skills and experience that they bring to the Board;
- their availability and involvement in the work carried out by the Board and its Committees;
- their independence and the absence of any conflicts of interest;
- their contribution to the diversity of the Board in terms of gender equality and cultural backgrounds.

The Board members whose terms are due to expire at the close of the 2014 Annual Shareholders Meeting are Laurence Parisot and Pat Cox.

In addition, because the resignation came so soon before the May 16 Annual Meeting, the Compensation and Appointments Committee will review future candidates for replacement afterwards, so as to conduct the selection procedure in the best possible conditions and in line with best practices, notably the recommendations of the AFEP/MEDEF Corporate Governance Code.

Laurence Parisot and Pat Cox have informed the other Supervisory Board members that they wish to stand for re-election.

Following the reorganization of the Board's work and the complete restructuring of its Committees, Laurence Parisot and Pat Cox joined the Compensation and Appointments Committee in 2013. To avoid any conflicts of interest, the Board therefore decided to review the situation of these 2 Board members without the involvement of the Compensation and Appointments Committee.

The main criteria used for the Board's review were the members' skills, experience, independence, availability (i.e. that they do not hold too many other directorships), and the commitment to promoting Board diversity in terms of both culture and background.

Laurence Parisot is Vice-Chairman of the Management Board of IFOP, a Director of BNP Paribas and Coface SA, and a Member of the Supervisory Board of FIV. Until July 2013 she was also President of the French employers' federation, the MEDEF.

Ms. Parisot owns S11 Michelin shares and has been a Member of the Supervisory Board since 2005.

Following the latest review of the independence of its members, the Board classified Ms. Parisot as independent. On October 28, 2013, Laurence Parisot was appointed as Chairman of the Compensation and Appointments Committee as part of the overhaul of its organizational and membership structure. Ms. Parisot did not take part in the Supervisory Board's discussions or decision concerning her potential re-election.

The Board examined Ms. Parisot's candidature for re-election for a 4-year term based on the above-mentioned criteria, and particularly took into account:

- her in-depth expertise in marketing, brand management policies and brand reputation strategy;
- her major contribution to the Board's work on the Group's overall corporate strategy;
- her strong knowledge of the business environment both in France and abroad.

Following the assessment process described above, the Supervisory Board decided to recommend Ms. Parisot's re-election for a 4-year term (with Ms. Parisot abstaining from the related vote).

The Board also examined Pat Cox's candidature for re-election as a Supervisory Board Member for a 4-year term.

Mr. Cox is President of the European Parliament Former Members Association and European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project. He was formerly a Member of the Irish Parliament, President of the European Parliament, President of the European Movement International and a Member of the European Advisory Councils of Pfizer and Microsoft.

Mr. Cox owns 259 Michelin shares.

As part of the overhaul of the organizational and membership structure of the Compensation and Appointments Committee carried out in 2013, Mr. Cox was appointed as a Member of the Committee at the meeting held on December 2 and 3, 2013. He did not take part in the Supervisory Board's discussions on decision concerning his potential re-election.

When assessing Mr. Cox's candidature for re-election for a 4-year term the Board particularly took into account:

- his contribution to the work carried out by the Board;
- his knowledge of the international environment and his geopolitical skills;
- his experience in European affairs;
- his personal involvement in humanitarian causes.

In view of the above, the Supervisory Board decided to recommend that Mr. Cox be re-elected for a 4-year term (with Mr. Cox abstaining from the related vote).

As the new provisions of the Supervisory Board's internal rules state that Board members are required to hold a minimum of 400 Michelin shares, if he is re-elected Pat Cox will acquire the necessary remaining shares.
4.5.1 i) Proposal to elect an employee representative as the ninth member of the Supervisory Board

_The French LSE Act_  

Article 9 of the LSE Act introduces a new Article (L. 225-79-2) to the French Commercial Code which provides that companies with Supervisory Boards are required to appoint (without the involvement of the Ordinary Shareholders Meeting) one or more employee representative members on their Boards, and that said members must have voting rights.  

Boards with up to 12 members are required to have at least one employee representative member and Boards with more than 12 members are required to have at least 2 such members. However, specific rules apply to current members not elected by shareholders, who are not included in the calculation of the 12-member threshold.  

The Supervisory Board is required to select one of the following methods for appointing its employee representative member(s): (i) election by employees of the Company and its French subsidiaries, (ii) nomination by the group or company works council, (iii) nomination by the most representative trade unions, or (iv) when at least 2 members are being nominated, the nomination of one member using one of the methods described in (i) to (iii) above with the second member nominated by the European works council where such a works council exists.  

An Extraordinary Shareholders Meeting must then be held before December 31, 2014 in order to amend the company’s bylaws to incorporate provisions related to the selected appointment method.  


_According to the Board_  

The application of the LSE Act would not be legally possible for CGEM because it would be an exception – without any legitimate legal grounds – to the principle that members of the Supervisory Board must be elected by shareholders.

**Proposal by the Supervisory Board for the election by shareholders of an employee representative Board member**  
The Supervisory Board discussed this issue during several of its meetings and reviewed the situation in light of the main factors described below.

First, the Board noted that due to CGEM’s specific characteristics – particularly the level of employee share ownership and its extremely low number of employees – it is not legally required to appoint a Supervisory Board member to represent the employees of the Company and/or its subsidiaries. Moreover it would not be possible to put in place the voluntary system for appointing employee representatives on the Board as provided for in Article L. 225-27 of the Commercial Code because this system only applies to joint stock companies. However, the 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 announced in 2013 by the Chief Executive Officer. Lastly, in agreement with the Chief Executive Officer, 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, which for Michelin would mean having a representative of the Group’s employees on the Supervisory Board of CGEM, the Group’s parent company. This position adopted by the Board will not, however, result in an exemption from the LSE Act requirements for Manufacture Française des Pneumatiques Michelin, which is a subsidiary of CGEM and the Group’s main manufacturing company in France. Manufacture Française des Pneumatiques Michelin falls within the scope of application of the LSE Act and will therefore appoint an employee representative member of its Supervisory Board.

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 has resolved that at the Annual Shareholders Meeting of May 16, 2014 it will 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. Mr. Poughon agreed to this request.

Concerning Michelin, for many years now CGEM has had very few employees and has therefore not been required to set up a works council. Consequently, CGEM does not meet one of the above-listed criteria and is therefore automatically excluded from the scope of application of the LSE Act.

Subsidiaries do not have to appoint employee representative members on their Board when their parent company is already subject to the requirement.
Cyrille Poughon
MFP – 23, place des Carmes Déchaux – 63000 Clermont-Ferrand
Cyrille Poughon, born in 1975 and French national, has 18 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 holds a higher-education diploma (BTS) in sales team management as well as a vocational diploma earned after successfully completing an internal training program within Michelin. He has also followed a number of other training courses, including in communications.

Mr. Poughon owns 24 Michelin shares.

Mr. Poughon’s candidature has been examined by the Compensation and Appointments Committee, whose members interviewed him during the Committee meeting held on January 30, 2014. The criteria generally used for assessing candidates were, of course, adapted to the context of this particular situation and the main factors taken into account were:

► Mr. Poughon’s international employee relations outlook, as evidenced by his numerous trips abroad and participation in several conferences in South America and Asia, notably on behalf of a trade union as part of international confederations;
► his knowledge of the manufacturing industry, thanks to his ongoing contacts with operations staff and his working relations with the Group’s various employee representative bodies;
► his familiarity with the Group’s organizational structure and committed involvement in his duties as secretary of Michelin’s European Works Council.

The Chairman of the Compensation and Appointments Committee reported back to the Supervisory Board on its assessment process and recommended that Cyrille Poughon be put forward at the Annual Shareholders Meeting on May 16, 2014 for election as a new member of the Supervisory Board.

If he is elected, the attendance fees payable to Mr. Poughon will be determined proportionately to the date from which he takes up his seat on the Board. He will also gradually acquire the minimum number of Michelin shares he would be required to hold as a Member of the Supervisory Board in accordance with the Board’s internal rules.

At its meeting on February 6, 2014, the Supervisory Board decided to recommend that Cyrille Poughon stand for election as a new Supervisory Board member, and that Laurence Parisot and Pat Cox be re-elected.

4.5.1 j) Report on the Audit Committee’s work during 2013

The significant changes to the Supervisory Board’s membership structure that took place due to 6 of the 8 members’ terms of office expiring at the May 17, 2013 Annual Shareholders Meeting resulted in an entirely new Audit Committee. Until that date, the Committee had exercised its responsibilities with 4 members, Olivier Bazli (Chairman), a Director of Legrand and a Member of its Strategy Committee and Nominating and Compensation Committee; also a Director of Vallourec, Chairman of its Audit Committee and a Member of its Strategy Committee; 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.

Due to extensive experience acquired during their careers, notably as part of the executive management and strategic advisory teams of large corporations, the Committee 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 5 times in 2013 – on February 7, April 26, June 26, July 22 and November 18 – with a 100% attendance rate. During its meetings, the Committee made inquiries of:

► the Chief Financial Officer;
► the Finance Director;
► the Accounting Director;
► the Head of Internal Control;
► the Head of Internal Audit and Risk Management;
► the Group Risk Manager;
► the Head of the OPE Business Process Management System;
► the Head of Tax Affairs;
► both Statutory Auditors.

The main purpose of the meetings held in 2013 was to review:

► The audited separate and consolidated financial statements for the year ended December 31, 2012. In particular, the Audit Committee analyzed consolidated net income, gross margin, net debt, changes in balance sheet and income statement items, income tax expense, cash flows and the main financial statement items related to long-term employee benefit obligations. 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 2012, with no observations.
► The interim separate and consolidated financial statements for the 6 months ended June 30, 2013. The Committee mainly analyzed changes in the consolidated income statement, consolidated cash flows and the main balance sheet items. The Statutory Auditors had no matters to report concerning their limited review of the 2013 interim consolidated financial statements, but issued a technical comment concerning the change in accounting method following application of IAS 19 revised. The Auditors also presented their audit plan for full-year 2013, to be carried out in 2014.
► The OPE Business Process Management System. On February 7, the Head of the OPE Business Process Management System presented the program’s scope and underlying objectives, as well as a progress report on its rollout and a summary of the measurable improvements it is expected to achieve.
► The Group’s income tax rate. On April 26, the Head of Tax Affairs explained how the Group’s effective tax rate is calculated and which components are taken into account.
► The Group’s transfer pricing policy. On November 18, the Head of Tax Affairs presented the principles and methods applied for determining the transfer prices used within the Group.
► The Group’s business performance. At the November 18 meeting, the Chief Financial Officer recapped the principles underlying the analysis of the main external and internal factors, in particular the performance of the manufacturing units.
► The share buyback program. At the April 26 meeting, the Finance Director presented the context, objectives and principles of the 2013 Michelin share buyback program.
► The internal control system. On April 26, the Head of Internal Control reported on the results of the internal reviews performed in 2012 and presented the action plans for 2013. He also gave the Board further details about issues in the manufacturing units, with the success rates for the tests applied and information on the progress of a particular indicator.
The Group's risk management system. As the Audit Committee's members were all replaced in May 2013 due to the former members' terms expiring at the Annual Shareholders Meeting, on June 26 and November 18 the Chief Executive Officer, Chief Financial Officer, Finance Director, Accounting Director, Head of Internal Control, Head of Internal Audit and Risk Management, and the Group Risk Manager gave the new members an overview of the Group's risk management system. The presentations focused on the Group’s financial organization as well as its internal control processes, risk mapping procedure, systems for managing financial risks and employee benefits, and its internal audit and risk management processes.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee’s work at the Board meetings held on February 7, April 26 and July 22, 2013. The main provisions of the Committee’s internal rules, as amended by the Supervisory Board on February 6, 2014, are set out in section 4.2.2.c.

4.5.1 k) Report on the Compensation and Appointments Committee's work in 2013

Following the Supervisory Board's review in the second half of 2013 on the procedures for organizing its work and that of its Committees, the Board decided to make significant changes to the membership structure and practices of the Compensation and Appointments Committee. These changes are described in section 4.5.1 b) above.

Work performed from January 1 through May 17, 2013

Prior to the above-mentioned changes, the Supervisory Board as a whole performed the duties generally assigned to a Compensation Committee and an Appointments Committee, in accordance with the Board's internal rules. All of the Board's members were independent in 2013, except for the new Supervisory Board Chairman elected during the year. The Committee met twice in this form in 2013 – on February 7 and April 26 – with a 100% attendance rate. During these meetings, it:

- approved the launch of a performance share plan in 2013, based on the recommendation of the Chief Executive Officer and the Director of Personnel. The Chief Executive Officer (the Company’s sole executive officer) is not eligible for grants of performance shares under this plan;
- examined the indicators used to determine variable compensation paid in 2013 based on the Group's performance in 2012;
- reviewed proposed changes to the 2013 compensation packages of the members of the Group Executive Committee, as well as the criteria used for determining the variable portion of managers’ compensation;
- gave recommendations concerning nominations and appointments, executive career development plans and succession plans.

In addition, in the same way as it has done each year since 2007, the Compensation and Appointments Committee reviewed all of the components of the compensation due, paid or payable for 2013 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).

In order to ensure that its proposals and policies were appropriate, the Committee reviewed several benchmark surveys performed by external consultants.

Lastly, the Committee examined the amounts and allocation of the compensation due to the Chief Executive Officer and General Partner.

Work performed after May 17, 2013

Since October 28, 2013, the Compensation and Appointments Committee has comprised the following members:

- Laurence Parisot (Committee Chairman and independent member), Vice-Chairman of the Management Board of IFOP;
- Pat Cox (independent member), member of the Board of Trustees of Friends of Europe, former President of the European Parliament and former member of the Irish Parliament;
- Michel Rollier (non-executive, non-independent member), Chairman of the Michelin Supervisory Board, Chairman of the Plateforme de la Filière Automobile and a former Managing Partner of Michelin.

The new Chairman of the Compensation and Appointments Committee worked on the preparation of the Board’s self-assessment questionnaire in 2013.

Also during the year, the Committee performed an in-depth review of the independent status of the Supervisory Board's members, notably examining whether any business relations between them and Michelin could be considered material.

In order to avoid any risk of conflicts of interest concerning 2 of the Committee’s members, on an exceptional basis the Board decided to carry out its own assessment of the candidates standing for re-election at the 2014 Annual Shareholders Meeting. However, the Committee reviewed the candidacy of the Group employee who is standing for election as the ninth Board member. A description of the selection process and related recommendations is provided in sections 4.5.1 h) and 4.5.1 i) above.

In early 2014, the Committee prepared and submitted to the Board its recommendations concerning the report on the compensation due or paid 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 (see sections 4.3.2 and 4.3.3 for further details).

Review of the Chief Executive Officer’s compensation as from 2014

Following the analyses performed and observations made in late 2013 concerning Mr. Senard’s situation (see summary in sections 4.3.2 and 4.3.3) and at the request of the Supervisory Board, at its January 31, 2014 meeting, the Compensation and Appointments Committee once again reviewed the overall structure of the Chief Executive Officer’s compensation.

Based on its review, the Committee recommended that Mr. Senard’s fixed compensation be brought more in line with market practices. Concerning Mr. Senard’s variable compensation, the profit share that he currently receives pursuant to the bylaws of the companies concerned is based on earnings for the year and is therefore entirely contingent on the Group’s annual financial performance. This means that the Chief Executive Officer’s interests are already closely aligned with shareholders’ short-term interests. However, in order to strengthen this link, the Committee recommended that the basis for calculating Mr. Senard’s variable compensation be changed in 2 ways as from 2014.

First, it recommended that a portion of his profit share be restructured so that the amounts payable to him in his capacity as Chief Executive Officer take into account performance criteria other than earnings.
These new criteria – which would be assessed annually – could include criteria related to business growth, market share gains, level of overheads and movements in free cash flow.

Second, the Committee would like to set up a performance based multi-annual remuneration assessed over a period of at least 3 years and based on additional performance conditions correlated with the Group’s long-term strategy as expressed in the Ambitions 2020 objectives. These additional conditions could relate to Michelin’s business growth and share performance.

If these changes were put in place it would mean that substantially all of the share of profit allocated to the Chief Executive Officer would depend on both earnings for the year and the achievement of other applicable criteria.

The Chairman of the Compensation and Appointments Committee and the Supervisory Board Chairman will present the above-described new compensation policy to the Company’s shareholders at the Annual Shareholders Meeting on May 16, 2014, once it has been adjusted by the Committee and approved by the Non-Managing General Partner (SAGES).

Lastly, in line with Michelin’s decision to apply the recommendation in the AFEP/MEDEF Code concerning shareholders’ “say-on-pay”, the above compensation components will be submitted to an advisory vote at the Annual Shareholders Meeting to be called to approve the 2014 financial statements.

**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 2013 Shareholders Guide, which can be downloaded from the website at www.michelin.com/corporate (in the section entitled “Shareholders’ Corner”).

**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 Risk Management. The report was reviewed and validated by the Chief Executive Officer.

It was also examined by the Audit Committee and then reviewed and approved by the Supervisory Board on February 6, 2014, in accordance with the French Law of July 3, 2008.

**Risk management and internal control processes**

**Reference framework**

Michelin 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.

The Chairman of the Compensation and Appointments Committee and the Supervisory Board Chairman will present the above-described new compensation policy to the Company’s shareholders at the Annual Shareholders Meeting on May 16, 2014, once it has been adjusted by the Committee and approved by the Non-Managing General Partner (SAGES).

Lastly, in line with Michelin’s decision to apply the recommendation in the AFEP/MEDEF Code concerning shareholders’ “say-on-pay”, the above compensation components will be submitted to an advisory vote at the Annual Shareholders Meeting to be called to approve the 2014 financial statements.

**Objectives of the risk management process**

The Michelin 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 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**, which is a prerequisite for successful risk management. This phase involves identifying any internal and external event that could have an adverse effect on Michelin’s objectives, earnings or reputation. The information is summarized in the form of risk maps at both the corporate level and in each of the following units: Corporate Departments, Performance Divisions, the Technology Center, Product Lines, Tactical Operational Units and Geographic Zones.
Risks are identified based on the risk maps prepared and updated by the various units. In addition to these regular updates, the units are requested every three years to perform a new comprehensive risk mapping exercise.

This process is overseen by the Group Audit and Risk Management Department, which consolidates all of the various risk maps on an annual basis. The consolidated risk maps are then used to diagnose the Group's risks and help to identify critical risks that require action plans. These plans are then implemented by the operating units, supervised by the Risk Manager.

2. **Defining the Group's risk tolerance**, i.e. deciding, on a fully informed basis, how much risk the Group is prepared to accept in pursuing its objectives, taking into account the resources required 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**. Once the Group's risk tolerance has been defined, specific measures and processes are put in place to manage the identified risks. 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. **Monitoring and controlling risks**, with the goal of ensuring 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, monitoring 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 legal 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 behavior.

**Scope of risk management and internal control**

Michelin ensures that risk management and internal control procedures are implemented in every unit.

As of end-2013, the system now covers almost 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, page 202 below, 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 environment 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.

Examples of this coordination are as follows:

- 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 assess the quality of the risk management process and to evaluate the effectiveness of the internal control procedures.
Corporate Governance

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

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, Michelin’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 environment – comprising in particular the Group’s unique risk and control culture and its ethical values – which serves as their shared foundation.

Organization
Michelin 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 distribution networks, Euromaster in Europe and Tire Centers, Inc. (TCI) in North America. The Product Lines are backed by thirteen Corporate Departments that are responsible for support functions such as Purchasing, Legal Affairs, Personnel, Logistics and Finance. To leverage synergies and guarantee consistency across the Group, operations are organized geographically around eight Geographic Zones – Europe, Eastern Europe, North America, South America, ASEAN-Australia, China, Japan-South Korea, and 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 mandates, as well as the conditions applicable for exercising and delegating their authority.

Corporate values
Michelin 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 endeavors to put into practice its key values of respect for customers, shareholders, employees, 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. It defines the standards of behavior 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 2013, 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 Corporate 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 behavior 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 for 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 therefore 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 above (below), page 96.

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, determine risk management priorities, validate risk tolerance levels, 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, they can request that their specialized experts perform internal reviews.

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 Centers) 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 Audit and Risks 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 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 Group Audit and Risk Management Department’s remit covers all of the Group’s processes and units.

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 department regularly assesses the procedures applied to manage priority risks.

This may involve analyzing a priority 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 Audit and Risk Management Department 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 also defined risk management indicators, which have now been deployed across the Group.

Based on the observations made during these assignments, the department makes recommendations to the audited units, which prepare action plans to address identified weaknesses. Internal Audit then tracks their implementation. 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.

Contractual 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 submitted 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. The action plans cover both operational aspects and improvement targets aimed at enhancing performance and quality of service.

Objectives are based on past performance and detailed diagnostics, as well as an understanding of the changing business environment.

Operational risk analysis forms an integral part of the planning process, during which critical success factors are identified 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:

- ethics violations;
- 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 with the support, in particular, of the Accounting, Consolidation, Budget Control and Investor Relations Departments.

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 legislation 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 Controlling 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 Information Systems 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 Financial Internal Control Department reports to the Corporate Finance Department. It is responsible for managing all of the internal control processes and for overseeing financial internal control assignments 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.

In 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 resources 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 also regularly 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 2013**

In 2013, the 2012 risk map was updated to reflect the audits performed over the period, the outcomes of the action plans and any changes in the operating environment. No new risk issues were identified during the update, which in fact revealed a decline in residual risks.

The Group Audit and Risk Management Department also consolidated the risk analyses prepared by the operating units. By serving as the Group’s risk audit diagnostics, these consolidated risk maps facilitate the identification of priority risks requiring action plans, which are implemented by the operating units under the supervision of the Risk Manager.

The Chief Executive Officer and the Group Executive Committee met nine times in 2013 to oversee the risk management process as part of their management duties. In this capacity, they particularly reviewed the diagnostics and action plans related to such risks as continuity of supply, the interruption in semi-finished products and contract management. They also reviewed and validated certain risk management process principles, such as the allocation of risk management roles within the Group, the definition of tolerance levels and the coordination between internal control and risk management. Lastly, they verified that the action plans addressing the priority risks identified during the risk mapping exercise are progressing as planned.

They also observed that the implementation of the various risk prevention, protection and control measures had reduced the Group’s exposure to these priority risks.

Moreover, it was decided that the Group Quality Department would lead the entire internal control process, as part of the Group’s quality commitment.

All of the Product Lines and Geographic Zones remain responsible within their remit for ensuring compliance with the recommendations and for implementing the action plans designed to remediate shortfalls.

**Outlook for 2014 as part of the continuous improvement process**

Under the new organization introduced in 2013, a program to standardize all of the internal control systems will be deployed in 2014 under the supervision of the Group Quality Department. It is designed to extend to the other families of operating risks the best internal control practices identified for the management of accounting and financial risks.