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, 2012 and (iii) the internal control and risk management procedures put in place by the Company.

This report contains a corporate governance statement based on the AFEP-MEDEF Corporate Governance Code applicable to listed companies, which the Company's Supervisory Board has used as its reference framework since 2008. The latest version of the AFEP-MEDEF Corporate Governance Code (issued in April 2010) is available online at www.medef.com.

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 is currently made up of the following eight members, all of whom are considered as independent based on the criteria set out in the Board's internal rules. The Board's membership structure also complies 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:

- **Éric Bourdais de Charbonnière** (Chairman) – member of the Supervisory Board of Oddo et Cie and a Director of Faurecia; former Chairman of JP Morgan in France;
- **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 Voyages;
- **Louis Gallois** – French General Commissioner for Investment;
- **François Grappotte** – Honorary Chairman of Legrand;
- **Pierre Michelin** – Chief Executive, India Development, Groupe Bull;
- **Laurence Parisot** – Vice-Chairman of the Management Board of Ifop and President of MEDEF;
- **Benoît Potier** – Chairman and Chief Executive Officer of Air Liquide.

4.5.1.b) Role and responsibilities

In 2012, the Supervisory Board fulfilled its role of overseeing the Company's management. In accordance with its internal rules, its oversight procedures included:

- reviewing the annual and interim 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;
- obtaining assurance that shareholders' rights are respected.

In addition, the Supervisory Board was regularly informed about the Group's strategy and outlook.

4.5.1.c) Annual self-assessment of the Supervisory Board's performance and the independence of its members

In accordance with its internal rules and with the AFEP-MEDEF Corporate Governance Code guidelines in 2012, the Supervisory Board carried out an annual self-assessment of its procedures and practices to (i) verify that Board members had received appropriate advance information about important matters and that these had been adequately discussed, and (ii) evaluate the contribution of each member to the Board's work. To this end, the Chairman of the Board asked for each member's opinion of the Board's procedures and practices during 2012. The results were presented by the Chairman and discussed at the meeting on February 7, 2013.

(1) Five years for members elected prior to 2009.

The Board members considered that the presentations made by the Chief Executive Officer, the Executive Committee and their teams were of high quality. They particularly appreciated the presentations given on human resources management during a special meeting dedicated to HR in October. The presentation on Group strategy given in December was followed up by visits to Michelin's plants.

In general, they appreciated the Chief Executive Officer's openness and the free and frank discussions that took place in Board meetings. In addition, they underlined the importance of the work carried out by the Board and the Audit Committee in the area of risk management. The Supervisory Board will continue to review risk management policies, assisted by the Audit Committee, and to prepare succession plans for key executives in its role as the Compensation and Appointments Committee.

In conclusion, the Supervisory Board considered that it had the relevant information to effectively fulfill its oversight role.

The Supervisory Board also considered that all of its members are independent based on the criteria listed in its internal rules. The independence criteria applied by Michelin correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code, except for the limit set by the Code on the aggregate period during which a member may serve on the Board [(1)].

4.5.1.d) Report on the Supervisory Board's activities during 2012

The Supervisory Board met five times in 2012 – on February 6, April 27, July 23, October 29 and December 3 and 4 – with an average attendance rate of 90%.

At its meetings on February 6 and July 23 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2011 and (ii) the interim financial statements for the six months ended June 30, 2012. 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 Partners 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;
- Audit Committee reports;
- competitor analyses;
- major capital expenditure programs;
- career management;
- compensation and appointment policies;
- internal organizational changes;
- the ethics and compliance program;
- the Supervisory Board's future membership structure;
- Supervisory Board practices;
- preparations for the Annual Shareholders Meeting.

As part of the program to deepen and broaden the Supervisory Board members' knowledge of the business, in December 2012 the Company organized a two-day seminar in Brazil during which:

- the Board members spent a day with the Chief Executive Officer and several other senior executives analyzing and discussing the Group's strategic roadmaps and their implementation;
- the Chief Executive Officer, the Director of Geographic Zones and the Head of Michelin's South American operations gave the Board an overview of the local economic context as well as a report on Michelin's markets, capital expenditure programs and business activities in South America;
- the Board members visited several manufacturing facilities to enhance their knowledge of Michelin's business and their understanding of its main industrial processes and planned developments.

4.5.1.e) Report on the Audit Committee's activities during 2012

The Audit Committee comprises the following members, all of whom are independent:

- **François Grappotte** (Chairman) – Honorary Chairman of Legrand;
- **Éric Bourdais de Charbonnière** – member of the Supervisory Board of Oddo et Cie and a Director of Faurecia; former Chairman of JP Morgan in France;
- **Pierre Michelin** – Chief Executive, India Development, Groupe Bull;
- **Benoît Potier** – Chairman and Chief Executive Officer of Air Liquide.

Due to extensive experience acquired during their careers, mostly notably as senior executives of large companies, the Audit Committee's four 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 Committee met four times in 2012 – on February 6, April 27, July 23 and October 29) – with a 100% attendance rate.

During its meetings, the Audit Committee made inquiries of the:

- Chief Financial Officer;
- Senior Vice President, Finance;
- Senior Vice President, Accounting;
- Senior Vice President, Internal Control;
- Senior Vice President, Internal Audit and Risk Management;
- Group Risk Manager;
- President of the Materials Product Line;
- Head of the Efficiency program.

The main purpose of the meetings held in 2012 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2011. In particular, the Audit Committee analyzed the recognition of actuarial gains and losses, changes in balance sheet and income statement items, income tax expense, cash flows and the main financial statement items related to employee benefit plans. It noted that the audit of the accounts had gone smoothly. The Statutory Auditors had issued an unqualified opinion on both the separate and consolidated financial statements for 2011 but with an observation on a technical matter for the 2011 consolidated financial statements concerning a change in the method used for recognizing actuarial gains and losses on pension plans.
- The interim separate and consolidated financial statements for the six months ended June 30, 2012. The Committee mainly analyzed changes in income statement items, consolidated cash flow and the main balance sheet items. The Statutory Auditors had no matters to report concerning their limited review of the 2012 interim consolidated financial statements. The Statutory Auditors also stated that there were no significant changes in IFRSs during the six months ended June 30, 2012 and presented their audit plan for full-year 2012.
- The internal control system. The Senior Vice President, Internal Control, presented a report on the action taken in 2011 and the planned measures and objectives for 2012.

(1) Please see section 4.5.2 – Corporate Governance Statement.

- Risk management. At the Audit Committee meeting of October 29, 2012, the Senior Vice President, Internal Audit and Risk Management, described the internal audits performed in 2012 and presented the internal audit plan for 2013. At the same meeting, the Group Risk Manager presented the Committee with an analysis of supply continuity risk, notably reporting on the risk mapping process, the results of the risk audits performed and the action plan that had been prepared.
- Measurement of employee benefits (IAS 19). The Senior Vice President, Accounting, reported to the Committee on an analysis carried out on the impacts of applying the revised version of IAS 19, effective from 2013.
- Debt management. The Senior Vice President, Finance, presented the key aspects of the Group's debt management measures.
- Financial forecasts. The Chief Financial Officer explained to the Committee the main steps in the financial forecasting process.
- The Group competitiveness plan. The Group Chief Financial Officer presented an overview of the competitiveness plan, which covers manufacturing productivity, raw materials efficiency and the Efficiency program. The leader of the latter program reviewed in detail its main phases, which are designed to drive competitiveness gains in general, administrative and selling costs and in research and development expenditure.
- The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 6, April 27, July 23 and October 29, 2012.

4.5.1.f) Report on the Compensation and Appointments Committee's activities during 2012

In accordance with its internal rules, the Supervisory Board as a whole performs the duties generally assigned to a Compensation Committee and an Appointments Committee. As stated above, all of the Supervisory Board's members are considered to be independent.

The Compensation and Appointments Committee met twice in 2012 (on February 6 and April 27), with a 100% attendance rate.

Based on a presentation given by the Managing Partners and the Senior Vice President, Personnel and Organization, during the year, the Committee approved the Managing Partners' decision to launch a performance stock option plan and a performance share plan (with the Managing Partners not being entitled to participate in either plan).

The Committee examined the indicators used to determine the portion of bonuses based on the Group's 2011 performance and payable in 2012.

During 2012 the Committee reviewed proposed adjustments to the compensation packages of the members of the Group Executive Committee, to be made in 2012, and the criteria for determining management bonuses.

The Committee also discussed senior executive and Managing Partner compensation policies, career development plans and succession plans after being consulted on these matters.

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

In accordance with the amendments to the bylaws adopted in 2011, during the year the Committee reviewed the amounts and allocation of compensation due to the Managing General Partners (see section 4.5.2.b below and sections 4.3.2 and 4.3.3.c above)

Lastly, the Committee examined the profiles of candidates for seats on the Supervisory Board due to expire at the close of the 2013 Annual Shareholders Meeting. The candidate selection process is described in the report of the Supervisory Board, in which it is recommended that shareholders adopt the resolutions on the election and re-election of Supervisory Board members (see section 10.2 below).

4.5.2. CORPORATE GOVERNANCE STATEMENT

4.5.2.a) Exceptions to the corporate governance reference framework

As mentioned above, Michelin uses as its governance reference framework the AFEP-MEDEF Corporate Governance Code, all of whose principles the Supervisory Board hereby declares that it applies. As recommended in the Code's introduction, the Supervisory Board has adjusted the Code as needed to the Company's status as a partnership limited by shares, with the following two exceptions:

- Recommendation concerning independent Directors: the Company complies with all of the Code's independence criteria except for the 12-year limit on the aggregate period of time served on the Board. The Board considers that the aggregate term served by a Supervisory Board member in a partnership limited by shares is not an obstacle to the exercise of his or her free judgment in relation to the Company. Quite the reverse, it helps the member to understand the Company in all its complexity and efficiently oversee its management on an ongoing basis.
- Recommendation concerning Supervisory Board members' compensation: the Company complies with all of the principles, except for the recommendation that attendance fees should include a variable portion. In view of the level of commitment demonstrated by Supervisory Board members, as reflected in the high attendance rates at meetings of the Supervisory Board and its committees, the Board does not consider it necessary to make part of the fee payable to its members contingent upon their attendance at meetings.

4.5.2.b) Recommendation concerning compensation

The Supervisory Board considers that Michelin complies with the AFEP-MEDEF recommendations concerning Executive Directors' compensation and that these recommendations are reflected in the process of continuously improving the governance practices of the Company's Executive Officers.

Although the recommendations state that they apply to Managing Partners of partnerships limited by shares, they have to be adapted to the special case of the share of the Company's profit paid to the Chief Executive Officer, which he receives as part of the profit allocation to General Partners provided for in the Company's bylaws. This statutory share of profit paid to the General Partners is:

- consideration for the risk they incur by virtue of their unlimited joint and several personal liability for the Company's debts;
- entirely variable and based on the prior year's profit;
- approved every year by the shareholders in Annual Meeting, without the General Partners taking part in the vote.

At the May 13, 2011 Annual Shareholders Meeting, major amendments to the Company's bylaws were adopted in order to give greater powers to the Supervisory Board, notably in terms of electing Managing General Partners and setting their compensation. Consequently, Managing General Partners are now elected for four years, whereas previously their term of office only ended when they reached the age of 72.

In addition, the Supervisory Board now has to issue a formal opinion prior to any proposals being submitted to the Annual Shareholders Meeting in relation to the allocation of the statutory share of profits between the two General Partners, namely SAGES (Non-Managing General Partner) and Jean-Dominique Senard, Chief Executive Officer and the sole Managing General Partner since his predecessor, Michel Rollier, left the position. Consequently, the Supervisory Board – sitting in its capacity as the Company's Compensation and Appointments Committee – now reviews the Chief Executive Officer's overall compensation package.

Furthermore, at the May 11, 2012 Annual Shareholders Meeting, the cap on the share of profits attributable to the General Partners was significantly reduced at their own request.

Lastly, the Supervisory Board hereby states that Michel Rollier did not receive any compensation or benefits on his resignation from his position as Managing General Partner (with an unlimited term), which was proposed and accepted at the May 11, 2012 Annual Shareholders Meeting.

4.5.2.c) Shareholder participation

The specific rules concerning shareholder participation at General Meetings are presented in section 5.1.2. f) below and in the 2012 Shareholders Guide (in the section entitled "Your rights as a Shareholder"), which can be downloaded from the website at www.michelin.com/corporate.

4.5.3. MICHELIN GROUP INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

4.5.3.a) The control environment

The Michelin 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. Two retail networks are attached to the Product Lines – 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, Human Resources, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around eight regions – Europe, Eastern Europe, North America, South America, ASEAN-Australia, China, Japan-South Korea, and Africa-India-Middle East.

The role, responsibilities and structure of each of these entities have been defined by the Group, along with their contribution to strategic decisions, their performance indicators and how they exchange information with other entities.

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 powers.

Michelin places great importance on accountability, integrity and ethical conduct. These values are set out in Michelin's Performance and Responsibility Charter, which is widely circulated both within and outside the Group. The Charter describes how the Group endeavors to put into practice its key values of respecting customers, shareholders and general human rights, together with its commitment to protecting the environment and providing transparent information.

A Code of Ethics was issued in October 2010 describing 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 has been set up in each region and business line in 2012.

The Michelin Performance and Responsibility Charter is supplemented by the Code of Ethics, which 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 a variety of ethical issues.

In a video broadcast in every region, the Chief Executive Officer reaffirmed that every employee is expected to respect and personally demonstrate the Group's ethical values. In 2012, 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, as needed. Ethics hotlines have been set up in almost every host country, providing an additional channel for employees to report potential ethics violations. Audits and inspections were performed concerning various ethics issues.

In addition, an Internal Governance Manual was published in July 2010 to help employees behave in the proactive manner needed to support tightened management of operations.

The manual describes in particular:

- the entities' roles and responsibilities;
- their planned operating procedures and governance structures;
- the behavior expected of managers, in line with Michelin's corporate values.

The manual will be updated in 2012 to reflect the creation of the Corporate Ethics and Compliance Committees.

The Group's Annual and Sustainable Development Report describes its operations and results for the year as well as its Performance and Responsibility process.

4.5.3.b) Internal control procedures relating to the preparation and processing of financial and accounting information

■ Reference framework

The Michelin Group has adopted the definition of internal control set out in the AMF's Reference Framework published in January 2007 and reaffirmed on July 22, 2010. Internal control is a set of measures designed and implemented by the Company under its own responsibility.

It comprises a set of resources, patterns of conduct, procedures and actions adapted to the individual characteristics of each company, 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 take into consideration, in an appropriate manner, all major operational, financial and compliance risks.

More particularly, the system is designed to ensure:

- compliance with laws and regulations;
- Application of the instructions and directional guidelines set by the Managing Partners, the Executive Council and the Company's corporate governance structures;
- the proper functioning of the Company's internal processes, particularly those involving the security of its assets;
- the reliability of financial information.

However, the internal control system cannot provide an absolute guarantee that the Company's objectives will be met. Any internal control system has intrinsic limitations arising for example from uncertainties about the external environment, the exercise of judgment and the cost effectiveness of introducing new controls.

Within the Michelin Group, the parent company makes sure that its subsidiaries have implemented internal control procedures. These procedures are adapted to the subsidiaries' specific features and to the relations between the parent and the consolidated companies.

■ Preparation and processing of accounting and financial information

The Managing Partners are responsible for publishing reliable financial and accounting information. The accounting, consolidation, management control and financial communication departments all contribute to the process of producing this information.

Under the Group's organizational structure, accounting teams generally report to the heads of the Regions, while management controllers report to the heads of the Product Lines.

Separate and consolidated financial statements are drawn up monthly according to the same overall processes as for the annual financial statements.

To guarantee the reliability of accounting information, the necessary internal control procedures have been defined at Group level and implemented locally. These include a physical inventory (for 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 Group subsidiaries and dealing with any questions that may be raised by these entities.

General accounting and management accounting data are submitted simultaneously by the subsidiaries. The systems verify the consistency of the main indicators (sales, operating income, etc.). Statutory accounting data received from the subsidiaries is 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 examined in detail every month by the Group's Executive Council and the Product Lines.

At every interim and annual closing, the heads of the Regions 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).

Each year, the Internal Audit and Risk Management Department puts forward proposals to the Managing Partners for specific audits of control procedures for financial and accounting information and if approved, subsequently performs the related audits.

The Investor Relations Department, which forms an integral part of the Group's Finance Department, is responsible for the preparation and distribution throughout the financial community of the Group's financial communication. Financial communication takes three main forms:

- the Annual and Sustainable Development Report and the Registration Document;
- financial press releases;
- presentations to analysts and investors.

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 Managing Chairman, with significant input from the Group Legal Affairs Department and the Michelin Performance and Responsibility teams. Both of these documents contain high-quality, in-depth information drawn from contributions by a range of specialists in the Group's main fields of operations.

Financial press releases are systematically reviewed by the Chief Investor Relations Officer and results announcements are also reviewed by the Supervisory Board.

Presentations to analysts and investors are prepared by the Investor Relations Department and approved by the Managing Chairman.

4.5.3.c) Internal control management

Group managers can detect any weaknesses in their internal control processes through the systems used to monitor operations. In addition, internal reviews are performed within the entities by specialists in the fields concerned.

Strict procedures have also been put in place for receiving, analyzing and responding to customer complaints concerning product quality.

■ Control procedures

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.

Audits are also carried out by specially trained Quality Auditors as part of the Michelin Quality System, to ensure compliance with Group quality standards, which are largely based on the applicable international standards. In addition to these internal audits the Group obtains quality certifications awarded by external bodies.

Management regularly carries out reviews to assess the efficiency and performance of the overall system and to pinpoint areas where progress can be made.

■ Information

Information generated by the Group's management systems is analyzed by the Financial Control teams and reported to the managers concerned for inclusion in the scorecards used to track their operations. Management information is also reported to the Group's Executive Council on a monthly basis. Quarterly reports are presented 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.

The Group Internal Audit and Risk Management Department reports directly to the Managing Partners and is totally independent from the operating units. It is made up of a Group-level team in charge of auditing Group operations worldwide and local teams in North America. It regularly carries out assessments of internal control and risk management processes concerning operational, accounting, IT, manufacturing and product quality risks. The Department's scope of reference covers all of the Group's processes and entities. Based on the observations made during its audits, it makes recommendations to the entities, which draw up action plans to address identified weaknesses. Internal Audit then monitors implementation of the relevant actions. Periodic summaries of internal audit findings and the related action plans are presented to the various line managers, the Managing Partners and the Audit Committee.

In the Group's various host countries local auditors issue their own internal control recommendations to accounts department managers who are responsible for ensuring that these recommendations are acted upon. The recommendations are also reported to the internal control teams and to the Group's Statutory Auditors, network by network, for consolidation and communication to Group management. In this way, all levels of management are informed that Michelin's teams have taken into account the required measures.

4.5.3.d) Assessment of processes affecting the reliability of financial information

Financial internal control objectives

To ensure that the work carried out to comply with France's Financial Security Act generates lasting improvements, the Financial Internal Control Department reports to the Corporate Finance Department. It 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 procedures, and assists the network of internal controllers in the regions and the main business lines with implementing these systems and procedures.

Its role includes:

- deploying internal control best practices and providing training to each region's correspondents;
- 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 internal control activities of the heads of the regions and operational areas concerned;
- structuring the internal control network;
- acting as an interface with the other players in the relevant processes, such as process owners, risk managers and internal and external auditors;
- advising on the implementation of transformation projects and programs.

A worldwide software application for monitoring internal control was set up and rolled out in 2009. The application leverages existing Group databases and principles developed in previous phases that were launched in 2004. The model will continue to be extended to cover additional processes and legal entities.

Processes concerned

Fifteen key processes were initially identified for Michelin Group as a whole in 2004, then gradually integrated into the financial internal control system, which was stabilized in 2010.

The main identified and integrated processes were as follows:

- purchases (from the order through to supplier payment);
- sales (from the customer order through to payment);
- inventory management;
- inventory valuation;
- Group 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.

In 2012, a sixteenth process was added to cover the management of Customs Affairs, including the Group's customs management processes, import/export management, supervising freight forwarders, organizing delegations of powers and authority, customs documentation, etc.

Internal control manuals

The Group's internal control manuals describe the main risks that exist within each business process or cycle, together with the corresponding control objectives and activities aimed at mitigating the risk concerned. These manuals are regularly updated to reflect best process execution practices and changes in the applicable standards and regulations.

Target companies

As of end-2012, the system covered companies accounting for around 98% of consolidated revenue, a three-point increase on 2011. Coverage spanned all of the Group's regions and operations, including manufacturing, sales and dealership networks.

It is being extended to the smaller entities with the aim of covering the whole Group by 2014.

Method

This full internal control system has been rolled out to a broader array of companies and processes since 2009.

At every company concerned by the system, self-assessments are carried out by line personnel each year on the key internal control activities for each process, with additional controls implemented where required.

The key controls for all processes are tested at all sites at least once every four years and more often where necessary.

Action plans are drawn up by the various companies to address the identified areas for improvement, and are implemented by line personnel.

This overall approach forms part of the Group's objective of continuously improving its internal control processes, taking into account work conducted by the external and internal auditors.

Monitoring findings

The findings of the work performed by Financial Internal Control and the implementation of the ensuing action plans are appraised and monitored by line management. These findings are regularly presented to the Finance Committee as well as to the managers in charge of the relevant processes, operational areas and regions.

The Audit Committee provides the Supervisory Board with status reports on the assessment process.

4.5.3.e) Risk assessment and control

The Group's objectives are defined by the Managing Chairman. These relate not only to economic performance but also to the areas in which the Group aims at a particular level of excellence, such as people management, quality, innovation, working conditions and the environment.

The main objectives are updated every year and relayed to the Group's various units, which subsequently translate them into five-year strategic goals and yearly action plans. 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, and they also take into account changes in the Group's operating 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. Strategic risks are specifically addressed as part of this process.

4.5.3.f) Risk management and mapping

The Group also ensures that its operational risks are effectively managed.

These risks have been classified into thirteen separate families: accounting and finance; business interruption; the environment; ethics violations; knowledge retention; information systems and technologies; legal and tax; project management; product quality; continuity of supply; property security; employee and third-party health and safety; and employee relations.

Within these thirteen categories, operating risks are managed at four different levels:

1. The support units (Corporate Departments, Performance Divisions and Technology Centers). As risk owners, these units analyze the risks and submit proposals concerning levels of acceptable risk to the Chief Executive Officer and the Group Executive Committee for approval. They also recommend risk management rules, estimate the resources required to deploy prevention and protection measures, track changes in risks, and verify that their guidelines are effectively applied.
2. The operating units (Product Lines, Tactical Operational Units and Geographic Zones) manage risks on a daily basis. They are responsible for identifying and managing their unit's risks, in compliance 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 units to help 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.
3. The Group Audit and Risks Department leads the overall risk management process. It defines the methodology, organizes its deployment and fosters a risk-aware culture within the Group. It ensures that the most significant risks are effectively controlled by the units concerned. It tracks the progress of all the action plans related to priority risks. It also ensures the quality of risk management by performing audits. In addition, it presents 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.
4. Unit Risk Managers, appointed in each unit, form part of the risk management network. They are responsible for leading, implementing and overseeing the risk management process in their units, with the assistance of managers from the Group Audit and Risks Department, who support them at every stage in the process.

A new risk mapping exercise was conducted in 2012, with the Group Audit and Risks Department consolidating the risk analyses prepared by the operating units. The consolidated risk maps serve as the Group's risk audit tool, facilitating the identification of priority risks that may require a specific action plan. These plans are then implemented by the operating units, supervised by the Risk Manager.

The Chief Executive Office and the Group Executive Committee met ten times in 2012 as part of their management duties to oversee the risk management process. In this role, they approved the Group risk map, determined priorities, validated risk acceptance levels, took decisions concerning resource allocation and verified that the action plans for previously identified priority risks were being implemented according to plan.

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

Lastly, the Supervisory Board's Audit Committee focused in particular on analyzing supply chain risks and the related action plans, as well as the management of the major projects designed to increase the Group's production capacity.

This report, presented by the Chairman of the Supervisory Board, was approved by the Supervisory Board on February 7, 2013.

Éric Bourdais de Charbonnière
Chairman of the Supervisory Board