

## 4.6. REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

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, (ii) the Supervisory Board's practices during the year ended December 31, 2009 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 decided to use as its reference framework (see press release dated December 8, 2008).

### 4.6.1. MEMBERSHIP OF THE SUPERVISORY BOARD AND SUPERVISORY BOARD PRACTICES

#### ● 4.6.1.a) MEMBERS

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<sup>(1)</sup>. 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:

- Eric Bourdais de Charbonnière (Chairman) – member of the Supervisory Boards of Oddo et Cie and Thomson SA; former Chairman of JP Morgan in France;
- Pat Cox – President of the European Movement International; member of the Board of Trustees of the International Crisis Group; former President of the European Parliament; former member of the Irish Parliament;
- Barbara Dalibard – Chief Executive Officer of SNCF Voyages;
- Louis Gallois – Executive Chairman of EADS NV;
- François Grappotte – Honorary Chairman of Legrand and Director of BNP Paribas;
- Pierre Michelin – Divisional Chief Executive, 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.

#### ● 4.6.1.b) ROLE AND RESPONSIBILITIES

In 2009, the Supervisory Board fulfilled its role of overseeing the Company's management. In accordance with its internal rules, its oversight procedures include:

- reviewing the annual and interim separate and consolidated financial statements approved by the Managing Partners;
- assessing the quality of the Group's financial information;
- assessing the Group's internal control and risk management systems;
- reviewing and implementing the strategic roadmap;
- obtaining assurance that shareholders' rights are respected.

In addition, the Supervisory Board receives regular information about the Group's strategy and outlook.

#### ● 4.6.1.c) ANNUAL SELF-ASSESSMENT OF THE SUPERVISORY BOARD'S PERFORMANCE AND INDEPENDENCE OF ITS MEMBERS

In accordance with its internal rules and with the AFEP-MEDEF Corporate Governance Code guidelines, in 2009 the Supervisory Board carried out an annual self-assessment of its procedures and practices to verify that Board members had received appropriate advance information about important matters and that these had been adequately discussed, and to evaluate the contribution of each member to the Board's work.

For the purposes of this self-assessment, at the end of 2009 the Chairman of the Board asked the members to fill out a questionnaire. The results were presented by the Chairman and discussed at the Board's meeting of February 8, 2010. In particular, the members noted that progress had been made in transmitting documents to the Board more quickly and expressed the wish to see this improvement continue.

Furthermore, the Board decided to update its internal rules and those of the Audit Committee so as to bring them into compliance with legal and regulatory changes.

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

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

Furthermore, the Board considers that all its members are independent, based on the criteria set out in its internal rules. These criteria correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code for listed companies dated December 2008, except that the Code sets a limit on the aggregate period during which a member may serve on the Board<sup>(1)</sup>.

#### ● 4.6.1.d) REPORT ON THE SUPERVISORY BOARD'S ACTIVITIES DURING 2009

The Supervisory Board met five times in 2009, on February 9, April 24, May 15, July 27 and December 2-3, with an attendance rate of 90%.

During each of these meetings, a detailed analysis of the Group's results was presented to the Board. On February 9 and July 27 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2008 and (ii) the interim financial statements for the six months ended June 30, 2009. It also examined and expressed its opinion on the financial information communicated to the markets.

Specific presentations were made during the year to the Supervisory Board by the Managing Partners or by other senior executives on a number of topics, including:

- the Managing Partners' analysis of results;
- internal control and risk management;
- corporate strategy and the quality of its implementation;
- manufacturing strategy;
- research and development;
- compensation and appointment policies;
- Passenger car and Light truck tire market strategy;
- corporate governance.

The Supervisory Board dedicated an entire day during the year to reviewing the Group's strategy.

#### ● 4.6.1.e) REPORT ON THE AUDIT COMMITTEE'S ACTIVITIES DURING 2009

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

- François Grappotte, Chairman of the Audit Committee – Honorary Chairman of Legrand and Director of BNP Paribas;
- Eric Bourdais de Charbonniere – member of the Supervisory Boards of Oddo et Cie and Thomson SA; former Chairman of JP Morgan in France;
- Pierre Michelin – Divisional Chief Executive, Groupe Bull;
- Benoît Potier – Chairman and Chief Executive Officer of Air Liquide.

The Audit Committee monitors issues relating to the preparation and control of accounting and financial information, in accordance with Articles L.823-19 and L.823-20-4° of the French Commercial Code.

The Audit Committee met four times in 2009 (on February 9, April 24, July 24 and November 24), with a 100% attendance rate.

During its meetings the Audit Committee made inquiries of the Chief Financial Officer and the heads of the Accounting Department, Financial Affairs and Internal Audit. The main purpose of the meetings was to review:

- the audited consolidated financial statements for the year ended December 31, 2008 and the financial results analysis. In particular, the Audit Committee analyzed changes in inventory, trade receivables, the effective tax rate paid by the Group, the debt situation and liquidity needs, and changes in post-employment benefit costs. It noted that the audit of the accounts had gone smoothly and that the Statutory Auditors had issued an unqualified opinion on the Company's financial statements and the consolidated financial statements for 2008;
- the interim financial statements for the six months ended June 30, 2009, as reviewed by the Statutory Auditors. The Audit Committee mainly analyzed changes in free cash flow and inventory management. The Statutory Auditors had no matters to report concerning the 2009 interim financial statements;
- internal control and risk management procedures. Updated information was presented to the Audit Committee concerning the Group's internal control system, objectives and processes. The Committee also reviewed the Group's overall risk management approach;
- liquidity and interest rate risks. The Committee examined liquidity and interest rate risk management principles and procedures as well as the Group's debt and liquidity policies and objectives;
- the call for bids launched with a view to re-appointing the incumbent Auditors or appointing new Auditors. The Audit Committee received regular updates on the selection process and recommended the final candidates to be proposed for appointment at the Shareholders' Meeting.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 9, July 27 and December 2 and 3, 2009.

#### ● 4.6.1.f) REPORT ON THE COMPENSATION COMMITTEE'S ACTIVITIES DURING 2009

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

The Compensation Committee met twice in 2009 (on February 9 and April 24), with a 94% attendance rate.

During the year, the Committee approved the Managing Partners' decision to postpone from May 2009 to November 2009 the launch of a stock option plan, in which the Managing Partners are not entitled to participate. The Committee noted that 2008 operating margin was below the threshold set for performance bonus payments and that consequently:

- no management bonuses would be paid based on Group performance; and
- no performance bonuses or long-term incentive bonuses would be paid to the Non-General Managing Partners.

The Committee examined the indicators used to determine the portion of the bonus based on the Group's 2009 performance payable in 2010. It concurred with the General Partners' proposal to amend the criteria for granting performance bonuses and long-term incentive bonuses to

(1) See the corporate governance statement by the Supervisory Board on pages 106 and 107.



the Non-General Managing Partners and the indexation clause applicable to Non-General Managing Partners' compensation for loss of office. The Committee approved the Managing Partners' decision to freeze management pay in 2009 in light of the difficult economic environment.

Lastly, the Compensation Committee discussed senior executive and Managing Partner compensation policies, career development plans and succession plans, having been consulted on these matters. In order to ensure that these compensation policies were appropriate, the Committee reviewed several benchmarking surveys performed by external consultants.

During the first half of 2009, the Group had to put in place a number of structural measures as a result of the economic environment, which affected the compensation and jobs of its employees in France. Against this backdrop and to comply with Michelin's high corporate governance standards, the Supervisory Board requested an opinion from the MEDEF's Committee of Experts set up in May 2009 in order to ensure that the Group's compensation policy for its Managing Partners complied with the principles of reasonableness, balance and consistency provided for in the AFEP-MEDEF Corporate Governance Code applicable to listed companies.

The MEDEF's Committee of Experts informed the Supervisory Board that in its opinion, the compensation awarded to the Company's Managing Partners complied with AFEP-MEDEF recommendations.

#### 4.6.2. CORPORATE GOVERNANCE STATEMENT

The Supervisory Board considers that Michelin complies with the AFEP-MEDEF recommendations issued on October 6, 2008 concerning executive directors' compensation (which the Board examined at its meeting on December 4, 2008) and that these recommendations are reflected in the Company's corporate governance processes.

Although these recommendations state that they apply to "Managing Partners of partnerships limited by shares", from a legal and economic standpoint they cannot directly apply to the share of the Company's profit paid to the Managing General Partner in accordance with the Company's bylaws. This statutory share of profit, which represents the Managing General Partner's sole form of compensation, consists of consideration for the risk incurred by the General Partners by virtue of their unlimited personal liability for the Company's debts. It is determined by the shareholders in General Meeting on the basis of the prior year's profit and is therefore entirely variable.

Together, the applicable laws and the Company's bylaws bar Managing Partners from receiving any other form of compensation without the specific prior approval of the shareholders in General Meeting. Nevertheless, in practice, the characteristics of the share of profit allocated to General Partners by CGEM comply with the spirit of the AFEP-MEDEF recommendations:

- either because the profit shares comply with certain of the requirements set out in the recommendations, i.e.:
  - the criteria applicable for determining Managing Partners' compensation, and
  - full disclosure.
- or because the other prohibitions or ceilings in the recommendations already form part of the underlying partnership approach adopted by Michelin for its General Partners, including:
  - no employment contract,

- no severance package,
- no supplementary or other pension benefits paid for by the Company,
- no stock option, performance share or other incentive plans.

In 2009, the Supervisory Board noted that the corporate governance measures previously announced by the Company and referred to in the Board's report to shareholders for 2008 were implemented during the year.

For example, the method used for calculating Non-General Managing Partners' long-term incentive bonuses – as determined by the General Partners after consulting the Supervisory Board – was amended in 2009 and is now based on their annual performance bonuses. The long-term incentive bonus is adjusted by applying a positive or negative indexation clause based on the long-term growth in the Michelin share price. It may be cashed in between the fifth and ninth anniversaries following the reference year, unless the Managing Partner is removed from office due to mismanagement. The indexation adjustment is determined by comparing the average share price for the quarter preceding the bonus award date to the average price for the quarter preceding the date when the Managing Partner elects to cash in the bonus. The amount of the indexation adjustment may not exceed 100% of the performance bonus used as the basis for calculating the long-term incentive.

The conditions concerning the awarding of compensation for loss of office to Non-General Managing Partners were also amended in 2009, so that the entire compensation is now contingent on performance conditions, versus half of the amount as was previously the case.

The compensation for loss of office is capped at two years' fixed and variable compensation.

The actual amount of compensation for loss of office would be adjusted based on the Non-General Managing Partner's average annual variable compensation for the previous five years.

To be entitled to the maximum compensation for loss of office, his average annual variable compensation for the five-year period would have to represent over 60% of the maximum annual variable compensation for the period.

Below this percentage, the compensation for loss of office would be reduced proportionately, with no compensation payable if his average annual variable compensation for the five-year period was less than 20% of the maximum.

Performance bonuses are determined by reference to business and financial indicators, including those indicators used to calculate the portion of management bonuses that is based on the Group's performance. The performance indicators are defined in detail at the beginning of each year and submitted to the Supervisory Board for opinion. The Managing Partners' performance is assessed annually by the Supervisory Board for the purpose of determining the amount of their bonus.

The compensation for loss of office payable to Managing Partners would be reduced, if applicable, so that any other severance payment due as a result of terminating their suspended employment contract would not result in them receiving an aggregate severance package in excess of the ceiling of two years' fixed and variable compensation.

Concerning the AFEP-MEDEF recommendation to terminate the employment contracts of executive directors (or Managing Partners) of listed companies who were elected or re-elected after October 6, 2008 (which is not the case for the Group's current Non-General Managing Partners), as stated in the 2008 registration document, the Board considers that the major drawbacks

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of combining a corporate office with an employment contract have been eliminated, notably thanks to:

- the above-described overall cap on severance pay resulting from (i) the Managing Partner's removal from office and (ii) the termination of his suspended employment contract; and
- the absence of any special pension arrangements for Managing Partners.

The Board will re-examine the consequences of combining a corporate office with an employment contract when the current Non-General Managing Partners whose employment contracts have been suspended stand for re-election as Managing Partners.

As mentioned earlier, the Company has elected to use the December 2008 AFEP-MEDEF Corporate Governance Code applicable to listed companies as its reference framework for the purposes of this report.

The Supervisory Board hereby states that the Company applies all of the principles of said Code, with the necessary adjustments to take account of its corporate structure as a partnership limited by shares, apart from 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 Code's principles, except for the recommendation that directors' 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 has not considered it necessary to make part of the fee payable to its members contingent upon their attendance at meetings.

Lastly, the specific rules concerning shareholder participation at General Meetings are presented on page 115 of the 2009 Registration Document and in the 2010 Shareholders Guide (in the section entitled "Your Rights as a Shareholder") which can be downloaded from the Group's corporate website ([www.michelin.com/corporate](http://www.michelin.com/corporate)).

### 4.6.3. MICHELIN GROUP INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

#### 4.6.3.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 distribution networks are attached to the Product Lines – Euromaster in Europe and Tire Centers, Inc. (TCI) in North America.

The Product Lines are backed by ten Corporate Services that are responsible for support functions such as Procurement, 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-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 drawn up 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

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

#### 4.6.3.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, which is very similar to the COSO definition used in 2006.

The AMF definition states that internal control is a company's system, defined and implemented under its responsibility and comprising 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; and
- 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 that:

- laws and regulations are complied with;
- the instructions and directional guidelines fixed by the Managing Partners are applied;
- the Company's internal processes function correctly, particularly those involving the security of its assets;
- financial information is reliable.

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.

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Within the Michelin Group, the Company ensures that subsidiaries have set up internal control procedures that are aligned with the subsidiaries' individual characteristics as well as with their transactions with the Company.

#### 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.

Local internal control procedures have been set up to ensure that accounting information produced by the individual entities is reliable. These include a physical inventory (for both fixed assets and stocks), segregation of tasks and reconciliations 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.

Statutory and management accounting data are reported simultaneously by the subsidiaries and programmed controls check 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 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 (applicable laws and regulations and contractual provisions) or occurrence (e.g. disputes or fraud).

Each year the Group Internal Audit 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.

In addition, as part of their audit work on the separate and consolidated financial statements, the Group's Statutory Auditors issue instructions to the local auditors on applying international auditing standards.

The Statutory Auditors audit the consolidated financial statements based on the work of the local auditors, conducted in accordance with the audit instructions and questionnaires sent by the Statutory Auditors. The local auditors send to the Statutory Auditors clearance reports on their limited review of the interim financial statements and their audit of the annual financial statements, together with reports on their audit work and regular communications throughout the year on specific issues or matters.

The Statutory Auditors visit several of the Group's sites outside France every year in order to meet the local audit teams and review a number of points together.

The Investor Relations Department, which forms an integral part of the Group Finance Department, is responsible for drawing up and relaying to the financial markets all of the Group's financial communications, which primarily comprise:

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

The Investor Relations Department is responsible for coordinating the drafting of the Annual and Sustainable Development Report and the Registration Document, with significant input from the Group Legal Affairs Department. Both of these documents include 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 Head of Investor Relations 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 Partners.

#### ● 4.6.3.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 and reported to the relevant managers for inclusion in the scorecards used to monitor their operations. Management information is also reported to the Group's Executive Council on a monthly basis. Quarterly reports are also presented to the Supervisory Board. The Group 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 procedures contained in the Group's Quality System include rules relating to data access and

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protection, the development of applications, and structuring and segregating development, process engineering and production tasks.

The Group Internal Audit 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, local teams in North and South America and auditors in several Asian and African countries. The Internal Audit Department regularly carries out reviews 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. The internal auditors issue recommendations to the entities concerned, based on their observations, and perform follow-up reviews to ensure that the action plans drawn up by the audited entities to address the identified weaknesses have been duly implemented. 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 Statutory Auditors issue their own internal control recommendations to accounts department managers who are responsible for ensuring that these recommendations are acted upon.

#### ● 4.6.3.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 (*Loi de Sécurité Financière*) generates lasting improvements, the Internal Control Department reports to the Finance Department. The Internal Control Department is responsible for managing internal control processes and for overseeing work on financial internal control with a view to providing reasonable assurance that the Group's financial information is reliable and that its assets are safeguarded.

It also draws up internal control standards, coordinates and sets up internal control information systems and day-to-day procedures, and assists the Group's network of internal controllers within the various regions and main business lines to help teams with implementing the related processes.

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 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.

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

##### Processes concerned

Fifteen key processes were initially identified for the Michelin Group as a whole in 2004. These processes are gradually being integrated into the financial internal control system with completion scheduled for 2010.

The main processes that have been identified and integrated to date are 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.

The other processes that will be integrated as from 2010 are as follows:

- human resource management (compensation, benefits and travel expenses);
- consolidation;
- financial communications;
- mergers/acquisitions/divestments.

##### 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.

##### Target companies

The first phase involved a sample of companies that account for around 80% of the Group's consolidated accounting balances. This sample also spanned all of the Group's Regions and operations, including manufacturing, sales and distribution networks.

The system will be extended to the smaller entities as from 2010 with the aim of covering the whole Group by 2014.

##### Method

This method was applied in 2009 to a broader array of companies and processes.

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 and operational areas.

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

#### ● 4.6.3.e) RISK ASSESSMENT AND CONTROL

The Group's objectives are set by the Managing Partners and relate not only to financial performance but also to the areas in which the Group aims to achieve 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 entities 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.

#### ● 4.6.3.f) RISK MAPPING

The Group also ensures that its operational risks are effectively managed. These risks are divided into the following eleven categories: safety and security; products and services; continuity of supply/production/deliveries; accounting and finance; legal and tax affairs; environmental issues; labor relations; skills and expertise; fraud and ethics; information technology; and communication.

Risks are controlled at three levels:

- line managers (Operating Units, Product Lines and Geographic Regions) are responsible for identifying and managing their entity's 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;

- for each of the eleven risk categories, the relevant Corporate Service (Procurement, Legal Affairs, IT systems, Environment and Prevention, etc.) or Performance Division analyzes the corresponding risks, defines the applicable standards for risk prevention and protection measures and manages and monitors implementation of these standards.

The Group Risk Manager is responsible for the general oversight of risk assessment and control procedures. This role includes defining the related methods, organizing the rollout of procedures, promoting a risk management culture across the Group and ensuring that major risks are effectively controlled by the entities concerned. He also verifies that the Company's risk management process functions effectively, focusing particularly on major risks.

During 2009, the Group pursued its formal documentation of continuity plans and additional crisis management units were set up, with simulation-based training provided to the units' teams.

The Group Risk Committee, comprising Heads of Product Lines and the Group's corporate departments, reviews the most significant risks to which the Group is exposed and recommends to the Managing Partners procedures that substantially reduce both the probability that risks will occur and their potential impact

The Committee met three times in 2009, to discuss the Group-wide risk mapping process carried out by the Group Risk Manager by consolidating the results of risk analyses performed by the operating entities.

The Group risk map constitutes a useful tool for managing risks, identifying priority risks that may require a specific action plan, regularly controlling the most significant risks and helping to draw up the work plan for the Internal Audit team.

In 2009 the Group Risk Committee used the risk map to review a predefined list of risks, including those relating to (i) synthetic rubber, semi-finished products and tooling procurement, (ii) disaster recovery plans for commercial IT systems, (iii) epidemics (for employees working in risk-prone regions), (iv) total or partial failure of plants supplying other sites with semi-finished or key products for specific types of small run series and (v) risks arising from changes in local regulations that may trigger compliance issues for products and raw materials.

This review led the Committee to observe that the implementation of various risk prevention and protection measures had reduced the Group's exposure to previously identified, high-priority risks. In addition, the Committee assessed the business continuity plans developed to ensure that entities would be able to honor their commitments to customers, even when faced with the occurrence of high-impact risks, and made certain recommendations.

This report, presented by the Chairman of the Supervisory Board, was approved by the Supervisory Board on February 8, 2010.

Eric Bourdais de Charbonnière  
Chairman of the Supervisory Board

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