

## **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**

Ladies and Gentlemen,

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, 2015 and (iii) the internal control and risk management procedures put in place by the Company.

### **4.5.1 MEMBERSHIP STRUCTURE OF THE SUPERVISORY BOARD, APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY AND SUPERVISORY BOARD PRACTICES**

#### **4.5.1 a) Members – Board gender equality**

In accordance with the applicable law and the Company's bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders Meeting for a term of four years <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 currently has nine members, whose names are listed below along with details of their current position <sup>(2)</sup>. This information is disclosed in accordance with Article L. 226-4-1 of the French Commercial Code introduced by French Act No. 2011-103 of January 27, 2011 concerning the balanced representation of men and women on Boards of Directors and Supervisory Boards and gender equality in the workplace:

- ▶ **Olivier Bazil**, a Director of Legrand and Vallourec.
- ▶ **Pat Cox**, Member of the Board of Trustees of the Friends of Europe; former President of the European Parliament; former member of the Irish Parliament.
- ▶ **Barbara Dalibard**, Chief Executive Officer of SNCF Voyageurs.
- ▶ **Anne-Sophie de La Bigne**, Vice-President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group.
- ▶ **Jean-Pierre Duprieu**, Executive Vice-President of the Air Liquide group.
- ▶ **Aruna Jayanthi**, Chief Executive Officer of Capgemini India.

- ▶ **Monique Leroux** <sup>(3)</sup>, Chair of the Board, President and Chief Executive Officer of Desjardins.
- ▶ **Cyrille Poughon**, member of the "Workplace Quality of Life" workgroup at Manufacture Française des Pneumatiques Michelin.
- ▶ **Michel Rollier**, Chairman of Michelin's Supervisory Board, Chairman of the Plateforme de la Filière Automobile and a former Managing Partner of Michelin.

Concerning the practice of appointing a Senior Independent Director adopted by certain listed companies, the Board considers that it is not necessary to follow this practice because of Michelin's governance structure and the following considerations:

- ▶ In a partnership limited by shares, the duties of management and oversight are performed by two separate governance structures, with no individual being a member of both structures as can be the case in a company administered by a Board of Directors.
- ▶ The Supervisory Board is relatively small (with nine members) and it is therefore easy for each member to freely express his or her views.
- ▶ The proportion of independent members of the Supervisory Board is very high.

In summary, the Supervisory Board's diversity in terms of experience and backgrounds is illustrated by the fact that, in 2015:

- ▶ 45% of the Board members are women.
- ▶ 78% of the Board members are independent.
- ▶ 34% of the Board members are foreign nationals.

<sup>(1)</sup> Five years for members elected prior to 2009. Certain members may be elected for a two- or three-year period in order to effectively stagger the terms of office of Supervisory Board members.

<sup>(2)</sup> Laurence Parisot tendered her resignation from the Board on February 18, 2015, effective July 24, 2015.

<sup>(3)</sup> Monique Leroux was appointed to the Board at its meeting on October 1, 2015, to fill the seat left vacant by Laurence Parisot.

#### 4.5.1 b) Report on the Supervisory Board's activities during 2015

##### / General activities

At its meetings on February 5 and July 23 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2014 and (ii) the interim financial statements for the six months ended June 30, 2015. 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 Chief Executive Officer or by members of line management – were as follows:

- ▶ Quarterly financial information and interim and annual results – based in part on a review of the management scorecards used by the Executive Committee – and the corresponding press releases, including a discussion of investor relations.
- ▶ Internal control and risk management, and the Chairman's report on these topics and on Supervisory Board practices.
- ▶ The Audit Committee's report.
- ▶ The strategic plans of each of the major operating units.
- ▶ The planning process and budget assumptions.
- ▶ Competitor analyses.
- ▶ Proposed acquisitions.
- ▶ Compensation policies.

- ▶ Preparations for the Annual Shareholders Meeting;
- ▶ Two candidates for election to the Supervisory Board and the decision to appoint a new Board member;
- ▶ Annual assessment of Supervisory Board members' independence;
- ▶ Annual self-assessment of the Board's work;
- ▶ Capital allocation policy between the Company and shareholders;
- ▶ Report of the Compensation and Appointments Committee;
- ▶ Industrial restructuring projects;
- ▶ Project to streamline the Group's organization and business processes.

Part of each Supervisory Board meeting takes place behind closed doors, without the Chief Executive Officer or any representatives of senior management being present.

The Supervisory Board is committed to helping the member representing employees to act as a neutral observer of the Group's social dialog processes in order to make an informed contribution to the Board's discussions.

In line with this commitment, in 2015, Cyrille Poughon, the member representing employees, visited Group units in Spain and China, and presented his observations during Supervisory Board meetings.

In addition, in line with legal requirements, the Company decided that the Supervisory Board of its main French subsidiary, Manufacture Française des Pneumatiques Michelin, should also continue to include an employee representative, appointed by the Company's Central Works Council.

##### / Members' availability

The Supervisory Board met eight times in 2015, on February 5, February 18, March 6, April 23, June 19, July 23, September 30/October 1 and December 1 with an average attendance rate (including meetings of Board Committees) of 100%.

The attendance rates of the individual Board members are presented in the table below:

Supervisory Board members	Participation at meetings held in 2015		
	Supervisory Board (8 meetings)	Audit Committee (4 meetings)	Compensation and Appointments Committee (4 meetings)
Olivier Bazil	8/8	4/4	N/A
Pat Cox	8/8	N/A	4/4
Barbara Dalibard <sup>(1)</sup>	8/8	N/A	1/1
Anne-Sophie de La Bigne	8/8	4/4	N/A
Jean-Pierre Duprieu	8/8	4/4	N/A
Aruna Jayanthi <sup>(2)</sup>	4/4	N/A	N/A
Monique Leroux <sup>(3)</sup>	1/1	N/A	N/A
Laurence Parisot <sup>(4)</sup>	6/6	N/A	3/3
Cyrille Poughon	8/8	N/A	N/A
Michel Rollier	8/8	N/A	4/4

N/A: Not applicable.

(1) Barbara Dalibard replaced Laurence Parisot as Chair of the Compensation and Appointments Committee and participated in the only meeting of the Committee held in 2015 after she took up her position.

(2) Aruna Jayanthi participated in all the meetings held in 2015 after she joined the Board.

(3) Monique Leroux participated in the only meeting held in 2015 after she joined the Board.

(4) Laurence Parisot participated in all the meetings held in 2015 up to her resignation.

### **/ Training for Supervisory Board members**

As part of its training policy for Supervisory Board members, during the year the Company once again organized a special training program on the Group's operations. The program gave all of the members an opportunity to acquire or refresh their hands-on insight into how Michelin's various businesses are run.

In 2015, a two-day seminar was organized in Poland.

One day was devoted to a comprehensive strategic review of the Group's businesses and its new strategic pathways.

On the second day, the Board members were given a guided tour of one of the Group's major plants. They visited the production lines dedicated to passenger car and light truck, truck and specialty tires and semi-finished products, gaining valuable insight into manufacturing processes and the production shops' organization and procedures. They also saw at first hand the high standards of manufacturing performance achieved at this type of plant, the improvements in progress and the measures taken to enhance customer service.

These topic-specific presentations, along with those made during the year at Supervisory Board meetings by members of Executive Management and their teams, are an essential means of improving the Supervisory Board members' understanding of all the challenges facing the Michelin Group.

### **/ Changes in the composition of the Supervisory Board and other resolutions to be presented at the 2015 Annual Shareholders Meeting**

A major part of the Board's work in late 2014 and early 2015 entailed preparing for the expiration of Supervisory Board members' terms of office.

The Compensation and Appointments Committee reviewed the proposed re-election of Barbara Dalibard and the election of a new member, Aruna Jayanthi.

It examined Ms. Dalibard's contribution to the work of the Board, noting:

- ▶ Her in-depth understanding of the Group's main challenges.
- ▶ Her contribution to determining the Group's main research and development strategies.
- ▶ Her expertise in issues related to the digital economy.
- ▶ Her availability and involvement in the Board's work.
- ▶ The fact that she is an independent member of the Board and has no conflicts of interest.

The Compensation and Appointments Committee decided that it would be in the best interests of the Company's shareholders to continue to benefit from Barbara Dalibard's skills and experience. Ms. Dalibard having expressed her willingness to continue serving on the Board, the Supervisory Board decided to accept the Compensation and Appointment Committee's recommendation and voted to put her forward for re-election for a further four-year term.

As requested by the Supervisory Board, the Compensation and Appointments Committee based its search for the new Supervisory Board member on best market practices as adapted to the Company's specific situation.

After reviewing in detail the candidates selected by a leading independent firm of recruitment consultants, the Committee decided to choose Aruna Jayanthi.

Ms. Jayanthi, an Indian national, is the Chief Executive Officer of Capgemini India and in this role she oversees all of the Capgemini group's operations in India, covering Consulting, Technology and Outsourcing Services.

The Compensation and Appointments Committee carried out an in-depth review of Ms. Jayanthi's candidature, which included a face-to-face interview. The Committee concluded that the main strengths she would bring to the Supervisory Board would be:

- ▶ Her multi-national and multi-cultural experience.
- ▶ Her expertise in consulting, IT services and eco-digital solutions.
- ▶ Her managerial experience within a major international group.
- ▶ Her knowledge of the Indian market and emerging markets.
- ▶ Her desire to actively participate in the work of the Supervisory Board.

The Committee also reviewed Ms. Jayanthi's independence in relation to Michelin.

At the end of this process, the Chairman of the Compensation and Appointments Committee reported back to the Supervisory Board on its selection process and recommended that Aruna Jayanthi be put forward for election as a new independent member of the Supervisory Board for a four-year term.

At its meeting of October 1, 2015, in line with the recommendations made by the Compensation and Appointments Committee, the Supervisory Board appointed Monique Leroux to replace Laurence Parisot, who had resigned from the Supervisory Board following its meeting of July 23, 2015, as previously announced.

The Group will benefit from Monique Leroux's experience in two respects.

Monique Leroux, a Canadian national, has been Chair of the Board, President and Chief Executive Officer of Desjardins, Canada's largest cooperative financial group one of the main American financial institutions, since 2008. She oversaw a phase of dynamic growth, while helping to make the group the fifth most robust financial institution in the world.

She is a director of the International Cooperative Alliance (ICA), the Canadian company ACT, Inc., Crédit Industriel et Commercial (CIC), the European Association of Cooperative Banks (EACB), and the International Confederation of Popular Banks (CIBP).

Her participation in many international bodies gives her solid insight into the global markets.

Ms. Leroux's appointment will be submitted for ratification at the Annual Shareholders Meeting on May 13, 2016.

### **/ Preparing recommendations for electing/ re-electing Supervisory Board members and other resolutions to be presented at the 2016 Annual Shareholders Meeting**

The Supervisory Board asked the Compensation and Appointments Committee to review the situation of members whose term was due to expire at the 2016 Annual Shareholders Meeting and the proposal to elect a new member and ratify an appointment.

The Committee's procedures and recommendations are presented in the Supervisory Board's report on the resolutions to be submitted to the 2016 Annual Shareholders Meeting (see section 10.2.1 of the 2015 Registration Document).

### **/ Review of Supervisory Board members' independence and any conflicts of interest**

The Board has chosen to refer exclusively to the criteria listed in the AFEP/MEDEF Code for its assessment of its members' independence <sup>(1)</sup>.

The changes in the Board's membership that have taken place since 2013 led the Board to examine its members' independence more closely in late 2015 and early 2016, as it had also done in 2013 (see the detailed conclusions in the 2013 Registration Document, pages 114 and 115).

In the first phase, the Compensation and Appointments Committee checks that each Supervisory Board member has formally declared, in relation to the provisions and abstention obligations of the Board's internal rules, that:

- ▶ They have no close family ties with the Managing Partner or their fellow Supervisory Board members.
- ▶ They have not been convicted of fraud during the past five years, or been associated with a bankruptcy, receivership or liquidation during the past five years, or been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer during the past five years.
- ▶ They do not have a service contract with the Company or any of its subsidiaries.
- ▶ They have not been selected to serve as a Supervisory Board member pursuant to any arrangement or agreement with a principal shareholder, customer, supplier or other stakeholder.
- ▶ To the best of their knowledge, there are no restrictions on the disposal within a certain period of time of their Michelin shares, except for those resulting from insider dealing rules.
- ▶ To the best of their knowledge, there are no conflicts of interest between their obligations towards the Company in their capacity as Supervisory Board member and their personal interests and/or other obligations.

Where applicable, the Committee also checks any notifications given to the Board by its members.

In the second phase, to complete the earlier statements and observations, the Committee:

- ▶ Checks that none of the Board members had been an auditor of the Company during the past five years.
- ▶ Reviews the period served on the Board by members since they were first elected, in particular for members who have served on the Board for 12 or more years.

In addition, the Committee examines whether any Board member:

- ▶ Is or has been in the past five years an employee or executive officer of the Company, or an employee or director of its parent or a company that the latter consolidates.
- ▶ Is an executive director of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or an executive director of the Company (currently in office or having held such office for less than five years) is a director.
- ▶ Is a customer, supplier, investment banker or commercial banker:
  - That is material to the Company or the Group; or
  - That depends on the Company or the Group for a significant part of its business.

In the third phase, the Committee reviews the situation of Board members who may personally conduct significant amounts of business with the Company or be involved with undertakings that may maintain significant business relations with the Company.

In each case, the Committee starts by examining the nature of the Board member's duties in the undertaking concerned, particularly whether they hold a non-executive position such as member of the Board of Directors or Supervisory Board, whether they are qualified as independent by that undertaking and whether they share any cross-directorships with an executive officer of the Company.

Where a Board member holds an executive or management position, the Committee examines the nature and scope of the member's duties and, if the undertaking is a material competitor, customer or supplier of the Company, assesses whether the position may give rise to a conflict of interests between that undertaking and the Company.

When considered necessary, the Committee then analyses individual situations based on (i) the type of relationship that exists between the Company and the undertaking concerned and (ii) the amounts represented by financial transactions between the Company and the undertaking, applying different materiality thresholds depending on the type of relationship (revenues in relation to consolidated revenues, purchase volumes, etc.).

The Compensation and Appointments Committee conducted an independence review in 2015. Its conclusions were presented to the Supervisory Board which discussed and then adopted them. The review process can be summarized as follows:

The situation of **Barbara Dalibard** was examined in light of the business relations that may exist between Michelin and the SNCF group in which Ms. Dalibard holds an executive position as Chief Executive Officer of SNCF Voyageurs.

In 2015, the revenues earned by SNCF with Michelin were not material in relation to the SNCF group's consolidated revenues.

Consequently, the Committee proposed considering that Barbara Dalibard's indirect business relationship with Michelin by virtue of her position with SNCF is not material. Ms. Dalibard, who is a member of the Committee, did not take part in the discussion of her situation and was not involved in determining the Committee's conclusions.

The Committee also considered that Ms. Dalibard's position as an independent non-executive director of Société Générale and the volume of business between Société Générale and Michelin did not prevent her from being qualified as an independent member of the Supervisory Board.

The Committee also examined the situation of **Anne-Sophie de La Bigne** in light of her position with Airbus Group as Vice President in charge of Civil Affairs in the Public Affairs Division France. The Committee noted that (i) Ms. de La Bigne does not hold an executive position at Airbus with responsibility for purchasing or selling products or services and (ii) her area of responsibility is limited to France.

The Committee nevertheless decided to examine the volume of business conducted between Michelin and the Airbus Group, as some of the latter's subsidiaries purchase products and/or services from Michelin.

Due to the structure of the aerospace markets served by Michelin and the companies operating in these markets, the Committee examined the revenues earned by Michelin in 2015 from the sale of products and services not only to Airbus Group companies but also to these companies' customers that own or lease aircraft. The revenue figure was then compared to Michelin's consolidated revenue for 2015.

<sup>(1)</sup> When the Compensation and Appointments Committee assesses the independence of one of its members, that member does not take part in the Committee's discussion and analysis of his or her situation nor in the Supervisory Board's decision regarding his or her independence.

The comparison showed that the revenue in question represented significantly less than 1% of the Group's consolidated revenue for the year.

Consequently, the Committee proposed considering that Anne-Sophie de La Bigne's indirect business relationship with Michelin by virtue of her position with the Airbus Group was not material.

The Committee then reviewed the situation of **Jean-Pierre Duprieu**, Executive Vice-President of the Air Liquide group.

In 2015, transactions between Michelin and the Air Liquide group represented a very small proportion of Michelin's total purchases and the corresponding revenue was not material in relation to the Air Liquide group's consolidated revenue.

Consequently, the Committee proposed considering that Jean-Pierre Duprieu's indirect business relationship with Michelin by virtue of his position with the Air Liquide group was not material.

The Committee also examined the business relationship between Michelin and the Capgemini group, whose Indian subsidiary is headed by **Aruna Jayanthi**.

Worldwide transactions between the Capgemini group and Michelin represent only a small proportion of Michelin's purchases of IT services and consulting services, and do not account for a significant portion of Capgemini's global revenue.

Consequently, the Committee proposed considering that Aruna Jayanthi's indirect business relationship with Michelin by virtue of her position with the Capgemini group was not material.

Concerning **Monique Leroux**, Chair of the Board, President and Chief Executive Officer of Desjardins, transactions between Desjardins and Michelin in 2015 were not material for either group.

The Committee also considered that Ms. Leroux's position as an independent non-executive director of CIC and the volume of business between CIC and Michelin did not prevent her from being qualified as an independent member of the Supervisory Board.

Consequently, the Committee proposed considering that Monique Leroux's indirect business relationship with Michelin by virtue of her positions with Desjardins and CIC was not material.

**Cyrille Poughon**, who was elected to the Supervisory Board on May 16, 2014, is an employee of Manufacture Française des Pneumatiques Michelin, one of the Group's largest operating companies and its largest French subsidiary. Despite his independent mindset and conspicuous participation in Supervisory Board meetings, the Board considered that Mr. Poughon could not be qualified as independent because of the implicit requirement for him, as a Michelin employee, to demonstrate loyalty to the Group.

Lastly, when **Michel Rollier**, Chairman of Plateforme de la Filière Automobile and Chairman of the Board of Directors of Siparex Associés, was elected at the Annual Shareholders Meeting of May 17, 2013, the Supervisory Board decided that he did not qualify as an independent member because he had left the Michelin Group less than five years earlier.

The Compensation and Appointments Committee considered that he still did not qualify as an independent member of the Supervisory Board because less than five years had elapsed since he resigned from his position as an executive officer of Michelin. Michel Rollier, who is a member of the Committee, did not take part in the discussion of his situation and was not involved in determining the Committee's conclusions.

Having reviewed the Compensation and Appointments Committee's analyses, at its meeting on February 11, 2016, the Supervisory Board decided that all of its members with the exception of Michel Rollier and Cyrille Poughon are independent, based on the criteria in the AFEP/MEDEF Code.

Seven of the nine members are therefore independent, representing just under 78%, which is a significantly higher proportion than that recommended in the AFEP/MEDEF Code, which states that half of the Board members of widely-held corporations without controlling shareholders should be independent.

### / Assessment of the Supervisory Board's practices

At its meeting on February 11, 2016, 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 that he had carried out jointly with the Chairman of the Compensation and Appointments Committee. This self-assessment consisted in interviewing each Board member individually based on a questionnaire that they had received beforehand.

The self-assessment concerned the following matters:

- ▶ The Board's role and organization.
- ▶ The choice of topics addressed and the time allocated to them.
- ▶ Governance.
- ▶ The Board's overall qualifications.
- ▶ The quality and quantity of information received.
- ▶ Performance management.
- ▶ The Committees' practices.

The self-assessment confirmed the Board members' high level of satisfaction, which was at a level similar to that of previous years.

In particular, Board members appreciated the quality of the presentations made, and the fruitful discussions had with Group management.

These discussions are characterized by a high level of openness and transparency.

They allow the Board members to come to a good understanding of the Group's strategy and how it is implemented.

The self-assessment also showed the Board's high level of satisfaction with the practices of the two committees.

Board members also highlighted the importance everyone attached to regularly reviewing management succession plans.

In conclusion, all of the Board's members considered that the Board operates in a manner that enables it to fully perform its duties.

As planned in early 2015, at the Supervisory Board's request, the Compensation and Appointments Committee will select an external consultant to assess the work of the Board and that of its individual members in 2016.

Due to the changes in the Board's membership in 2015, the Committee decided it would be more efficient to postpone the assessment until 2016.

The Supervisory Board will discuss the consultant's findings, take any necessary action and report to shareholders once the exercise has been completed.

#### 4.5.1 c) Implementation of the "comply or explain" rule

The list of points covered in this section is unchanged from 2014.

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 (S.C.A.), which was adopted at the time of its formation in 1863, except as explained below:

Code recommendation	Explanation
Material transactions outside the scope of the firm's stated strategy should be subject to prior approval by the Board of Directors (Recommendation 4)	<p>This recommendation is not directly applicable because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company.</p> <p>However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its bylaws <sup>(1)</sup> as well as the Supervisory Board's internal rules.</p> <p>Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made.</p> <p>This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate. This approach complies with the spirit and aims of the recommendation.</p>
The financial statements should be reviewed by the Audit Committee no less than two days before their review by the Board (Recommendation 16.1)	<p>In view of the distance they may have to travel to attend meetings and the other business commitments not only of the Supervisory Board and Audit Committee members but also of the members of Executive Management, the Audit Committee conducts its formal review of the financial statements half a day before they are examined by the Supervisory Board. However, to enable the Committee to perform its work as efficiently as possible:</p> <ul style="list-style-type: none"> <li>▶ The documents concerning the financial statements are made available to the Committee members several days in advance.</li> <li>▶ The Chairman of the Audit Committee meets with the Group's Chief Financial Officer in advance to review the financial statements and prepare the Committee's meeting.</li> </ul> <p>This process ensures that:</p> <ul style="list-style-type: none"> <li>▶ The discussion of the financial statements by the Committee and the Board is both efficient and of a high quality; and</li> <li>▶ Complies with the spirit and aims of the recommendation.</li> </ul>
It is advised that an employee director be a member of the Compensation Committee (Recommendation 18.1)	<p>The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting. However, the Compensation and Appointments Committee does not include any member representing employees.</p> <p>In view of the limited number of Committee members and their current situation in relation to the AFEP/MEDEF Code's independence rules, the inclusion on the Committee of the Supervisory Board member representing employees would have the effect of reducing the proportion of independent members to just half of the members, versus the majority required by the AFEP/MEDEF Code.</p>

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

#### 4.5.1 d) Report on the Audit Committee's work in 2015

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

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

The Committee met four times in 2015 – on February 4, April 23, July 22 and November 30 – with a 100% attendance rate.

During its meetings, the Audit Committee made inquiries of:

- ▶ The Chief Financial Officer.
- ▶ The Corporate Financing Director.
- ▶ The Accounting Director.
- ▶ The Internal Control and Quality Director.
- ▶ The Budget Controller.

- ▶ The Chief Procurement Officer.
- ▶ The Executive Vice President, Quality, Audit and Risk Management.
- ▶ The Tax Affairs Director.
- ▶ Both Statutory Auditors.

The main purpose of the meetings held in 2015 was to review:

- ▶ The audited separate and consolidated financial statements for the year ended December 31, 2014. In particular, the Audit Committee analyzed the accounting treatment of acquisitions, 2014 consolidated key figures and significant events of the year, material changes in consolidated income statement and balance sheet items, the main components of consolidated free cash flow, and the main items in the separate financial statements of the Company. It noted that the audit of the accounts had gone smoothly. The Statutory Auditors reported to the Committee on their audit behind closed doors, without any members of management being present. They issued unqualified opinions on both the separate and consolidated financial statements for 2014, and did not make any observations in their reports.

- ▶ The interim separate and consolidated financial statements for the six months ended June 30, 2015. The Committee mainly reviewed the absence of changes in accounting methods and in the scope of consolidation, restructuring cost estimates, free cash flow and working capital, and changes in raw materials prices. The Statutory Auditors reported to the Committee on their limited review. Their limited review report did not contain any qualifications or observations. The Auditors also presented their audit plan for 2015.
- ▶ The management of raw materials price risk. The Budget Controller presented the methods used to manage this risk.
- ▶ The Group purchasing process. The Chief Procurement Officer presented the challenges and risks associated with the procurement process.
- ▶ The expiry of the Statutory Auditors' appointment. During several of its meetings and based on Finance Department analyses and presentations, the Audit Committee examined the question of re-appointing the auditors or appointing new auditors at the 2016 Annual Shareholders Meeting. The Committee made a recommendation on the choice of auditors, which will be put to the Annual Shareholders Meeting on May 13, 2016. The auditor selection process is described in the Supervisory Board's report on the proposed resolutions (see section 10.2.1 of the 2015 Registration Document).
- ▶ Internal control. The Internal Control Director presented the action plans implemented in 2014 and the objectives set for 2015.
- ▶ Risk management, the internal audit program and the Quality function. The Executive Vice President, Quality, Audit and Risk Management presented the risk map, detailing the actions that had been taken with regard to several material risks, the Internal Audit Department's organization and ongoing initiatives, and changes to the Quality function.
- ▶ Financial risk management. The Corporate Financing Director described the various financial risk management processes and the main challenges associated with each of these risks.
- ▶ The capital expenditure process and profitability analysis. The Committee was given a presentation describing how these tasks were organized as well as ongoing improvement initiatives.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 4, April 23 and July 23, 2015 and February 11, 2016.

#### 4.5.1 e) Report on the Compensation and Appointments Committee's work in 2015

The Committee met four times in 2015 – on January 26, February 11, April 17 and November 20 – with a 100% attendance rate.

The Committee's work mainly consisted in reviewing the following issues.

#### / Review of the Chief Executive Officer's compensation

In early 2015, the Committee analyzed and submitted to the Board, its conclusions about the achievement rates for the performance conditions used to determine the variable compensation due or awarded by the Company to the Chief Executive Officer for 2014, so that the Board could submit its own conclusions to the Non-Managing General Partner (SAGES) for approval.

This compensation was presented at the Annual Shareholders Meeting of May 22, 2015 and was approved by a majority of 95.72% of the votes cast (6<sup>th</sup> resolution).

The Compensation and Appointments Committee also proposed the components of the Chief Executive Officer's 2015 variable compensation for approval by the Non-Managing General Partner (SAGES).

In early 2016, the Committee analyzed the various components of the Chief Executive Officer's compensation and noted the achievement rates for the applicable performance criteria.

With the agreement of the Non-Managing General Partner, the Board prepared and recommended the components to be submitted to the Annual Shareholders Meeting of May 13, 2016 ("say on pay" advisory vote on the compensation due or awarded to the Chief Executive Officer for 2015, 6<sup>th</sup> resolution) <sup>(1)</sup>.

#### / Review of Supervisory Board members' independence and any conflicts of interest

The Committee conducted a large-scale review of the Supervisory Board members' independence, by examining in particular whether there were any business relationships between the members and Michelin that could be qualified as material <sup>(2)</sup>.

#### / Recommendations concerning the election/re-election of Supervisory Board members at the Annual Shareholders Meetings of May 22, 2015 and May 13, 2016

At the Supervisory Board's request, the Committee reviewed the proposed elections, re-elections, appointments and re-appointments of Board members and Statutory Auditors.

A detailed description of the Committee's work and its recommendations to the Board is provided in the report of the Chairman of the Supervisory Board (section 4.5.1 b)) and the Supervisory Board's report on the resolutions to be presented at the 2016 Annual Shareholders Meeting (section 10.2.3 of the 2015 Registration Document).

#### / Other business

The Committee also reviewed:

- ▶ Changes in the membership of the Group Executive Committee.
- ▶ Executive management appointments policy.
- ▶ Bonus and performance share policies.
- ▶ The Supervisory Board's self-assessment (described in detail in section 4.5.1.b) of the 2015 Registration Document).

(1) See section 4.3.3 for details.

(2) See the detailed description in section 4.5.1 b).

## 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) of the 2015 Registration Document and in the 2015 Shareholders Guide, which may be downloaded from the website at [www.michelin.com](http://www.michelin.com) (in the section entitled "Finance/Individual shareholders/Documents").

## 4.5.3 MICHELIN GROUP INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

In compliance with article L. 225-68 of the French Commercial Code, the Chairman of the Supervisory Board has prepared a report describing the internal control and risk management procedures defined and implemented by the Company.

It reflects information compiled and contributed by several Corporate Departments, including Finance, Legal, Personnel, Quality and Audit and Risks. After being reviewed and validated by the Chief Executive Officer, the entire report was submitted to the Statutory Auditors for discussion.

It was also examined by the Audit Committee and then reviewed and approved by the Supervisory Board on February 11, 2016, in accordance with the French Law of July 3, 2008.

### Risk management and internal control processes

#### / Reference framework

The Group has defined its risk management and internal control guidelines and structured the related processes in line with the Reference Framework published by France's *Autorité des Marchés Financiers* (AMF) in January 2007 and reaffirmed on July 22, 2010. In compliance with AMF Recommendation of November 5, 2013, this report presents the required disclosures according to the template defined in the Reference Framework.

The risk management and internal control processes are carefully aligned and designed to meet closely related objectives, thereby enabling the Company to seamlessly control all of its business activities.

#### / Risk management and internal control objectives

##### **Objectives of the risk management process**

The risk management process helps to:

- ▶ create and preserve the Group's value, assets and reputation;
- ▶ secure the Group's decision-making and business processes to meet its objectives;
- ▶ promote consistency between the Group's actions and its values;
- ▶ encourage employees to embrace a shared vision of the main risks.

The risk management process is designed to identify, analyze and manage the main risks confronting the Group and its subsidiaries.

The internal control process ensures that the risk management process has been deployed and is effectively managing these risks.

In this way, risk management encompasses a holistic set of resources, practices, procedures and actions aligned with the characteristics of each business, which together help to contain risks at a tolerable level.

This iterative, integrated and optimized process comprises four key phases:

**1. Identifying risks.** A prerequisite for successful risk management, this phase involves identifying any internal and external events that could have an adverse effect on Michelin's objectives, earnings or reputation. The information is summarized in the form of risk maps at the corporate level and at the level of each unit, including each Geographic Zone and Product Line. The risk maps are updated annually according to a formal process.

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

**2. Setting risk management priorities.** This phase consists of making informed decisions about the risks to be addressed on a priority basis taking into account the resources that will have to be deployed, in order to implement the risk management strategy.

In this way, risk management is seamlessly integrated into the Group's strategic management process. The strategic plan involves a number of key milestones, including (i) a diagnostic review performed before the strategic plan is formally documented, (ii) the plan's operational rollout to the different units, and (iii) the preparation of action plans by the units to help them meet their set objectives. Risk management issues are addressed at each of these milestones, for example, by using the risk map during the preliminary diagnostic phase, determining the steps to be taken by the units to mitigate their operational risks and implementing the appropriate risk management plans.

**3. Managing risks.** This phase consists of deploying the necessary resources to manage the risks for which the decision has been made to implement an action plan. These include prevention programs, to keep the risk from occurring, and protective measures to mitigate any adverse effects if it does. Some risks may be transferred to insurance companies, while a crisis management process has been defined to respond effectively in the event that the risk leads to a sensitive or critical situation.

**4. Tracking and controlling risks.** The goal of this phase is to ensure that any residual exposure remaining after implementing the risk management process is consistent with the Group's risk tolerance. In particular, this entails monitoring the action plans deployed as part of the risk management phase, tracking indicators that measure changes in risks, and using control systems and, where necessary, alert systems.



### **Objectives of the internal control process**

The internal control process is specifically designed to ensure:

- ▶ application of the instructions and guidelines issued by the Chief Executive Officer and the Executive Committee;
- ▶ compliance with laws and regulations;
- ▶ the proper functioning of internal processes, particularly those relating to the protection of corporate assets;
- ▶ the reliability of financial information.

It comprises a set of resources, procedures, practices and actions aligned with the characteristics of the Group's businesses, which:

- ▶ contributes to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources;
- ▶ enables it to assess all of its material operational, financial and compliance risks appropriately.

In general, the risk management process has been designed to encourage informed, shared risk-taking in accordance with the Group's values of responsibility, integrity and ethical behavior.

### **/ Scope of risk management and internal control**

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

In 2015, the system covered substantially all of the Group's operations, including all of the Geographic Zones and business units (manufacturing, sales and dealership networks).

Risk management procedures apply to all strategic, operating, reputational and compliance risks. In addition to the close ties maintained between corporate strategy and risk analysis, risk management is factored into the strategic management process on both:

- ▶ a multi-year basis, in the five-year business 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 manufacturing 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, which include a list of the major consolidated units.

### **/ Coordination of risk management with internal control**

Coordinating risk management with internal control within a holistic risk management ecosystem is a constant concern for every process stakeholder. The synergies and complementarities are reviewed annually in a commitment to continuously enhancing the effectiveness of the measures undertaken by all of the participating units.

For example:

- ▶ The risk management process is designed to identify and analyze the main risks. These risks are then managed by deploying action plans, which can call for adjustments in the organization or in project management procedures, as well as for the introduction of control mechanisms. The controls form part of the internal control process, and may be revised to reflect the findings of the risk mapping exercises.
- ▶ The internal control process relies on the risk management process to identify the main risks to be addressed.
- ▶ The audit plan is prepared by using the risk map to determine the risks to be selected for the purpose of assessing the quality of the risk management process and gauging the effectiveness of the internal control procedures.

### **/ Limitations**

However, a risk management and internal control process can only provide reasonable, but never absolute, assurance that all of the Group's risks are entirely under control and that its objectives will be met. The probability of meeting these objectives is subject to limitations inherent in any internal control system, which stem from the judgments underlying a given decision, the need to weigh the opportunities against the cost of risk management measures before controls are introduced, along with the various problems caused by human failure and error.

In alignment with the objectives presented above, the Group's risk management and internal control process is based on the following foundations:

- ▶ a sustainable, optimized organization;
- ▶ a comprehensive, holistic risk management process;
- ▶ internal control objectives pursued by the internal control process;
- ▶ ongoing management of the entire system through action plans designed to drive continuous improvement.

### **Organization of the risk management and internal control processes**

Coordinating the two processes depends on the control ecosystem - comprising in particular the Group's unique risk and control culture and its ethical values - which serves as their shared foundation.

#### **/ Organization**

The Group is organized around Product Lines, each of which is dedicated to a specific business and has its own marketing, development, production and sales resources. It is also supported by two dealership networks, Euromaster in Europe and Tire Centers, Inc. (TCI) in North America.

The Product Lines are backed by Corporate Departments that are responsible for support functions such as Purchasing, Legal Affairs, Personnel, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around seven regions (Geographic Zones) - Europe, Eastern Europe, North America, South America, China, East Asia and Australia, Africa-India-Middle East.

### / Delegations of authority

The role, responsibilities and organization of each of these units have been defined by the Group, along with their contribution to strategic decisions, their performance metrics and their relationship with the other units.

In addition, formal criteria and procedures have been defined covering the appointment of corporate officers of Group subsidiaries and the renewal of their terms of office, as well as the conditions applicable for exercising and delegating their authority.

### / Corporate values

The Group places great importance on responsibility, integrity and ethical conduct. These values are presented in the Michelin Performance and Responsibility Charter, which is widely circulated both within and outside the Group. It describes how the Group endeavors to put into practice its key values of respect for customers, shareholders, people, the environment and facts.

The Michelin Performance and Responsibility Charter is supplemented by the Code of Ethics, which was issued in October 2010 and is regularly updated. The Code of Ethics defines the standards of 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 2015, the Group and regional Ethics and Compliance Committees met regularly to ensure the sustained roll-out of the Code of Ethics, identify any possible ethics violations and take any appropriate corrective measures. Ethics hotlines have been opened in almost every host country, providing an additional channel for employees to report potential ethics violations. During the year, audits and inspections were also performed concerning various ethics issues.

### / Corporate risk management and internal control standards and procedures

An Internal Governance Manual was published in July 2010 to help employees respond proactively to support tighter management of operations.

In particular, the Manual describes:

- ▶ the units' roles and responsibilities;
- ▶ their planned operating procedures and governance structures;
- ▶ the 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 the Performance and Responsibility approach.

### / Risk management and internal control stakeholders

To make it easier to understand what the various risk management and internal control stakeholders do, they are presented below according to three lines of responsibility.

#### **Governance bodies**

The three lines of responsibility are supervised by the Group's decision-making bodies, which play a major role in governing these systems.

Risk management is therefore governed at several levels of the organization:

**1. The Audit Committee** is made up of three Supervisory Board members who represent the shareholders. It meets several times a year to track the effectiveness of risk management systems in compliance with the governmental order of December 8, 2008 transposing into French law the 8th EU Company Law Directive. The Group ensures that all of the Committee's comments concerning this issue are taken into account. The Audit Committee's primary responsibilities are described on page 98.

**2. The Chief Executive Officer and the Group Executive Committee** meet regularly to oversee the risk management process as part of their management duties. In this role, they approve the Group risk map, define risk management policies and determine priorities in this regard, make decisions concerning resource allocation and verify that the action plans for priority risks are being implemented according to plan.

**3. Unit and regional Risk Committees** are being gradually set up. Once they are in place, they meet two to three times a year to track the major risks within their remit.

#### **First line of responsibility: management, employees and operating unit executives**

Every employee helps to enhance the internal control process through his or her skills and expertise. In addition, everyone is expected to deploy the process and track its proper application. Also involved are the Geographic Zone and Company managers, as well as all of the leading Business Process Owners.

The operating units (Product Lines, Tactical Operational Units, Geographic Zones) manage risks on a daily basis.

In particular, they are responsible for identifying and managing their unit's risks, in accordance with the guidelines and recommendations defined by the support units. They implement the necessary risk management procedures and resources, covering prevention, protection and business continuity. They rely on their internal control process to manage their operational risks. Their responsibility encompasses:

- ▶ risk-prevention measures;
- ▶ measures to protect people, equipment and other assets in order to mitigate losses or injury in the event of risk occurrence;
- ▶ plans to ensure continuity of operations in the event of a major incident.

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

Strict procedures are in place for receiving, analyzing and responding to customer complaints concerning product quality.

#### **Second line of responsibility: the support units**

The support units (Corporate Departments 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 Quality, Audit and Risk Management Department, who support them at every stage in the process.

For example, Internal Control Departments have been set up in the Corporate Finance Department, the Geographic Zones and business units. At the corporate level, the Internal Control Department prepares the internal control manuals describing the main risks in each business process or cycle, the corresponding control objectives, and the control activities and related tests aimed at meeting the objective and therefore mitigating the identified risk. These manuals are updated every year to reflect, in particular, best process execution practices and changes in the applicable standards and regulations. They are implemented operationally at various levels of the organization. The Group's risk management processes form part of the Michelin Quality System, which sets out procedures and instructions, allocates roles and responsibilities and defines the relevant methods and controls.

As part of this system, audits are also performed to ensure compliance with Group quality standards, which are largely based on the applicable international standards. In addition, a number of certifications have been earned from independent organizations.

Lastly, the system also provides for regular management reviews to assess the effectiveness and efficiency of the entire process and to pinpoint areas for improvement.

#### **Third line of responsibility: the Internal Audit Department**

The Group Quality, Audit and Risk Management Department reports directly to the Chief Executive Officer and is totally independent from the operating units. It comprises a corporate-level team in charge of auditing Group operations worldwide and local teams in North and South America. It regularly assesses internal control procedures and ensures that the risks in the 13 risk families tracked by the Group are properly managed.

The Department's scope of reference covers all of the Group's processes and entities.

It leads the overall risk management process, defining the methodology, organizing its deployment and fostering a risk-aware culture within the Group. It ensures that the most significant risks are effectively controlled by the units concerned, and tracks progress on all of the action plans related to these priority risks. It also verifies the quality of risk management by performing audits.

Moreover, it submits risk management agenda items at Group Executive Committee meetings, during which the most significant risks identified in the risk map are reviewed and a certain number are tracked.

In addition, the Quality, Audit and Risk Management Department regularly assesses the procedures applied to manage risks.

This may involve analyzing a risk in depth, so as to prepare recommendations enabling the Group to attenuate its exposure.

Alternatively, it may involve verifying that the recommended actions are being properly implemented and measuring the ensuing attenuation. To perform these assignments, the Group Quality, Audit and Risk Management Department has developed and deployed a process to verify that the priority risk management action plans are capable of mitigating the related risk (coverage, appropriateness, feasibility, management procedures). It has also defined risk management indicators, which have been deployed across the Group.

Periodic summaries of internal audit findings and the implementation of the recommendations are presented to the various line managers, the Chief Executive Officer and the Audit Committee.

#### **Other outside stakeholders**

Michelin also leverages outside expertise that helps to drive continuous improvement in its risk management and internal control process.

Among these sources of expertise are the statutory and contractual auditors. Based on the observations made in the course of their audit work, these auditors submit internal control recommendations to accounting and finance managers, as well as to host country-based internal auditors, who are tasked with implementing them. Their recommendations are also reported to the corporate internal control teams and internal auditors for consolidation and communication to Group management.

In addition, the work performed by a variety of independent certification organizations is also helping to strengthen the current process.

#### **/ Process implementation**

Corporate objectives are defined by the Chief Executive Officer both for financial performance and for areas in which Michelin is committed to achieving a particular level of excellence, such as people management, quality, innovation, working conditions and the environment.

These general objectives, which are updated and communicated every year to the various units, represent a corporate strategic roadmap that is subsequently translated into a five-year strategic vision and annual action plans by all of the units described above. These plans cover both operational aspects and improvement targets aimed at enhancing performance and service quality.

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

Operational risk assessment forms an integral part of the planning process during which critical success factors are determined and a sensitivity analysis is performed on the main assumptions underlying the objectives. This process also specifically addresses the related strategic risks.

In addition to strategic risks, Michelin is committed to effectively managing its operational risks, which have been classified into 13 separate families:

- ▶ ethical risk;
- ▶ the health and safety of people;
- ▶ the environment;
- ▶ the safety and performance of products and services;
- ▶ accounting and finance;
- ▶ business interruption;
- ▶ continuity of supply;
- ▶ protection of property;
- ▶ knowledge retention;
- ▶ employee relations and personnel management;
- ▶ legal and tax;
- ▶ information systems and technology;
- ▶ project management.

### **Application of risk management and internal control objectives related to the preparation of accounting and financial information**

Among the various objectives of the risk management and internal control system, this section focuses on the control activities related to the process of preparing accounting and financial information.

#### **/ Preparation and processing of accounting and financial information**

The Chief Executive Officer is responsible for disclosing reliable financial and accounting information. The accounting, consolidation, budget control and financial communication departments all contribute to the process of producing this information.

Within the organization, accounting teams generally report to the heads of the Geographic Zones, while budget controllers report to the heads of the Product Lines.

Consolidated financial statements are prepared monthly according to the same overall process as for the annual financial statements.

The internal control procedures required to produce reliable accounting information are defined at Group level and implemented locally. These include a physical inventory of both fixed assets and stocks, segregation of tasks and reconciliation with independent sources of information.

A dedicated team is in charge of aligning accounting policies throughout the Group, monitoring changes in applicable financial reporting standards, updating accounting manuals for all the subsidiaries and dealing with any issues they may raise.

Statutory and management accounting data are reported simultaneously by the subsidiaries and programmed controls verify that the main indicators – such as revenue and operating income – are consistent between the two sets of data. Statutory accounting data received from the subsidiaries are checked for consistency and then consolidated to produce the Group's financial statements.

Monthly changes in consolidated data are systematically analyzed. Differences between forecast and actual management accounting data are reviewed in detail every month by the Group Executive Committee and the Product Lines.

At every interim and annual closing, the Geographic Zone Directors certify in writing that, to the best of their knowledge, the separate accounts submitted by the companies within their region provide a true and fair view of the results of their operations. This statement specifically covers a number of issues that could significantly affect the financial statements in the event of non-compliance (e.g., applicable laws and regulations and contractual provisions) or occurrence (e.g., disputes or fraud).

The Investor Relations Department, which forms an integral part of the Corporate Finance Department, is responsible for preparing and disclosing all of the Group's financial information to the investing community. Financial information is disclosed in three main forms:

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

The design and preparation of the Registration Document and the Annual and Sustainable Development Report are coordinated by the Investor Relations Department and approved by the Chief Executive Officer, with significant input from the Group Legal Affairs Department and the Michelin Performance and Responsibility teams. Both of these documents contain extensive, high-quality information drawn from contributions by a range of specialists in the Group's main fields of operations.

Financial press releases are written by the Chief Investor Relations Officer; those that announce earnings are also reviewed by the Supervisory Board.

Presentations to analysts and investors are prepared by the Investor Relations Department under the supervision of the Corporate Finance Department.

#### **/ Management of accounting and finance internal control**

Group managers can detect any weaknesses in their internal control processes through the systems used to manage their operations. In addition, internal reviews are performed in the units by their specialized experts.

Information generated by the management systems is analyzed by the Budget Control teams and reported to the managers concerned for inclusion in the scorecards used to manage their operations. A management scorecard is also prepared for the Group Executive Committee, enabling it to track the Group's business month by month. On a quarterly basis, similar reports are presented in an appropriate format to the Supervisory Board. The Corporate Finance Department is responsible for ensuring the relevance and consistency of this management data.

The Group IT Department is in charge of overseeing IT policies and the corresponding resources.

The internal control procedures contained in the Group's Quality System include rules relating to data access and protection, the development of applications, and structuring and segregating development, process engineering and production tasks.

**/ Recurring assessments of the accounting and financial information preparation process**

**Self-assessments**

To ensure that the work carried out to comply with France's Financial Security Act delivers lasting improvements, the Accounting and Financial Internal Control Department reports to the Corporate Finance Department. The Department is responsible for managing internal control processes and for overseeing work on financial internal control with a view to providing reasonable assurance that the Group's financial information is reliable and that its assets are safeguarded.

It defines internal control standards, coordinates and sets up internal control information systems and day-to-day management procedures.

It also assists the network of internal controllers in the host regions and the main business lines in implementing these systems and procedures.

Its role includes:

- ▶ standardizing internal control best practices and training regional correspondents in their use;
- ▶ regularly updating key risks by process;
- ▶ defining major control issues in conjunction with the owners of the processes concerned.
- ▶ drafting control guidelines and manuals and preparing internal control tests;
- ▶ overseeing the regional managers and managers of operational areas concerned;
- ▶ structuring the internal control network;
- ▶ interfacing with the other stakeholders in the relevant processes, such as process owners, risk managers and internal and external auditors;
- ▶ advising on the implementation of transformation projects and programs.

Since 2009, the Group has developed and deployed a worldwide application for monitoring the entire internal control process, which leverages 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 16 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;
- ▶ personnel 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 take longer to resolve and require more resources.

**Findings of the Financial Internal Control assessment**

The Geographic Zone Directors and the Process Owners are responsible for their internal control compliance, with accountability supported by annual objectives.

The findings of the Financial Internal Control assessment and the implementation of the action plans are tracked by line management concerned and consolidated at Group level.

They are periodically presented to the Corporate Finance Department's Finance Committee, to the managers in charge of the relevant processes and operational areas, and to the Geographic Zones concerned.

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

**Actions undertaken to strengthen the risk management and internal control process**

**/ Main achievements in 2015**

In 2015, the risk map was updated to take into account several changes. First, certain risk assessments were revised based on the results of audits and action plans carried out during the year and in response to certain changes in the risk environment. In addition, the results of the project launched in 2014 to identify new and emerging risks that could pose a threat to the Group in the long term were incorporated into the risk map. However, no new risk families were identified during the update.

The Chief Executive Officer and the Group Executive Committee met seven times in 2015 to oversee the risk management process as part of their management duties. During these meetings, they verified that the action plans addressing the priority risks identified during the risk mapping exercise were progressing as planned. They observed that implementation of the various risk prevention, protection and control measures had reduced the Group's exposure to these priority risks. They also ensured that their investment decisions were aligned with the Group's risk policy. Lastly, they reviewed and approved certain principles underlying the risk management process, such as the crisis management process and approval of its deployment throughout the Group.

Achievements in 2015 included the introduction of an advanced training course for Risk Managers, publication of a manual describing most of the tools and methods available to everyone involved in the risk management process, and initial deployment of the crisis management process in the Geographic Zones (including training and crisis simulation exercises).

Fraud awareness campaigns were conducted among all employee groups concerned in 2015, to support implementation of stricter measures to combat this risk.

At the end of 2014, the Group Quality, Audit and Risk Management Department was given responsibility for managing the entire internal control process. In 2015, this new department focused on aligning the various internal control systems and rolling out the best internal control practices identified for the management of accounting and financial risks to the other operational risk families. To this end, the Corporate departments prepared internal control manuals covering the Group's main risk exposures. At the end of 2015, the Group Executive Committee approved the principles governing deployment of internal control procedures across all of the Group's business processes, as well as the objectives set out in the long-term improvement plan for the deployment of an efficient system.

### **/ Outlook for 2016 as part of the continuous improvement process**

In 2016, the new crisis management system will be deployed in all of the Geographic Zones, establishing a more efficient and consistent process for managing crises throughout the Group. Risk Manager training will be expanded with the introduction of additional modules designed to make the members of the risk management network more efficient and effective.

Initiatives to reduce fraud risk will be pursued. In 2016, they will include measures to tighten up information systems access management, particularly through more rigorous segregation of tasks, and deployment of applications to perform detailed analyses of data and transactions recorded in the ERP systems.

During the year, the internal control manuals written in 2015 and covering risk families other than accounting and financial risks will be deployed and implemented across the Group. To this end, a change management plan will be implemented under the leadership of the Group Quality, Audit and Risk Management Department, supported by an internal communication plan and appropriate tools to promote internal stakeholder buy-in. One of the aims is to have a single internal control manual by 2017, covering all key control activities for the Group's main business processes.

At the same time, the internal control information system will be replaced by a more efficient system that will ultimately cover all the entities concerned. The new system will help to more deeply embed the internal control management model (control libraries, organizations, directories, self-assessment exercises, testing exercises and action plans to address instances of non-compliance). All people involved in internal control will find it easier to access these resources and the data consolidation process will go faster.