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

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

4.5.1 a) Members – Board gender equality

In accordance with the applicable law and the Company's bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders Meeting for a term of four years (1). All Supervisory Board members must be shareholders.

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

The Supervisory Board currently has nine members, whose names are listed below along with details of their current position. 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,** Director of Legrand (2) and Vallourec (2).
- **Pat Cox,** President of Fondation Jean Monnet pour l'Europe, European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, former President of the European Parliament and former member of the Irish Parliament.
- **Barbara Dalibard,** Chief Executive Officer of SITA (3).
- **Anne-Sophie de La Bigne,** Vice-President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group (2).
- **Jean-Pierre Duprieu,** Director of Korian (2), former Executive Vice-President of the Air Liquide group (2).
- **Aruna Jayanthi,** Chief Executive Officer of Capgemini India.
- **Monique Leroux,** President of the International Cooperative Alliance, former Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins.
- **Cyrille Poughon,** Workplace Quality of Life advisor at Manufacture Française des Pneumatiques Michelin.
- **Michel Rollier,** Chairman of the Supervisory Board, Chairman of *Plateforme de la Filière Automobile* and Member of the AFEP/MEDEF High Committee on Corporate Governance.

In summary, the Supervisory Board's diversity in terms of experience and backgrounds is illustrated by the fact that, in 2016:

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

4.5.1 b) Report on the Supervisory Board's activities during 2016

/ General activities

At its meetings on February 11 and July 22 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2015 and (ii) the interim financial statements for the six months ended June 30, 2016. 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.
- The planning process and budget assumptions.
- The Audit Committee's report.
- Capital allocation policy between the Company and shareholders.
- Preparation of communications for the Investor Day organized on June 6, 2016.
- Expiry of the Statutory Auditors' appointment.
- Internal control and risk management, and the Chairman's report on these topics and on Supervisory Board practices.
- The strategic plan for the Group and the plans for each major business unit.

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

(2) *Listed company.*

(3) *Since July 1, 2016.*

- Competitor analysis.
- Proposed acquisitions.
- Deployment of digital activities.
- Project to streamline the Group's organization and business processes.
- Industrial restructuring projects.
- Report of the Compensation and Appointments Committee.
- Membership of the Supervisory Board and the Committees of the Board, including three candidates for election to the Board.
- Annual assessment of Supervisory Board members' independence.
- Annual self-assessment of the Board's work and external review.
- Chief Executive Officer succession plan.
- Compensation policies.
- Preparation of the Annual Shareholders Meeting.

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

In addition, the independent members of the Board held a closed session.

The Supervisory Board continued the process initiated in 2015 to enable 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.

During 2016, Cyrille Poughon, the member representing employees, visited Group facilities in Brazil, the United States, Thailand and Europe (Italy and Hungary). He subsequently presented to the Supervisory Board a summary of the challenges and opportunities identified during his conversations with the local team in each country, along with his observations.

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 six times in 2016 – on February 11, April 21, May 19/20, July 22, October 4 and December 1 – with an average attendance rate (including meetings of Board Committees) of 97.7%.

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

	Participation at meetings held in 2016		
Supervisory Board members	**Supervisory Board (6 meetings)**	**Audit Committee (4 meetings)**	**Compensation and Appointments Committee (4 meetings)**
Olivier Bazil	6/6	4/4	N/A
Pat Cox	6/6	N/A	3/4
Barbara Dalibard	6/6	N/A	4/4
Anne-Sophie de La Bigne	6/6	4/4	N/A
Jean-Pierre Duprieu	6/6	4/4	N/A
Aruna Jayanthi	6/6	N/A	N/A
Monique Leroux	5/6	N/A	N/A
Cyrille Poughon	6/6	N/A	N/A
Michel Rollier	6/6	N/A	4/4

N/A: Not applicable.

/ 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 2016, the two members who joined the Supervisory Board in 2015 participated in a special program to deepen their knowledge and understanding of the Group, particularly its manufacturing operations.

The Supervisory Board held one of its 2016 meetings at the recently opened Urbalad research, development and process engineering campus on the site of the Ladoux Technology Center in Clermont-Ferrand.

Board members spent half a day visiting the new campus and listening to a presentation by the Executive Vice President, Research and Development, of the Michelin innovation process and the main development projects at various stages of maturity.

In addition, a two-day seminar was organized for the Supervisory Board in China.

Half a day was devoted to a strategic review of the Group's investments, marketing and manufacturing projects and priorities in this country.

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/light truck and truck tires and semi-finished products, gaining valuable insight into manufacturing processes and the production shops' organization and procedures. They also had the opportunity to appreciate the plant's excellent quality and productivity performance.

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

/ Changes in the membership of the Supervisory Board and the Statutory Auditors in 2016

A major part of the Board's work in 2016 entailed preparing for the expiration of Supervisory Board members' terms of office and the Auditors' appointments.

The Compensation and Appointments Committee reviewed the proposed re-election of Anne-Sophie de La Bigne, Jean-Pierre Duprieu, ratification of the appointment to the Board of Monique Leroux. The Audit Committe reviewed the candidates for appointment as Statutory Auditors and Substitute Auditors.

The General Partners were not involved in the processes for the election of members of the Supervisory Board and the appointment of Statutory Auditors.

Re-election and ratification

Anne-Sophie de La Bigne and Jean-Pierre Duprieu have informed the other Supervisory Board members that they wish to stand for re-election.

In reviewing their proposed re-election, the Compensation and Appointments Committee took into account the main candidate assessment criteria, covering their skills, experience, independence and availability (i.e. that they do not hold too many other directorships) and the commitment to promoting Board diversity in terms of both culture and background.

When examining the individual situations of Anne-Sophie de La Bigne and Jean-Pierre Duprieu, the Board notably considered:

- The pros and cons of re-electing them.
- The skills and experience they bring to the Board.
- Their availability and involvement in the work of the Board and its Committees.
- Their independence and the absence of any conflicts of interest.
- Their contribution to the diversity of the Board in terms of gender balance and cultural backgrounds.

Anne-Sophie de La Bigne, Vice-President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus Group (1) has been a member of the Supervisory Board and its Audit Committee since 2013 and is considered by the Supervisory Board as being an independent member because:

- She does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- She is not currently and never has been an employee of Michelin or any of its subsidiaries.
- She has not been a member of the Supervisory Board for more than 12 years.
- She is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- She is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.
- She has not been an auditor of Michelin in any of the past five years.
- She is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.

The Board examined Ms. de La Bigne's candidature for re-election for a four-year term based on the above criteria, and particularly took into account:

- Her contribution to the Board's consideration of the Group's overall strategy and related decisions.
- Her familiarity with French and international industrial strategies.
- Her independent viewpoint as someone who comes from outside the tire business.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Anne-Sophie de La Bigne be re-elected for a further four-year term. Ms. de La Bigne did not take part in the Board's discussion or vote. She was re-elected at the Annual Shareholders Meeting of May 13, 2016.

Jean-Pierre Duprieu, Director of Korian and former Executive Vice-President (1) of the Air Liquide group (2), has been a member of the Supervisory Board and its Audit Committee since 2013 and is considered by the Supervisory Board as being an independent member because:

- He does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- He is not currently and never has been an employee of Michelin or any of its subsidiaries.
- He has not been a member of the Supervisory Board for more than 12 years.
- He is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- He has not been an auditor of Michelin in any of the past five years.
- He is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.
- He is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.

The Board examined Mr. Duprieu's candidature for re-election for a four-year term based on the above criteria, and particularly took into account:

- His contribution to the work of the Board and its Audit Committee.
- His availability and attendance rate at Board and Audit Committee meetings.
- His excellent understanding of the challenges facing the Group.
- His participation in Board discussions.
- His experience in the manufacturing sector.
- His familiarity with international markets, especially Asia.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Jean-Pierre Duprieu be re-elected for a further four-year term. Mr. Duprieu did not take part in the Board's discussion or vote. He was re-elected at the Annual Shareholders Meeting of May 13, 2016.

Monique Leroux, President of the International Cooperative Alliance, former Chair of the Board, President and Chief Executive Officer (2) of Mouvement des Caisses Desjardins, Canada's largest cooperative financial group (1), has been a member of the Supervisory Board since October 1, 2015 and is considered by the Supervisory Board as being an independent member because:

- She does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- She is not currently and never has been an employee of Michelin or any of its subsidiaries.

(1) Listed company.
(2) Until 2016.

- She has not been a member of the Supervisory Board for more than 12 years.
- She is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- She has not been an auditor of Michelin in any of the past five years.
- She is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.
- She is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.

Monique Leroux gives the Group the benefit of the experience she acquired in one of the largest North American financial institutions, leading the bank's dynamic growth while making it the world's fifth strongest financial institution.

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

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that shareholders ratify Monique Leroux's appointment to the Board for two years, corresponding to the remaining term of her predecessor, Laurence Parisot. Her appointment was ratified at the Annual Shareholders Meeting of May 13, 2016.

Re-appointment of the Statutory Auditors

- 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 Audit Committee noted that, following an extensive call for bids in 2009, the audit fees paid by Michelin were among the lowest of the CAC 40 companies.
- The quality of the work performed by the two audit firms, PricewaterhouseCoopers Audit and Deloitte & Associés, was considered satisfactory and the fees for services provided by their networks represented only a small part of their total fees.
- The Audit Committee considered that the continuous improvement approach that aims to better organize the work of the two firms and their interaction with the Company and its subsidiaries was preferable to calling into question the choices made in 2010.
- Based on the further improvements proposed by the two firms, the Audit Committee recommended that shareholders be asked to renew the appointments of PricewaterhouseCoopers Audit and Deloitte & Associés as Statutory Auditors, and of B.E.A.S. as substitute for Deloitte & Associés, and to appoint Jean-Baptiste Deschryver as substitute for PricewaterhouseCoopers Audit in place of Pierre Coll, at PricewaterhouseCoopers Audit's request, in all cases for a period of six years.
- These re-appointments were approved by the Annual Shareholders Meeting of May 13, 2016.

/ Preparing recommendations for re-electing Supervisory Board members and other resolutions to be presented at the 2017 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 2017 Annual Shareholders Meeting.

The Committee's procedures and recommendations are presented in the Supervisory Board's report on the resolutions to be submitted to the 2017 Annual Shareholders Meeting (see section 10.2.2.1. of the 2016 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 [(1)].

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.
- Checks that no Board member has received any variable compensation in cash or shares or any other performance-based compensation from the Company or the Group.

(1) 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.

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 executive 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 interest 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 (sales in relation to consolidated sales, purchase volumes, etc.) [1].

The Compensation and Appointments Committee conducted an independence review in 2016. Its conclusions were presented to the Supervisory Board which discussed and then adopted them. The review process can be summarized as follows:

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 sales figure was then compared to Michelin's consolidated sales for 2016.

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

The Committee also decided to proactively examine the situation of **Pat Cox,** in light of the new rules in the AFEP/MEDEF Code concerning the calculation of the time served on the Supervisory Board for the purpose of assessing members' independence. The Committee decided that, based on the above rules, Pat Cox will no longer qualify as independent as from May 20, 2017, corresponding to the date on which he will have served for 12 years on the Supervisory Board. Pat Cox, 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.

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.

Concerning **Michel Rollier,** Chairman of *Plateforme de la Filière Automobile,* the Compensation and Appointments Committee considered that he should continue to be qualified as a non-independent member of the Supervisory Board because less than five years have elapsed since he resigned from his position as an executive officer of Michelin. His situation will be re-examined when the five-year period has elapsed. 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 9, 2017, 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. These independent members represent just under 78% of total Supervisory Board members, 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

In addition to the exchanges of views that took place at several Supervisory Board meetings in 2016, the agenda for the meeting on February 9, 2017 included a formal discussion of the Board's practices.

As decided in 2015 and mentioned in the report on the Supervisory Board's activities during that year (see 2015 Registration Document, p.120), the Supervisory Board retained the services of a firm of consultants to assess its overall practices and the contributions of individual members.

(1) The Committee took into account the changes in the positions held by Barbara Dalibard, Monique Leroux and Jean-Pierre Duprieu, all of whom hold new positions in companies or organizations that do not conduct any material business relations with Michelin.

The assessment was carried out during the fourth quarter of 2016 using a tried and tested method, based on one-on-one interviews with Board members, the Board Secretary and the Chief Executive Officer supported by reviews of all relevant documents.

Concerning the Board's overall practices, the following points were examined:

- The information given to the Board.
- The Board's membership.
- The Board's areas of expertise and working methods.
- The Board's relations with Executive Management, shareholders and other stakeholders.
- The role of the Chairman of the Supervisory Board and the Chairs of the Board Committees.
- The role of the Chief Executive Officer.

The conclusions of this assessment of the Board's practices were presented by the consulting firm's representative to the Compensation and Appointments Committee and then to the Supervisory Board at its meeting on February 9, 2017.

Each Supervisory Board member also received feedback about his or her perceived personal contribution to the work of the Board.

The Board's responsiveness and performance are considered very satisfactory and its governance practices place Michelin among the best major listed groups, regardless of their legal form (public limited company or partnership limited by shares).

In particular, the Board efficiently addresses issues that are important for the Group's future.

The main areas for improvement concern:

- Inviting other members of the management team to participate in Supervisory Board presentations.
- Examining human resources-related issues in more detail.
- Organizing more regular closed sessions restricted to independent Board members, led by a member who could have special functions.

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

In accordance with Article L. 225-68 of the French Commercial Code and paragraph 25.1 of the AFEP/MEDEF Code and the corresponding implementation guidance, the Supervisory Board considers that it complies with the recommendations of the AFEP/MEDEF Code, as adapted to the Company's structure as a French partnership limited by shares (S.C.A.) that was adopted at the time of its formation in 1863, except as explained below [(1)]:

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 3.2)	This recommendation is not directly applicable because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company. However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its bylaws [(1)] as well as the Supervisory Board's internal rules. Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made. This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate. This approach complies with the spirit and aims of the recommendation.
Appointment to the Compensation Committee of a Director representing employees (Recommendation 17.1)	The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting. However, the Compensation and Appointments Committee does not include any member representing employees. In view of the limited number of Committee members and their current situation in relation to the AFEP/MEDEF Code's independence rules, the inclusion on the Committee of the Supervisory Board member representing employees would have the effect of reducing the proportion of independent members to just half of the members, versus the majority required by the AFEP/MEDEF Code.

(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 (...)".

(1) Due to amendments to the AFEP/MEDEF Code, the point concerning the Audit Committee's procedures has been removed from this table (see Organization of the Audit Committee's work, section 4.2.2 b) page 106.

4.5.1 d) Report on the Audit Committee's work in 2016

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 2016 – on February 10, April 20, July 21 and November 30 – with a 100% attendance rate.

During its meetings, the Audit Committee made inquiries of:

- The Chief Financial Officer.
- The Accounting Director.
- The Insurance Director.
- The Internal Control and Quality Director.
- The Budget Controller.
- The Investor Relations Director.
- The Executive Vice President, Corporate Development.
- The Executive Vice President, Quality, Audit and Risk Management.
- The Legal Affairs Director.
- The Chief Safety Officer.
- The Head of the OPE Business Process Management System.
- Both Statutory Auditors.

The main purpose of the meetings held in 2016 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2015. In particular, the Audit Committee analyzed the accounting treatment of acquisitions, employee benefits, 2015 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 2015, and their reports did not include any emphasis of matter.
- The interim consolidated financial statements for the six months ended June 30, 2016. The Committee mainly reviewed the changes in accounting methods and in the scope of consolidation, restructuring cost estimates, free cash flow and working capital. The Statutory Auditors reported to the Committee on their limited review of the interim financial statements for the six months ended June 30, 2016. Their limited review report did not contain any qualifications or emphasis of matter. The Auditors also presented their audit plan for 2016.
- The Group's financial communication process. The Investor Relations Director presented this process, the Group's policy concerning the guidance issued to the markets and the characteristics of Michelin shares.
- The Group's insurance policy. The Insurance Director presented the Group's insurance network, the structure of the insurance programs and the risk coverage policy.
- 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, and the Internal Audit Department's organization and ongoing initiatives.
- Ethical risk management. The Legal Affairs Director presented the Group's rules, organization, whistle-blowing procedures and internal control procedures, as well as a review of the situation regarding ethical risks.
- Safety risk management. The Chief Safety Officer presented the policies and measures adopted to protect employees and assets, as well as providing information about sensitive projects.
- Employee benefit obligations. The Chief Financial Officer presented the key factors in managing the risk exposures of employee benefit plan assets.
- M&A and new business integration process. The Executive Vice President, Corporate Development presented the core focus of the process.
- Review of the OPE Business Process Management System Program. The head of this program presented its objectives and current status, and also reviewed program spending compared to the budget.
- New European regulations governing statutory audits. The Accounting Director and Corporate Legal Director presented the new rules and their implications for the Audit Committee's practices and for relations between the Statutory Auditors, the Company and the Audit Committee.
- 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 was put to the Annual Shareholders Meeting on May 13, 2016.
- Internal control review. The Internal Control Director presented an overview of internal control processes, methods and results.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 11, April 21 and July 22, 2016, and February 9, 2017.

4.5.1 e) Report on the Compensation and Appointments Committee's work in 2016

The Committee met four times in 2016 – on January 29, April 21, July 19 and November 4 – with a 91.7% attendance rate.

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

/ Assessment of the Supervisory Board's practices

The Committee examined the assessment of the Supervisory Board's practices prepared by an independent firm of consultants (see detailed information about this assessment in section 4.5.1 b).

/ Review of the Chief Executive Officer's compensation

In early 2016, 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 2015, 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 13, 2016 and was approved by a majority of 97.39% of the votes cast (6th resolution).

The Compensation and Appointments Committee also proposed the components of the Chief Executive Officer's 2016 variable compensation for approval by the Non-Managing General Partner (SAGES).

In early 2017, 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 Supervisory Board prepared and recommended the components to be submitted to the Annual Shareholders Meeting of May 19, 2017 ("say-on-pay" advisory vote on the compensation due or awarded to the Chief Executive Officer (sole executive director) for 2016, 6th resolution) [(1)].

With the agreement of the General Partners, the Committee also confirmed the compensation policy applicable to the Chief Executive Officer, including the long-term incentive bonus policy as adapted in order to align the related performance criteria with the vesting criteria for employee performance share grants.

/ Review of the compensation of the Chairman of the Supervisory Board

Based on the increased total attendance fees approved by the Annual Shareholders Meeting of May 13, 2016, the Supervisory Board examined the amount awarded to its Chairman and prepared and recommended the components of his compensation to be submitted to the Annual Shareholders Meeting of May 19, 2017 ("say-on-pay" advisory vote on the compensation due or awarded to the Chairman of the Supervisory Board for 2016, 7th resolution) [(2)].

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

The Committee performed its annual 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 [(3)].

/ Chief Executive Officer succession plan

The Committee analyzed the appraisals of key executives performed by Executive Management and an independent consulting firm, holding high quality discussions that enabled it to effectively assess the quality of the Chief Executive Officer succession plan.

The Committee considered that very good results had been achieved in the implementation of the succession plan, which was one of the qualitative objectives used to determine the Chief Executive Officer's 2016 compensation.

/ Recommendations concerning the election/re-election/ratification of Supervisory Board members at the Annual Shareholders Meetings of May 13, 2016 and May 19, 2017

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

The Committee's work and its recommendations to the Supervisory Board are described in detail in the report of the Chairman of the Supervisory Board (see section 4.5.1 b of this Registration Document) and, for the re-elections and re-appointments to be proposed at the Annual Shareholders Meeting of May 19, 2017, in the Supervisory Board's report on the proposed resolutions (see section 10.2.2.1 of this Registration Document).

/ Variable compensation policy

As in prior years, the Committee reviewed the Company's variable compensation and performance share policies, as well as changes to these policies.

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 2016 Registration Document and in the Shareholders Guide, which may be downloaded from the website at 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 Affairs, 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 9, 2017, in accordance with the French Law of July 3, 2008.

(1) See detailed description in sections 4.3.2 and 10.2.1.1 of the Registration Document.
(2) See detailed description in sections 4.3.4 and 10.2.1.2 of the Registration Document.
(3) See the detailed description in section 4.5.1 b).

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 the 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 both 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 roll-out 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:

- contribute to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources;
- enable 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 2016, 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 forecasts.

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 forecasting 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 for which the quality of the management process should be assessed and to gauge 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 comprehensive retail networks – comprising integrated dealerships (Euromaster, TCi), franchised dealerships (TyrePlus) and e-commerce sites (Blackcircles) – and wholesale networks (Euromaster, Meyer Lissendorf and Ihle).

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) – Western Europe, Eastern Europe, North America, South America, China, East Asia-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.

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. It is regularly updated.

A Corporate Ethics and Compliance Committee has been set up in each Geographic Zone and Business Line.

In 2016, 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 107.
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.

Each operating unit has its own Risk Manager who leads, implements and oversees the risk management process in his or her unit. Unit Risk Managers are members of the risk management network and are assisted by managers from the Group Quality, Audit and Risk Management Department, who support them at every stage in the process.

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 support unit has its own Risk Manager, who also belongs to the risk management network. Unit Risk Managers lead, implement and oversee the risk management process in their unit, and are also assisted by managers from the Group Quality, Audit and Risk Management Department, who support them at every stage in the process.

Taking this approach a step further, the Group Quality, Audit and Risk Management Department's Internal Control unit oversees internal control consistency by leading a network of Internal Control Managers appointed within the various Corporate Departments. The Internal Control Managers prepare 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 thereby mitigating the identified risk. These manuals are updated periodically 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 team in charge of auditing Group operations worldwide. 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.

A third type of audit consists of assessing the quality of internal controls over a specific risk family.

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 control staff, who are tasked with implementing them. Their annual findings and 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 targets by all of the units described above. These targets cover both operational and improvement goals 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 inventories, 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 the managers of business lines 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 valuations;
- 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 every year.

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 the 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 business lines, and to the Geographic Zones concerned.

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

Financial risks associated with climate change and the low-carbon strategy

Michelin's contribution to the Carbon Disclosure Project consists of a report describing the risks arising from the effects of climate change on its business. The potential effects on the natural environment are not currently identified as giving rise to substantial risks, because any problems in sourcing synthetic rubber or chemicals are addressed in our business continuity plans. Similarly, stricter regulations are not currently considered as giving rise to a substantial risk. The Group considers that regulatory changes represent an opportunity rather than a risk because, provided they are taken on board sufficiently in advance, they can determine the direction of its long-term capital spending plans.

Actions undertaken to strengthen the risk management and internal control process

/ Main achievements in 2016

The risk map was updated in 2016 to take into account certain risk assessments that 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.

The Chief Executive Officer and the Group Executive Committee met four times in 2016 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.

Fraud awareness campaigns were pursued during the year among all employee groups concerned, to support implementation of stricter measures to combat this risk. Initiatives to reduce fraud risk included measures to tighten up information systems access management, notably to ensure that task segregation rules are adhered to, and deployment of applications to perform detailed analyses of data and transactions recorded in the ERP systems.

The new crisis management system was deployed in all of the Geographic Zones, establishing a more efficient and consistent process for managing crises throughout the Group. Simulations were carried out in the Corporate Departments and the plants to ensure that staff were familiar with crisis management methods and tools. The exercises were aligned with the specific features of each Geographic Zone. In addition, new Risk Manager training modules were developed and deployed to enhance the Risk Management network's skill-sets.

An internal control manual dealing with the extension of internal control processes to risk families other than accounting and financial risks was deployed during the year. It consolidates all key control activities covering the Group's major business processes and risks. The manual served as a reference framework for the first self-assessment and testing exercises. A change management plan was led by the Group Quality, Audit and Risk Management Department, supported by an internal communication plan and appropriate tools to promote internal stakeholder buy-in. The internal control information system was replaced by a more efficient system that will ultimately cover all the entities concerned. The new system will help to embed the internal control management model more deeply (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.

/ Outlook for 2017 as part of the continuous improvement process

In 2017, the risk management process will be strengthened. The Group Quality, Audit and Risk Management Department plans to embed the risk culture more deeply throughout the organization. The aim is to professionalize all employees and make them more accountable, so that they make a real contribution to managing the Group's risks. To this end, a charter will be adopted, supported by a communication plan and training modules for all employees. Self-assessment exercises will be carried out to ensure that the Risk Managers' role and responsibilities accurately reflect Group guidelines and permit the identification and sharing of best risk management practices.

A geopolitical risk family will be added to the Group's risk map and the risk maps of the operating units (including the Geographic Zones) will be revised to improve their alignment with the Group risk map.

In the area of crisis management, a serious game developed in 2016 will be made available to all of the Group's management teams. The game's scenario, based on multiple crises at the Group's plants, will enable these teams to play out their chosen role in various crisis situations. Its purpose is to train teams between two crisis simulation exercises. New simulation exercises will be organized in 2017 at priority sites including the headquarters buildings and sensitive facilities.

A single internal control manual will be issued to internal control stakeholders during the year, covering all of the Group's business processes and risk families. A scorecard based on the initial results of compliance tests and managed by the Group Quality, Audit and Risk Management Department will be used to consolidate the reports prepared at Group level and at the level of each Geographic Zone describing required improvements. Each Corporate Department and Geographic Zone will then deploy a specific action plan to improve their level of compliance. The 2017 self-assessment and testing exercises will be conducted using the new information system. Digital training modules will be introduced to support these exercises.

The Corporate Departments will support the continuous improvement process by integrating other operational risks according to the needs of their specific activities and identifying any opportunities to automate key controls.