4.5 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE MEMBERSHIP OF THE SUPERVISORY BOARD, THE APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY, THE SUPERVISORY BOARD'S PRACTICES AND THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

To the shareholders,

In my capacity as Chairman of the Supervisory Board, I hereby report to you on (i) the membership structure of the Board and the application of the principle of gender equality, (ii) the Supervisory Board's practices during the year ended December 31, 2014 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 [(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 eight members, whose names are listed below along with details of their current position [(2)]. 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;
- **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.
- **Laurence Parisot,** Vice-Chairman of the Management Board of IFOP;

At its meeting on February 18, 2015, the Supervisory Board noted the resignation of Laurence Parisot, with effect from July 24, 2015.

Ms. Parisot tendered her resignation in order to comply with the limits placed on the number of directorships held, as set out in the European Capital Requirements Directive (CRD IV), which has recently been transposed into French law.

All members of the Supervisory Board regret Ms. Parisot's departure and wish to place on record their appreciation for her decisive contribution and unflagging commitment to the Board's work during 10 years as a member.

4.5.1 b) Report on the Supervisory Board's activities during 2014

▸ General activities

At its meetings on February 6 and July 24 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2013 and (ii) the interim financial statements for the six months ended June 30, 2014. It also examined and expressed its opinion on the financial information communicated to the markets.

(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) *Louis Gallois, Chairman of the Supervisory Board of Peugeot SA, resigned on February 11, 2014.*

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, together with the corresponding press releases;
- internal control and risk management;
- capital projects;
- the Audit Committee's report;
- the Group's strategic plan;
- the planning process and budget assumptions;
- the Company's distribution strategy;
- competitor analyses;
- the Michelin Performance and Responsibility approach;
- proposed acquisitions;
- compensation policies;
- preparations for the Annual Shareholders Meeting;
- Review for two candidates' election to the Supervisory Board;
- annual assessment of Supervisory Board members' independence;
- annual self-assessment of the Board's work;
- various proposals to improve the Company's governance;
- report of the Compensation and Appointments Committee.

Members' availability

The Supervisory Board met six times in 2014 – on February 6, April 22, April 28, July 24, October 31 and December 1 and 2 – with an average attendance rate (including meetings of Board Committees) of 96.7%.

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

	Participation at meetings held in 2014		
Supervisory Board members	Supervisory Board (six meetings)	Audit Committee (four meetings)	Compensation and Appointments Committee (three meetings)
Olivier Bazil	6/6	4/4	N/A
Pat Cox	6/6	N/A	3/3
Barbara Dalibard	6/6	N/A	N/A
Anne-Sophie de La Bigne	6/6	4/4	N/A
Jean-Pierre Duprieu	5/6	4/4	N/A
Louis Gallois	1/1 (1)	N/A	N/A
Laurence Parisot	6/6	N/A	3/3
Cyrille Poughon	2/3 (2)	N/A	N/A
Michel Rollier	6/6	N/A	3/3

N/A: Not applicable.

(1) Louis Gallois participated in the first meeting held in 2014 before he tendered his resignation on February 11, 2014.

(2) Cyrille Poughon participated in the two meetings held after he took up his seat on the Board, following his resignation from the position of Secretary of the Michelin Group European Works Council.

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 2014, Supervisory Board members visited a plant in Spain, during which they discovered how manufacturing operations are organized and learned about the main production processes for a range of tires, including the related quality assurance processes.

The visit followed those carried out in 2013, particularly that of the Ladoux Technology Centre in France, which provided an opportunity to attend presentations on Michelin's business strategy, innovation capabilities, and research and process engineering resources.

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.

Lastly, the Supervisory Board members participated in the 12th Michelin Challenge Bibendum in Chengdu (China) that focused on identifying pathways to mobility.

Changes in the composition of Supervisory Board and other resolutions to be presented at the 2014 Annual Shareholders Meeting

A major part of the Board's work in late 2013 and early 2014 entailed preparing for the expiration of Supervisory Board members' terms of office.

The Board reviewed the candidacies of Laurence Parisot and Pat Cox for re-election to the Board without the assistance of the Compensation and Appointments Committee, as these candidates are respectively Chairman and member of that Committee. Although the Company was not concerned by the French Act on Employment Security dated June 14, 2013 (the "LSE Act"), the Supervisory Board expressed a wish for one of its members to be an employee, as this could only help to further the Michelin Performance and Responsibility approach (focused on sustainable development and corporate social responsibility). The appointment of an employee representative would also be in line with the "Moving Forward Together" program and the commitment to employee well-being and development, which is one of the Ambitions 2020 objectives.

The Board felt that it would be good practice to take voluntary and pro-active measures to achieve the objective set in the LSE Act and reiterated in the AFEP/MEDEF Code. In the case of Michelin, this meant having a representative of the Group's employees on the Supervisory Board of CGEM, the Group's parent company.

In order to respect the essential role that CGEM's shareholders play in electing members of the Supervisory Board, the Board ultimately decided to put in place a voluntary alternative process. Consequently, the Board resolved that at the Annual Shareholders Meeting of May 16, 2014 it would put forward a Group employee for election to the Board.

The Board considered that the fairest and most effective process for selecting such a candidate would be for Executive Management to contact Michelin's most significant employee representative body at Group level.

Therefore, the Chairman of the Board asked the Chief Executive Officer to request the secretary of Michelin's European Works Council, Cyrille Poughon, to stand for election as a Supervisory Board Member at the Annual Shareholders Meeting.

Cyrille Poughon agreed to this request.

His candidacy was examined by the Supervisory Board.

▸ Preparing recommendations for electing/re-electing Supervisory Board members and other resolutions to be presented at the 2015 Annual Shareholders Meeting

At the end of 2014, the Supervisory Board asked the Compensation and Appointments Committee to review the situation of members whose term was due to expire at the 2015 Annual Shareholders Meeting and any proposals to elect new members (1).

▸ Review of Supervisory Board members' independence

As is the case every year, the Supervisory Board asked the Compensation and Appointments Committee to review its members' independence based on specific criteria.

Since 2013, the Board has chosen to refer exclusively to the independence criteria listed in the AFEP/MEDEF Code.

Based on the results of its review, the Compensation and Appointments Committee noted that there were no material changes during 2014 in the positions held by Supervisory Board members outside the Michelin Group or in any business relationships that may have existed during the year between the Michelin Group and companies in which the Supervisory Board members hold positions.

Members of the Compensation and Appointments Committee did not take part in either the assessment of their own independence or the Supervisory Board's decision regarding their independence.

When assessing business relationships between the Michelin Group and Supervisory Board members, a materiality threshold of 1% of the Michelin Group's consolidated revenue is applied (2).

The Committee recommended to the Supervisory Board to adopt the same conclusions in 2014 as in 2013 concerning the independence of the members who served on the Board in both years (3).

The Committee also reviewed the situation of Cyrille Poughon, a new Supervisory Board member elected at the Annual Shareholders Meeting of May 16, 2014 and an employee of Manufacture Française des Pneumatiques Michelin, a Group 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.

The Supervisory Board concluded that all of its members except for Cyrille Poughon and Michel Rollier qualify as independent based on the criteria in the AFEP/MEDEF Code. Seventy-five percent of its members are therefore independent, 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 5, 2015, the Supervisory Board devoted an agenda item to discussing its own practices.

The Chairman reported to the Board members on the annual self-assessment procedure he had carried out in conjunction with the Chairman of the Compensation and Appointments Committee based on individual interviews with each Board member.

The three objectives of this self-assessment were:

- to take stock of the Board's operating practices and procedures;
- to verify that important matters during the year were properly prepared in advance and appropriately addressed;
- to appraise the contribution of each member to the Board's work, based on their individual skills and expertise and their involvement in its discussions.

The Chairman emphasized the in-depth constructive work performed by all of the Board members.

He said that, in the same way as in 2013, the assessment revealed that the Board's members are very satisfied with the quality of both the information they receive and the presentations given by the Chief Executive Officer, the members of the Executive Committee, and their colleagues.

The Board appreciated Executive Management's dynamic approach to managing the business in 2014.

Its members noted that their 2013 request for more information about developments regarding Michelin's corporate social responsibility programs had been taken into account and asked that the process of improvement be pursued.

The Board members also expressed particular satisfaction with the presentations made to them on specific topics, stating that these were essential to allow them to fully understand all aspects of the Group's strategy and its deployment.

They noted the efforts made to improve the presentations on risk management processes and the preparation and monitoring of management succession plans.

Lastly, the members of the Board are considering the possibility of engaging an outside consultant to assist in assessing their work in 2015.

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

(1) Please refer to the Supervisory Board's report in section 10.2.3.

(2) The detailed conclusions of the review are presented on pages 114 and 115 of the 2013 Registration Document, noting in particular the qualification of Mr. Rollier as a non-independent member due solely to his term as Managing Partner of Michelin having expired in 2012, i.e. less than five years ago.

(3) Louis Gallois, whose independence was assessed in 2013, resigned from the Supervisory Board in February 2014.

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

In accordance with Article L. 225-68 of the French Commercial Code and paragraph 25.1 of the AFEP/MEDEF Code and the corresponding implementation guidance, the Supervisory Board considers that it complies with the recommendations of the AFEP/ MEDEF Code, as adapted to the Company's structure as a French partnership limited by shares (SCA), which was adopted at the time of its formation in 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).	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.
The financial statements should be reviewed by the Audit Committee no less than two days before their review by the Board (Recommendation 16.1)	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: ▶ the documents concerning the financial statements are made available to the Committee members several days in advance; ▶ 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. This process ensures that the discussion of the financial statements by the Committee and the Board is both efficient and of a high quality, and complies with the spirit and aims of the recommendation.
It is advised that an employee director be a member of the Compensation Committee (Recommendation 18.1).	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. Considering in particular the candidates for election to the Supervisory Board proposed at the 2015 Annual Shareholders Meeting, the Committee's membership will be reviewed by the Supervisory Board in 2015.

(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 fulfilment of its duties (...)".

4.5.1 d) Report on the Audit Committee's work in 2014

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 Audit Committee met four times in 2014 – on February 5, April 8, July 23 and October 31 – 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 Information Systems Director;
- the Executive Vice President, Quality, Audit and Risk Management;
- the Group Risk Manager;
- the Efficiency Program Director;
- the Head of the OPE Business Process Management System;
- the Tax Affairs Director;
- both Statutory Auditors.

The main purpose of the meetings held in 2014 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2013. In particular, the Audit Committee analyzed the restatements of the 2012 consolidated financial statements, 2013 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 issued an unqualified opinion on both the separate and consolidated financial statements for 2013, without observations for the separate accounts, and with a technical observation for the consolidated accounts.

- The interim separate and consolidated financial statements for the six months ended June 30, 2014. 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 had no matters to report concerning their limited review of the 2014 interim consolidated financial statements. The Auditors also presented their audit plan for 2014 to be carried out in 2015.
- The OPE Business Process Management System. The Head of the Program presented to the Committee the program's challenges and objectives, and the work completed to date, while the Information Systems Director described the OPE systems security processes and physical architecture.
- Embargo risk management/export controls. The Tax Affairs Director described the procedure for managing this risk and the related measures.
- Production cost accounting. The Accounting Director presented the method used and the options selected.
- The Group competitiveness program. The Chief Financial Officer and the Efficiency Program Director outlined the competitiveness program's objectives and the methods used, as well as the advances made in each area – industrial productivity, raw materials efficiency and Efficiency.
- Internal control. The Internal Control Director presented the action plans implemented in 2013 and the objectives set for 2014.
- The audit and risk management program. The Executive Vice President, Quality, Audit and Risk Management outlined the organization of the Internal Audit unit and the initiatives in progress. She also presented the risk map and described the action taken in respect of several material risks.
- Financial risk management. The Corporate Financing Director described the various financial risk management processes and the main challenges associated with each of these risks.
- Employee benefit obligations. The Chief Financial Officer outlined the key issues associated with the accounting treatment of these obligations and their management.
- The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 6, July 24 and October 31, 2014.

4.5.1 e) Report on the Compensation and Appointments Committee's work in 2014

The Committee met three times during the year (January 31, April 22, and October 13, 2014), with a 100% attendance rate.

The Committee's Chairman participated in preparing the questionnaire for the Supervisory Board's self-assessment.

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 [1].

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

▸ Recommendations concerning the election/re-election of Supervisory Board members at the Annual Shareholders Meeting of May 22, 2015

At the Supervisory Board's request, the Committee reviewed the situation of members whose term is due to expire at the 2015 Annual Shareholders Meeting, as well as a proposal to elect a new member.

Details of this review and the Committee's recommendations to the Board are provided in the Supervisory Board's report in section 10.2.3.

▸ Review of the Chief Executive Officer's compensation

In early 2014, the Committee prepared and submitted to the Board its recommendations concerning the report on the compensation due or awarded by the Company to the Chief Executive Officer for 2013, to be presented for the purposes of the "say-on-pay" vote at the May 16, 2014 Annual Shareholders Meeting [2].

Following a benchmarking survey conducted at the end of 2013 at the Supervisory Board's request, in 2014 [3] the Compensation and Appointments Committee examined with the Non-Managing General Partner (SAGES), the overall structure of Mr. Senard's compensation package as Chief Executive Officer

This review led to the implementation of a new compensation structure that was presented to shareholders by the Chairman of the Compensation and Appointments Committee [4] and the Chairman of the Supervisory Board at the Annual Meeting of May 16, 2014.

The Committee met in early 2015, without the Chief Executive Officer in attendance, to analyze the various components of his compensation package and determine the results of applying the performance criteria, for the purpose of preparing the information to be submitted to shareholders for their "say-on-pay" vote on the compensation due or awarded to Mr. Senard for 2014 [5].

▸ Other business

The Committee also reviewed:

- changes in the membership of the Group Executive Committee;
- executive management appointments policy;
- bonus and performance share policies;
- changes to the internal rules concerning conflicts of interests [6];
- determination of the performance criteria applicable to the termination benefit that would be payable to the Chief Executive Officer in certain circumstances [7].

(1) See the detailed description in section 4.5.1 b) Review of Supervisory Board members' independence.
(2) See pages 292-294 of the 2013 Registration Document for details.
(3) See page 108 of the 2013 Registration Document for details.
(4) Please refer to the press release dated May 16, 2014 and the information provided in section 4.3.2.
(5) See section 4.3.3 for details.
(6) See description of these changes in section 4.2.2 a), under the "Independence" heading.
(7) See description of these changes in section 4.3.2 d).

4.5.2 SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS

The specific rules concerning shareholder participation at General Meetings are presented in section 5.1.2 f) below and in the 2014 Shareholders Guide, which may be downloaded from the website at www.michelin.com/ (in the section entitled "Finance/Individual shareholders").

4.5.3 INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

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

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

It was also examined by the Audit Committee and then reviewed and approved by the Supervisory Board on February 5, 2015, 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 an acceptable 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 behaviour.

▸ Scope of risk management and internal control

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

As of end-2014, the system now covers 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 multiyear basis, in the five-year strategic plan;
- an annual basis, in the budget and annual plan.

Each unit is requested to integrate any critical risks into their five-year business plans and to determine the resources necessary to manage them.

During the annual plan exercise, they define risk management action plans and allocate the resources required for their implementation. Progress on the plans is then tracked throughout the course of the year.

In the case of newly acquired companies, procedures have been defined to gradually integrate them into the Group's risk management and internal control system. Currently, all of the significant subsidiaries apply the general process described herein.

For further details concerning the scope of consolidation, please refer to the Notes to the Consolidated Financial Statements, for a list of the major consolidated units.

▸ Coordination of risk management with internal control

Coordinating risk management with internal control within a holistic risk management 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. These controls form part of the internal control process, and may be revised to reflect the findings of the risk mapping exercises.
- The internal control process relies on the risk management process to identify the main risks to be addressed.
- The audit plan is prepared by using the risk map to 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, Human Resources, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around seven Geographic Zones – Europe, Eastern Europe, North America, South America, Asia excluding India, Eastern 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 endeavours 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 behaviour 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 2014, 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 behaviour 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. Consequently, the Group ensures that all of the Committee's comments concerning this issue are taken into account. The Audit Committee's primary responsibilities are described on page 95.
2. **The Chief Executive Officer and the Group Executive Committee** meet monthly to oversee the risk management process as part of their management duties. In this role, they approve the Group risk map, 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, assets and equipment in order to mitigate losses or injury in the event of risk occurrence;
- plans to ensure continuity of operations in the event of a major incident.

Group managers can detect any weaknesses in their internal control processes through the systems used to monitor their operations. In addition, 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, Performance Divisions and Technology Centres) 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, the control activities and related tests aimed at meeting the objective and thereby mitigate the identified risk. These manuals are updated every year to reflect, in particular, best process execution practices and changes in the applicable standards and regulations. They are implemented operationally at various levels of the organization. The Group's risk management processes form part of the Michelin Quality System, which sets out procedures and instructions, allocates roles and responsibilities and defines the relevant methods and controls.

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

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

Third line of responsibility: the Internal Audit Department

The Group 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 thirteen 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 were capable of mitigating the related risk (coverage, effectiveness, feasibility, management procedures). It has also defined risk management indicators, which have now 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 thirteen 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, management 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 developed and deployed a worldwide application for monitoring the entire internal control process, which leveraged the guidelines and principles defined in previous phases undertaken since 2004. The model will continue to be extended to cover either additional processes or new legal entities.

This self-assessment system encompasses the following sixteen processes:

- purchasing, from ordering to supplier payment;
- sales, from customer order to payment;
- inventory management;
- inventory valuation;
- financing and financial risk management;
- management of intra-Group transactions (transfer pricing and elimination of intra-Group balances);
- identification of on and off-balance sheet commitments;
- information systems management and administration;
- accounts closing;
- project and fixed asset management;
- taxes;
- human resource management (compensation, benefits and travel expenses);
- consolidation;
- investor relations;
- mergers/acquisitions/divestments;
- management of customs affairs, including the Group's customs management processes, import/export management, supervising freight forwarders, organizing delegations of authority, customs documentation, etc.

At every company covered by the system, the key internal control activities for each process are self-assessed and improved by the line personnel concerned.

Internal Controller reviews

The key controls for every process are tested on every site at least once every four years and more often where necessary.

The results of tests conducted by internal controllers are shared with the external auditors of the Group's companies, so that they can capitalize on the findings and strengthen their own external audit procedures.

Action plans

In each company, action plans are prepared to address the identified areas for improvement and implemented by line personnel.

More generally, this approach is integrated into the continuous improvement process, which is also supported by the findings of the external and internal auditors. As well, this self-assessment and testing system is applied to the five core components of the internal control process.

Action plans are generally scheduled for completion within two years for 80% of compliance shortfalls, excluding information system issues, which require longer timeframes and more resources.

Findings of the Financial Internal Control assessment

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

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

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

The Audit Committee 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 2014

In 2014, the risk map was updated to reflect the audits performed over the year, the outcomes of the action plans and any changes in the operating environment. At the same time, a review was undertaken to identify new risks to be included in the map, as well as emerging risks that could pose a threat to the Group over the long term. The review did not lead to any new risk areas being identified. Moreover, thanks to the action plans implemented to address existing risks, the overall level of residual risk has steadily declined.

The Chief Executive Officer and the Group Executive Committee met nine times in 2014 to oversee the risk management process as part of their management duties. In this capacity, they particularly reviewed the risk diagnostics and action plans. They also reviewed and validated certain risk management process principles, such as the definition of a Groupwide risk management policy, the determination of risk management priorities, and coordination between internal control and risk management. Lastly, they reviewed the status of action plans to address the priority risks identified during the mapping exercise and assessed the need to strengthen certain plans.

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

Other work conducted in 2014 included launching a program of business continuity audits among critical suppliers, extending deployment of the Group's own business continuity plan, and extending the Group's property and casualty insurance program to include business interruption cover.

In addition, action was taken to improve the synergy and alignment of internal control and risk management processes by placing both systems under the responsibility of the Group Quality, Audit and Risk Management Department, which reports directly to the Chief Executive Officer. The new organization has been operational since December 1, 2014.

The new Department has been given responsibility for managing the entire internal control process. All of the Product Line and Geographic Zone operating units remain responsible within their remit for ensuring compliance with the recommendations and for implementing the action plans designed to remediate internal control weaknesses.

▸ Outlook for 2015 as part of the continuous improvement process

The new crisis management system developed and tested at a pilot site in 2014 will be deployed at the various Group units starting in 2015, leading to the application of effective and consistent crisis management processes throughout the organization.

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

The new Group Quality, Audit and Risk Management Department will identify and deploy synergies and complementarities between the quality, audit, risk management and internal control functions. This will provide greater impetus for the projects launched in 2014 to align all internal control processes and extend the application of best practices for the internal control of accounting and financial risks to other families of operating risks.