**François Grappotte**

Acquisition on June 20, 2011 of 39 shares at a unit price of €47.46 per share, corresponding to the reinvestment of dividends.

**Pierre Michelin**

Acquisition on June 20, 2011 of 48 shares at a unit price of €47.46 per share, corresponding to the reinvestment of dividends.

**Benoît Potier**

Acquisition on June 20, 2011 of 98 shares at a unit price of €47.46 per share, corresponding to the reinvestment of dividends.

To the best of the Company's knowledge, no other transactions in the Company's shares were carried out by any Managing Partners, Supervisory Board members or their close relatives during the year.

# 4.5. REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE MEMBERSHIP OF THE SUPERVISORY BOARD, ON THE SUPERVISORY BOARD'S PRACTICES AND ON 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, (ii) the Supervisory Board's practices during the year ended December 31, 2011 and (iii) the internal control and risk management procedures put in place by the Company.

This report contains a corporate governance statement based on the AFEP-MEDEF Corporate Governance Code applicable to listed companies, which the Company's Supervisory Board has decided to use as its reference framework since 2008.

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

### 4.5.1.a) Members

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

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

The Supervisory Board is currently made up of the following eight members, all of whom are considered as independent based on the criteria set out in the Board's internal rules. Membership also complies with the principle of equal representation of men and women set out in the latest version (April 2010) of the AFEP-MEDEF Corporate Governance Code applicable to listed companies and stipulated by French Act no. 2011-103 of January 27, 2011, concerning the equal representation of men and women on Boards of Directors and Supervisory Boards and gender equality in the workplace.

- **Éric Bourdais de Charbonnière** (Chairman) – member of the Supervisory Board of Oddo et Cie and director of Faurecia; former Chairman of JP Morgan in France;
- **Pat Cox** – President of European Movement International; member of the Board of Trustees of the Friends of Europe; former President of the European Parliament; former member of the Irish Parliament;
- **Barbara Dalibard,** Chief Executive Officer of SNCF Voyages;
- **Louis Gallois** – Executive Chairman of EADS NV;
- **François Grappotte,** Honorary Chairman of Legrand and Director of BNP Paribas;
- **Pierre Michelin** – Chief Executive, India Development, Groupe Bull;
- **Laurence Parisot** – Vice-Chairman of the Management Board of Ifop and President of MEDEF;
- **Benoît Potier** – Chairman and Chief Executive Officer of Air Liquide.

### 4.5.1.b) Role and responsibilities

In 2011, the Supervisory Board fulfilled its role of overseeing the Company's management. In accordance with its internal rules, its oversight procedures included:

- reviewing the annual and interim separate and consolidated financial statements approved by the Managing Partners;
- assessing the quality of the Group's financial information;

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

- assessing the Group's internal control and risk management systems;
- reviewing strategic roadmaps and their implementation;
- obtaining assurance that shareholders' rights are respected;

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

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

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

To this end, the Chairman of the Board asked for each member's opinion of the Board's procedures and practices during 2011.

The results were presented by the Chairman and discussed at the meetings on November 8, 2011 and February 6, 2012.

The Board members recognized that the presentations made by the Managing Partners and their teams were of a high quality. They also appreciated the Managing Partners' openness and the free and frank discussions that took place during Board meetings. In addition, they underlined the importance of the work carried out by the Board and the Audit Committee in the area of risk management. The Supervisory Board will continue to review risk management policies, assisted by the Audit Committee, and to prepare succession plans for key executives, in its role as the Compensation and Appointments Committee.

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

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

### 4.5.1.d) Report on the Supervisory Board's activities during 2011

The Supervisory Board met seven times in 2011 – on February 7, May 5, May 13, July 25, November 8 and December 5 and 6 – with an average attendance rate of 89.3%.

During each of these meetings, a detailed analysis of the Group's results was presented to the Board. At its meetings on February 7 and July 25 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2010 and (ii) the interim financial statements for the six months ended June 30, 2011. It also examined and expressed its opinion on the financial information communicated to the markets.

The issues examined by the Supervisory Board – based in some cases on presentations made by the Managing Partners or by members of line management – were as follows:

- analyses of quarterly financial information and of interim and annual results;
- internal control and risk management;
- Audit Committee reports;
- competitor analyses;
- Passenger Car and Light Truck Tire OE business;
- future changes in the internal organization;
- compensation and appointment policies;
- governance changes, changes to the bylaws and the Supervisory Board's internal rules;
- Supervisory Board practices;
- preparations for the Annual Shareholders Meeting.

In addition, as in previous years, the Supervisory Board devoted an all-day meeting to reviewing the Group's strategic roadmaps and their implementation with the Managing Partners and Executive Vice Presidents concerned.

As part of the program to deepen and broaden the Supervisory Board members' knowledge of the business, the Company organized a full-day site visit in April 2011 to one of the Group's major plants in Europe. The visit enabled the members of the Board to improve their understanding of how passenger car tire design and manufacturing is currently organized and what the future holds in store in this regard.

### 4.5.1.e) Report on the Audit Committee's activities during 2011

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

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

Due to extensive experience acquired during their careers, mostly notably as senior executives of large companies, the Audit Committee's four members have a deep understanding of financial and accounting matters.

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

The Committee met four times in 2011 – on February 7, May 5, July 25 and December 5 – with a 100% attendance rate.

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

- Chief Financial Officer;
- Senior Vice President, Finance;
- Senior Vice President, Accounting;
- Senior Vice President, Internal Control;
- Senior Vice President, Internal Audit and Risk Management;
- Group Risk Manager.

The main purpose of the meetings held in 2011 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2010. In particular, the Audit Committee analyzed changes in profit and equity, cash flows and the main financial statement items related to employee benefit plans. It noted that the audit of the accounts had gone smoothly and that the Statutory Auditors had issued an unqualified opinion on the separate and consolidated financial statements for 2010.
- The interim separate and consolidated financial statements for the six months ended June 30, 2011. The Committee mainly analyzed changes in income statement items, free cash flow and the main balance sheet items. The Statutory Auditors had no matters to report concerning their limited review of the 2011 interim consolidated financial statements.
- The internal control system. The Senior Vice President, Internal Control, presented a report on the action taken in 2010 and the planned measures and objectives for 2011.

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

- Risk management. The Senior Vice President, Internal Audit and Risk Management, described the Group's risk management system and the internal audits performed in 2011. She also provided an overview of risk management issues presented to the Group Executive Council. The indicators selected for inclusion in senior management's balanced scorecard were also presented, along with the internal audit plan for 2012. The Group Risk Manager gave a detailed presentation of two examples of specific types of risks and the results of the related assessments.
- Management of raw materials and energy risks. The Chief Financial Officer and the Senior Vice President, Finance presented the processes designed and implemented to protect margins, in particular by limiting the effect of higher prices.
- The Group's defined benefit plans. The Senior Vice President, Accounting gave a specific presentation designed to help the Board to assess the situation of these plans and the proposed accounting change.
- The Group's defined contribution pension plans. Based on a presentation by the Senior Vice President, Finance, the Audit Committee reviewed the present situation regarding these plans and the projected future level of the Group's benefit obligations.
- The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 7, May 5, July 25 and December 5, 2011.

### 4.5.1.f) Report on the Compensation and Appointments Committee's activities during 2011

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

The Compensation and Appointments Committee met three times in 2011 (on February 7, May 5 and May 13), with an average attendance rate of 83.3%.

During the year, the Committee approved the Managing Partners' decision to launch a performance stock option plan and a performance share plan (with the Managing Partners not being entitled to participate in either plan).

The Committee examined the indicators used to determine the portion of bonuses based on the Group's 2010 performance and payable in 2011.

It reviewed the Non-General Managing Partners' performance in relation to their personal objectives, authorized the termination of the appointment of a Non-General Managing Partner and approved the payment of compensation for loss of office to said Non-General Managing Partner after ascertaining that the related performance criteria had been met.

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

Lastly, the Compensation and Appointments Committee discussed senior executive and Managing Partner compensation policies, career development plans and succession plans after being consulted on these matters.

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

## 4.5.2. CORPORATE GOVERNANCE STATEMENT

### 4.5.2.a) Exceptions to the corporate governance reference framework

As mentioned above, Michelin uses as its framework governance reference the AFEP-MEDEF Corporate Governance Code in its last version of April 2010, all of whose principles the Supervisory Board hereby declares that it applies. As recommended in the Code's introduction, the Supervisory Board has adjusted the Code as needed to the Company's status as a partnership limited by shares, with the following two exceptions:

- Recommendation concerning independent directors: the Company complies with all of the Code's independence criteria except for the 12-year limit on the aggregate period of time served on the Board. The Board considers that the aggregate term served by a Supervisory Board member in a partnership limited by shares is not an obstacle to the exercise of his or her free judgment in relation to the Company. Quite the reverse, it helps the member to understand the Company in all its complexity and efficiently oversee its management on an ongoing basis.
- Recommendation concerning Supervisory Board members' compensation: the Company complies with all of the principles, except for the recommendation that directors' fees should include a variable portion.

  In view of the level of commitment demonstrated by Supervisory Board members, as reflected in the high attendance rates at meetings of the Supervisory Board and its committees, the Board does not consider it necessary to make part of the fee payable to its members contingent upon their attendance at meetings.

### 4.5.2.b) Recommendation concerning compensation

The Supervisory Board considers that Michelin complies with the AFEP-MEDEF recommendations concerning executive directors' compensation and that these recommendations are reflected in the process of continuously improving the governance practices of the Company's executive directors. However, given the recent or forthcoming changes in the Managing Partners structure, these recommendations apply to several different cases at Michelin.

#### — The Managing General Partner appointed with any term limit *(until May 11, 2012)*

Although the recommendations state that they apply to managing partners of partnerships limited by shares, they have to be adapted to the special case of the share of the Company's profit paid to the Managing General Partner elected without any term limit. This statutory share of profit, which represents the General Partners' sole form of compensation, is:

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

Together, the applicable laws and the Company's bylaws bar Managing General Partners from receiving any other form of compensation from the Company without the specific prior approval of the shareholders in General Meeting.

In addition, in practice, the characteristics of the share of profit allocated to General Partners by CGEM are perfectly aligned with the spirit of the AFEP-MEDEF recommendations, either because the profit shares already comply with certain of the requirements set out in the recommendations, such as the criteria applicable for determining the compensation and the principle of full disclosure or because the other prohibitions or ceilings in the recommendations already form part of Michelin's partnership philosophy concerning a Managing General Partner elected without any term limit, *i.e.:*

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

Note that Michel Rollier, currently the only Managing General Partner elected without any term limit, will recommend that shareholders at the next Annual Meeting on May 11, 2012 accept that he stand down at the end of the meeting. Mr. Rollier will not receive any severance compensation or other benefits.

#### — Non-General Managing Partners

In accordance with the bylaws, the Non-General Managing Partners were elected by shareholders at the May 11, 2007 Annual Meeting.

As a result, the AFEP-MEDEF recommendation to terminate the employment contracts of executive directors (or managing partners) of listed companies who were elected or re-elected after October 6, 2008 was not strictly applicable to the Non-General Managing Partners, because they were elected in 2007. The Board nevertheless considered that the major drawbacks of combining a corporate office with an employment contract had been eliminated, notably thanks to:

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

There were no Non-General Managing Partners in office at December 31, 2011.

Jean-Dominique Senard, who had been a Non-General Managing Partner since May 2007, was elected as a Managing General Partner at the Annual Shareholders Meeting of May 13, 2011. The Supervisory Board noted that, following his election, Mr. Senard resigned as Non-General Managing Partner of CGEM and also resigned as an employee of MFPM, leading to the termination of his 2005 employment contract that had been suspended since 2007. He did not receive any compensation or benefits as a result of these resignations.

Didier Miraton's appointment as Non-General Managing Partner, a position he had held since 2007, was terminated effective June 30, 2011 due to a change in the Company's strategy.

The decision to terminate Mr. Miraton's appointment was approved by the Supervisory Board after verifying that the conditions of his termination complied with the relevant provisions of the CGEM bylaws and the recommendations of the AFEP-MEDEF Corporate Governance Code, particularly as regards the overall cap on his severance package and the mutually exclusive nature of certain termination benefits.

The compensation for loss of office payable to Non-General Managing Partners is capped at two years' salary and bonuses and is contingent on performance.

The actual amount of compensation for loss of office would be adjusted based on the Non-General Managing Partner's average annual bonus for the previous five years. To be entitled to the maximum compensation for loss of office, his average annual bonus for the five-year period would have to represent over 60% of the maximum bonus. The compensation for loss of office payable to Non-General Managing Partners would be reduced, if applicable, so that any other severance payment due as a result of terminating their suspended employment contract would not result in them receiving an aggregate severance package in excess of two years' salary and bonuses.

Section 4.3.4 includes a detailed description of the calculation and payment process for the severance package paid to Didier Miraton in accordance with the above rules.

#### — Managing General Partner elected for four years

At the Annual Shareholders Meeting on May 13, 2011 shareholders adopted a series of extraordinary resolutions tabled by the General Partners and endorsed by the Supervisory Board, electing Jean-Dominique Senard as Managing General Partner and significantly amending the Company's bylaws in order to give more powers to the Supervisory Board and adjust the status of the Managing General Partners.

Managing General Partners are now elected for four years, whereas previously, their term ended when they reached the age of 72.

In addition, the Supervisory Board must now be consulted systematically concerning the allocation of the General Partners' statutory share of profits between SAGES (non-managing General Partner) and the Managing General Partners. This empowers the Supervisory Board – in its role as Compensation Committee – to examine the total fixed and variable compensation paid to the Managing General Partners.

The Board considers that these recent amendments to the bylaws and the corresponding adjustments to the internal rules of the Supervisory Board and the Compensation and Appointments Committee represent a major improvement to Michelin's corporate governance in general and its governance of Managing Partner compensation in particular.

In line with the same drive for improved governance, this year the Supervisory Board has accepted the suggestion by the General Partners to significantly lower the cap on their statutory share of profits. The corresponding amendment to the bylaws will be the subject of an extraordinary resolution to be tabled at the Annual Shareholders Meeting on May 11, 2012.

### 4.5.2.c) Shareholder participation

The specific rules concerning shareholder participation at General Meetings are presented in section 5.1.2.f) below and in the 2011 Shareholders Guide (in the section entitled "Your rights as a Shareholder"), which may be downloaded from the website www.michelin.com/corporate.

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

### 4.5.3.a) The control environment

The Michelin Group is organized around Product Lines, each of which is dedicated to a specific business and has its own marketing, development, production and sales resources. Two retail networks are attached to the Product Lines – Euromaster in Europe and Tire Centers, Inc. (TCI) in North America.

The Product Lines are backed by thirteen Corporate Departments that are responsible for support functions such as Purchasing, Legal Affairs, Human Resources, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around eight regions – Europe, Eastern Europe, North America, South America, ASEAN-Australia, China, Japan-South Korea, and Africa-India-Middle East.

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

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

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

A Code of Ethics was issued in October 2010 describing the standards of behavior to be observed in the conduct of the Group's business and the guidelines to be followed by Group employees when making decisions on ethical issues. A Corporate Ethics and Compliance Committee will be set up in each region and business line in 2012, to replace the current Anti-Fraud Committees.

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

The manual describes in particular:

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

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

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

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

#### — Reference framework

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

It comprises a set of resources, patterns of conduct, procedures and actions adapted to the individual characteristics of each company, which:

- contributes to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources;
- enables it to take into consideration, in an appropriate manner, all major operational, financial and compliance risks.

More particularly, the system is designed to ensure:

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

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

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

#### — Preparation and processing of accounting and financial information

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

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

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

To guarantee the reliability of accounting information, the necessary internal control procedures have been defined at Group level and implemented locally. These include a physical inventory (for both fixed assets and stocks), segregation of tasks and reconciliation with independent sources of information.

A dedicated team is in charge of aligning accounting policies throughout the Group, monitoring changes in applicable financial reporting standards, updating accounting manuals for all Group subsidiaries and dealing with any questions that may be raised by these entities.

General accounting and management accounting data are submitted simultaneously by the subsidiaries. The systems verify the consistency of the main indicators (sales, operating income, etc.). Statutory accounting data received from the subsidiaries is checked for consistency and then consolidated to produce the Group's financial statements.

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

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

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

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

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

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

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

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

### 4.5.3.c) Internal control management

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

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

#### — Control procedures

The Group's risk management processes form part of the Michelin Quality System, which sets out procedures and instructions, allocates roles and responsibilities and defines the relevant methods and controls.

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

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

#### — Information

Information generated by the Group's management systems is analyzed by the Financial Control teams and reported to the managers concerned for inclusion in the scorecards used to track their operations. Management information is also reported to the Group's Executive Council on a monthly basis. Quarterly reports are presented to the Supervisory Board. The Corporate Finance Department is responsible for ensuring the relevance and consistency of this management data.

The Group IT Department is in charge of overseeing IT policies and the corresponding resources. The internal control procedures contained in the Group's Quality System include rules relating to data access and protection, the development of applications, and structuring and segregating development, process engineering and production tasks.

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

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

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

#### — Financial internal control objectives

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

It defines internal control standards, coordinates and sets up internal control information systems and day-to-day procedures, and assists the network of internal controllers in the regions and the main business lines with implementing these systems and procedures.

Its role includes:

- deploying internal control best practices and providing training to each region's correspondents;
- regularly updating key risks by process;
- defining major control issues in conjunction with the owners of the processes concerned;
- drafting control guidelines and manuals and preparing internal control tests;
- overseeing the internal control activities of the heads of the regions and operational areas concerned;
- structuring the internal control network;

- acting as an interface with the other players in the relevant processes, such as process owners, risk managers and internal and external auditors;
- advising on the implementation of transformation projects and programs.

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

#### — Processes concerned

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

The main identified and integrated processes were as follows:

- purchases (from the order through to supplier payment);
- sales (from the customer order through to payment);
- inventory management;
- inventory valuation;
- Group financing and financial risk management;
- management of intra-group transactions (transfer pricing and elimination of intra-group balances);
- identification of on- and off-balance sheet commitments;
- information systems management and administration;
- accounts closing;
- project and fixed asset management;
- taxes;
- human resources management (compensation, benefits and travel expenses);
- consolidation;
- investor relations;
- mergers/acquisitions/divestments.

#### — Internal control manuals

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

#### — Target companies

As of end-2011, the system covered 120 companies representing around 95% of the Group's consolidated revenue, spanning all of the Group's regions and operations, including manufacturing, sales and distribution networks.

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

#### — Method

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

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

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

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

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

#### — Monitoring findings

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

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

### 4.5.3.e) Risk assessment and control

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

The main objectives are updated every year and relayed to the Group's various units, which subsequently translate them into five-year strategic goals and yearly action plans. These plans cover both operational aspects and improvement targets aimed at enhancing performance and service quality.

Objectives are based on past performance and detailed diagnostics, and they also take into account changes in the Group's operating environment.

Operational risk assessment forms an integral part of the planning process during which critical success factors are determined and a sensitivity analysis is performed on the main assumptions underlying the objectives. Strategic risks are specifically addressed as part of this process.

### 4.5.3.f) Risk management and mapping

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

These risks are divided into the following fourteen categories: accounting and finance; business continuity; the environment; fraud and ethics violations; loss of skills and expertise; brand, communication and reputation; information technology; legal, tax; program and project management; products and services; continuity of supply; safety and security; and employee relations.

Within these fourteen categories, operating risks are managed at five different levels:

- Line managers (Operating Units, Product Lines and Geographic Regions, etc.) are responsible for identifying and managing their entity's risks in line with Group standards covering risk prevention and protection and business continuity. They rely on internal control to help manage 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.

- For each of the fourteen risk categories, the relevant Corporate Department (Purchasing, Legal Affairs, IT systems, etc.) or Performance Division (Supply Chain and Logistics, Prevention and Industrial Performance, Sales & Marketing, etc.) analyzes the corresponding risks, defines the applicable standards for risk prevention and protection measures, and manages and monitors implementation of these standards.
- Internal audit plans include a review of the effectiveness of the entire risk management process.
- The Group Risk Manager is responsible for the general oversight of risk assessment and control procedures. This role includes defining the related methods, organizing the rollout of procedures, promoting a risk management culture across the Group and ensuring that major risks are effectively controlled by the entities concerned. He also verifies that the Company's risk management process functions effectively, focusing particularly on major risks.
- The Group Executive Council, made up of the eleven senior executives responsible for the Product Lines, Corporate Departments and Performance Divisions, and the two Managing Partners meet together as the Corporate Risks Committee to review the most significant risks identified during the risk-mapping process and decide which risks require close monitoring.

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

The Group-wide risk map was produced by the Group Risk Manager by consolidating the results of risk analyses performed by the operating units. It constitutes a useful tool for managing risks, identifying priority risks that may require a specific action plan, regularly controlling the most significant risks and helping to draw up the work plan for the Internal Audit team.

In 2011, the Corporate Risks Committee, comprising the members of the Group Executive Council and the Managing Partners, met every month to review the most significant risks identified by the risk mapping process. These meetings confirmed the acceptable level of risk, validated the units' action plans and monitored their progress.

The Committee also observed that the implementation of various risk prevention and protection measures had reduced the Group's exposure to previously identified high-priority risks.

This report, presented by the Chairman of the Supervisory Board, was approved by the Supervisory Board on February 6, 2012.

Éric Bourdais de Charbonnière
Chairman of the Supervisory Board