4.6_ 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, 2010 and (iii) the internal control and risk management procedures put in place by the Company.

This report contains a corporate governance statement based on the AFEP/MEDEF Corporate Governance Code applicable to listed companies, which the Company's Supervisory Board has decided to use as its reference framework (see press release dated December 8, 2008).

4.6.1. MEMBERSHIP OF THE SUPERVISORY BOARD AND SUPERVISORY BOARD PRACTICES

4.6.1.a) Members

In accordance with the applicable law and the Company's bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders Meeting for a term of four years[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 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 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. The current members are as follows:

- 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 the European Movement International, member of the Board of Trustees 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 – Divisional Chief Executive, Groupe Bull;
- Laurence Parisot – Vice-Chairman of the Management Board of Ifop and President of MEDEF;
- Benoît Potier – Chairman and Chief Executive Officer of Air Liquide.

4.6.1.b) Role and responsibilities

In 2010, the Supervisory Board fulfilled its role of overseeing the Company's management. In accordance with its internal rules, its oversight procedures include:

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

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

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

In accordance with its internal rules and with the AFEP/MEDEF Corporate Governance Code guidelines, in 2010 the Supervisory Board carried out an annual self-assessment of its procedures and practices to verify that Board members had received appropriate advance information about important matters and that these had been adequately discussed, and to evaluate the contribution of each member to the Board's work.

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

The results were presented by the Chairman and discussed at the Board's meeting of February 7, 2011. In particular, the Board appreciated the scorecard introduced by the Managing Partners to track the main performance indicators.

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

(1) Five years for members elected prior to 2009

Furthermore, the Board considers that all its members are independent, based on the criteria set out in its internal rules. These criteria correspond to those prescribed in the AFEP/MEDEF Corporate Governance Code for listed companies dated April 19, 2010, except that the Code sets a limit on the aggregate period during which a member may serve on the Board[(1)].

4.6.1.d) Report on the Supervisory Board's activities during 2010

The Supervisory Board met five times in 2010, on February 8, April 23, July 26, September 24 and December 6-7, with an attendance rate of 97.5%.

During each of these meetings, a detailed analysis of the Group's results was presented to the Board. On February 8 and July 26 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2009 and (ii) the interim financial statements for the six months ended June 30, 2010. It also examined and expressed its opinion on the financial information communicated to the markets.

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

- The Managing Partners' analysis of quarterly financial information and of interim and annual results;
- Internal control and risk management;
- Corporate strategy;
- Brand communication strategy;
- Competitor analysis;
- Compensation and appointment policies;
- Passenger car and Light truck tire market strategy;
- The Euromaster distribution business;
- The change in corporate governance procedures and the succession plan for Managing Partners;
- Preparations for the Annual Shareholders Meeting.

In addition, 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 May 2010 to one of the Group's major plants in Europe. The visit enabled the members of the Board to improve their understanding of semi-finished product and tire manufacturing operations, as well as of sales and marketing strategies deployed in Michelin's different markets.

4.6.1.e) Report on the Audit Committee's activities during 2010

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 and Director of Faurecia, former Chairman of JP Morgan in France;
- Pierre Michelin – Divisional Chief Executive, 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 Audit Committee met four times in 2010 (on February 8, April 23, July 26 and November 23), with a 93.8% attendance rate.

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

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

The main purpose of the meetings was to review:

- The audited consolidated financial statements for the year ended December 31, 2009 and the financial results analysis. In particular, the Audit Committee analyzed changes in inventory, debt, cash flows and financial assets. It noted that the audit of the accounts had gone smoothly and that the Statutory Auditors had issued an unqualified opinion on the Company's financial statements and the consolidated financial statements for 2009. The report on the Company's financial statements included a purely technical comment concerning the application of IAS 1 (revised);

(1) See the corporate governance statement by the Supervisory Board in section 4.6.2 -.

- The interim financial statements for the six months ended June 30, 2010, as reviewed by the Statutory Auditors. The Committee mainly analyzed changes in free cash flow and operating income for the period. The Statutory Auditors had no matters to report concerning the 2010 interim financial statements;
- The internal control system. The Committee took note of the internal control situation, the work undertaken at the end of 2009 and the objectives set for 2010 concerning the system's processes and organization;
- Risk management and internal audit. The Senior Vice President, Internal Audit and Risk Management and the Group Risk Manager presented the risk management organization and working methods, along with the related audit plans;
- Employee benefit plan commitments. The Audit Committee reviewed the current and future levels of the Group's benefit obligations in France and in other countries concerned by employee benefit plans;
- The call for bids launched with a view to re-appointing the incumbent Auditors or appointing new Auditors. Concluding the work carried out in 2009 by the Vice President, Accounting, of which it was regularly informed, the Audit Committee issued a final recommendation concerning the candidate firm to be proposed for appointment at the Annual Shareholders Meeting of May 7, 2010;
- Cash management issues relating to the rights issue. The Chief Financial Officer presented the options for the short and medium-term utilization of the proceeds from the rights issue decided on September 27, 2010;
- Creation of a new performance scorecard. To facilitate the Supervisory Board's appraisal of corporate strategy, the Audit Committee worked with Corporate Finance to draw up a special scorecard reporting long-term changes in the Group's main performance indicators.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 8, July 26 and December 6 and 7, 2010.

4.6.1.f) Report on the Compensation Committee's activities during 2010

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

The Compensation Committee met twice in 2010 (on February 8 and April 23), with a 100% attendance rate.

During the year, the Committee approved the Managing Partners' decision to launch a stock option plan, in which the Managing Partners are not entitled to participate.

The Committee examined the indicators used to determine the portion of the bonus based on the Group's 2009 performance payable in 2010.

It reviewed the Non-General Managing Partners' performance in relation to their personal objectives, and noted their decision to waive payment of their long-term incentive bonuses for 2009 due to the crisis and the measures taken to deal with its effects.

The Committee also reviewed proposed adjustments to the compensation packages of the Non-General Managing Partners and the members of the Group Executive Council, to be made in 2011, and the criteria for determining management bonuses.

Lastly, the Compensation Committee discussed senior executive and Managing Partner compensation policies, career development plans and succession plans.

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

4.6.2. CORPORATE GOVERNANCE STATEMENT

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

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

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

Nevertheless, in practice, the characteristics of the share of profit allocated to General Partners by CGEM comply with the spirit of the AFEP/MEDEF recommendations:

- Either because the profit shares comply with certain of the requirements set out in the recommendations, *i.e.*:
  - The criteria applicable for determining Managing Partners' compensation, and
  - Full disclosure;
- Or because the other prohibitions or ceilings in the recommendations already form part of the underlying partnership approach adopted by Michelin for its Managing General Partners, including:
  - No employment contract,
  - No severance package,
  - No supplementary or other pension benefits paid for by the Company,
  - No stock option, performance share or other incentive plans.

As regards the Non-General Managing Partners' long-term incentive bonuses and compensation for loss of office, the measures adopted in 2008 and applied in 2009 were carried over to 2010, as follows:

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

On the other hand, the compensation for loss of office payable to Non-General Managing Partners is capped at two years' fixed and variable compensation and is also 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 variable compensation for the previous five years. To be entitled to the maximum compensation for loss of office, his average annual variable compensation for the five-year period would have to represent over 60% of the maximum annual variable compensation for the period. Below this percentage, the compensation for loss of office would be reduced proportionately, with no compensation payable if his average annual variable compensation for the five-year period was less than 20% of the maximum.

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

Performance bonuses are determined by reference to business and financial indicators that are defined in detail at the beginning of each year and submitted to the Supervisory Board for opinion. The Managing Partners' performance is assessed annually by the Supervisory Board for the purpose of determining the amount of their bonus.

Concerning the AFEP/MEDEF recommendation to terminate the employment contracts of executive directors (or managing partners) of listed companies who were elected or re-elected after October 6, 2008 (which is not the case for the Group's current Non-General Managing Partners), as stated in the last two registration documents, the Board considers that the major drawbacks of combining a corporate office with an employment contract have been eliminated, notably thanks to:

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

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

As its corporate governance reference framework, the Company has elected to use the latest version (dated April 19, 2010) of the AFEP/MEDEF Corporate Governance Code applicable to listed companies.

The Supervisory Board hereby states that the Company applies all of the principles of said Code, with the necessary adjustments to take account of its corporate structure as a partnership limited by shares, apart from the following two exceptions:

- Recommendation concerning independent directors: the Company complies with all of the Code's independence criteria except for the 12-year limit on the aggregate period of time served on the Board.

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

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

More generally, the Board notes that throughout the year, and especially at its meeting on 6-7 December, it actively pursued discussions concerning the succession plan for Managing Partners and the change in corporate governance procedures.

The specific rules concerning shareholder participation at General Meetings are presented in section 5.1.2. f) below and in the 2010 Shareholders Guide (in the section entitled "Your rights as a Shareholder"), which may be downloaded from the www.michelin.com/corporate website.

4.6.3. MICHELIN GROUP INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

4.6.3.a) The control environment

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

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

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

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

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

A Code of ethics was issued in October 2010 describing the standards of behavior to be observed in the conduct of our business and the guidelines to be followed by Group employees when making decisions on ethical issues.

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.

In June 2010, guidelines on combating fraud were issued jointly by the Legal Affairs and Finance Departments. Their aim is to strengthen early-warning and risk tracking processes as well as the processes for dealing with any cases of fraud. Anti-fraud committees have been set up in the various regions and operational areas.

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

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

Reference framework

The Michelin Group has adopted the definition of internal control set out in the AMF's Reference Framework published in January 2007 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; and
- Enables it to take into consideration, in an appropriate manner, all major operational, financial and compliance risks.

More particularly, the system is designed to ensure that:

- Laws and regulations are complied with;
- The instructions and directional guidelines fixed by the Managing Partners, the Executive Council and the Company's corporate governance structures are applied;
- The Company's internal processes function correctly, particularly those involving the security of its assets;
- Financial information is reliable.

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

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

Preparation and processing of accounting and financial information

The Managing Partners are responsible for publishing reliable financial and accounting information. The Accounting, Consolidation, Management Control and Financial Communication Departments all contribute to the process of producing this information.

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

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

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.

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

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

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

Each year the Group 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 Corporate Finance Department, is responsible for drawing up and relaying to the financial markets all of the Group's financial communications, which primarily comprise:

- The Annual 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 Head of Investor Relations and results announcements are also reviewed by the Supervisory Board.

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

4.6.3.c) Internal control management

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

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

Control procedures

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

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

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

Information

Information generated by the Group's management systems is analyzed by the management control teams and reported to the relevant managers for inclusion in the scorecards used to monitor their operations. Management information is also reported to the Group's Executive Council on a monthly basis. Quarterly reports are 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 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. The Internal Audit and Risk Management Department regularly carries out reviews of internal control and risk management processes concerning operational, accounting, IT, manufacturing and product quality risks. The Department's scope of reference covers all of the Group's processes and entities. The internal auditors issue recommendations to the entities concerned, based on their observations, and perform follow-up reviews to ensure that the action plans drawn up by the audited entities to address the identified weaknesses have been duly implemented. Periodic summaries of internal audit findings and the related action plans are presented to the various line managers, the Managing Partners and the Audit Committee.

In the Group's various host countries, local 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 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.

4.6.3.d) Assessment of processes affecting the reliability of financial information

Financial internal control objectives

To ensure that the work carried out to comply with France's Financial Security Act 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 also draws up internal control standards, coordinates and sets up internal control information systems and day-to-day procedures, and assists the Group's network of internal controllers within the various regions and main business lines to help teams with implementing the related processes.

Its role includes:

- Deploying internal control best practices and providing training to each region's correspondents;
- Regularly updating key risks by process;
- Defining major control issues in conjunction with the owners of the processes concerned;
- Drafting internal control guidelines and manuals and internal control tests;
- Overseeing the internal control activities of the heads of the regions and operational areas concerned;
- Structuring the internal control network;
- Acting as an interface with the other players in the relevant processes, such as process owners, risk managers and internal and external auditors.

A worldwide software application for monitoring financial internal control was set up and rolled out in 2009. The application leverages existing Group databases and principles 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 the Michelin Group as a whole in 2004. They were gradually integrated into the financial internal control system in the period to 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.

The other processes that were integrated as from 2010 are as follows:

- Human resource management (compensation, benefits and travel expenses);
- Consolidation;
- Financial communications;
- Mergers/acquisitions/divestments.

Internal control manuals

The Group's internal control manuals describe the main risks that exist within each business process or cycle, together with the corresponding control objectives and activities aimed at mitigating the risk concerned.

Target companies

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

Since 2010, the system 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 managers in charge of the relevant processes, operational areas and regions.

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

4.6.3.e) Risk assessment and control

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

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

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

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

4.6.3.f) Risk management and mapping

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

These risks are divided into the following twelve categories: accounting and finance; business continuity; the environment; fraud and ethics; skills and expertise; reputation and brand image; information technology; legal and tax; products and services; continuity of supply; safety and security; and labor relations.

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

- Line managers (Operating Units, Product Lines and Geographic Regions) are responsible for identifying and managing their entity's risks in line with Group standards covering risk prevention and protection and business continuity.

  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 twelve risk categories, the relevant Corporate Department (Procurement, Legal Affairs, IT systems, Environment and Prevention, etc.) or Performance Division (Supply Chain and Logistics, Manufacturing, Sales and Marketing…) 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 seven senior executives responsible for Product Lines, Corporate Departments and Performance Divisions, and the three Managing Partners jointly review

the most significant risks identified during the risk-mapping process and decide which risks require close monitoring.

During 2010, 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.

After the process was finalized and the risk map updated, the Group Executive Council and the three Managing Partners met twice during the year to review the most significant risks highlighted by the process. They decided to closely track a certain number of risks that could have a material impact along with the related preventive and protective measures and continuity plans. They 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 7, 2011.

Éric Bourdais de Charbonnière

Chairman of the Supervisory Board