# 3.7 Parent company: key financial data and 2012 annual financial statement

The 2012 annual financial statements comprise the income statement, balance sheet, cash flow statement and notes, presented below.

The Auditors Report on the 2012 annual financial statements is presented in Section 3.9 of this Registration Document.

## 3.7.1 Key data at December 31, 2012

| € thousands, except per share data which is in € | 2012 | 2011 |
|---|---|---|
| **Income statement** | | |
| Revenue | 737,543 | 678,430 |
| Operating profit | 17,233 | 34,713 |
| Profit before non-operating income and tax | 383,657 | 272,100 |
| Net profit | 407,376 | 273,061 |
| **Balance sheet** | | |
| Share capital | 38,650 | 38,527 |
| Equity | 2,232,155 | 1,995,950 |
| Net debt | 275,815 | 446,532 |
| Non-current assets, net | 2,632,632 | 2,591,168 |
| **TOTAL ASSETS** | **3,363,034** | **3,118,159** |
| Net dividend per ordinary share, in € | 0.88[(a)] | 0.85 |

*(a) Subject to ratification by the Shareholders' Meeting of May 16, 2013.*

Essilor International's revenue excluding the Puerto Rico branch was up 8.7% on 2011. Sales of lenses were up by 6% in France and by 10.6% in the export market. Sales of instruments were up by 7.2% in France and by 2.1% in the export market. The logistics business grew strongly by 35.7%, driven by export sales. Finally, the Puerto Rico branch recorded revenue growth of 12.3%.

Despite a significant increase. in business activity, operating income was down by €17.5 million. This change is mainly due to the increase in the total expense of performance share plans, which is itself directly impacted by the rise in Essilor International's share price and by higher taxes relating to it.

Financial income rose significantly by 54.4%, attributable in particular to a dividend paid to Essilor International by its subsidiary Essilor of America as well as an increase in the dividend paid by the Essilor AMERA Ltd. subsidiary.

Extraordinary income amounted to €35 million and mainly consisted of the two following events:

- a reversal of provisions following the settlement of the tax audit covering 2006, 2007, 2008;
- the sale of certain intellectual property rights to one of Essilor International's subsidiaries.

In addition, Essilor International was the subject of a tax audit for 2009 to 2011 inclusive. The Company received a notification relating to the 2009 fiscal year which Essilor International will examine. Without prejudging the final position of the French tax authorities, a provision for tax risk was constituted in the 2012 financial statements.

The tax liability recognized in the financial statements for fiscal 2012 amounted to €11.3 million. This amount reflects a number of factors:

- the impact of a reduced tax rate on taxable income, and the impact of the settlement of a tax audit covering 2006 to 2008 (discussions with the French tax authorities having been settled over the course of 2012);
- tax income corresponding to the tax credits applicable (especially the research tax credit), and to the tax savings from fiscal consolidation (the Company posting negative taxable income on its earnings taxable at the ordinary rate).

Net earnings totaled €407.4 million, an increase of 49.2% on the previous year.

## 3.7.2 Income statement at December 31, 2012

| € thousands | Note | 2012 | 2011 |
|---|---|---|---|
| Revenue | 2 | 737,543 | 678,430 |
| Production transferred to inventory | | 565 | (2,357) |
| Production of assets for own use | | 5,953 | 6,442 |
| Write-down on amortization and provisions | 13 | 68,597 | 54,041 |
| Other profit | 3 | 203,537 | 200,824 |
| **TOTAL OPERATING PROFIT** | | **1,016,195** | **937,380** |
| Purchases of materials and change in inventories | | 363,930 | 329,465 |
| Other purchases and external charges | 4 | 210,935 | 193,950 |
| Taxes other than income tax | | 25,706 | 23,328 |
| Personnel expense | 16 | 330,858 | 285,521 |
| Depreciation, amortization and provisions, net | 13 | 61,441 | 56,156 |
| Other income (expenses), net | | 6,092 | 14,246 |
| **TOTAL OPERATING EXPENSES** | | **998,962** | **902,666** |
| **OPERATING PROFIT** | | **17,233** | **34,713** |
| Net interest income | 5 | 366,424 | 237,387 |
| **PROFIT BEFORE NON-OPERATING ITEMS AND TAX** | | **383,657** | **272,100** |
| Net non-operating income (expenses) | 6 | 35,013 | (13,447) |
| Income tax expense | 7 | 11,294 | (14,408) |
| **NET PROFIT** | | **407,376** | **273,061** |

## 3.7.3 Balance sheet at December 31, 2012

### Assets

| € thousands | Note | 2012 Gross | 2012 Depreciation, amortization, provisions | 2012 Net | 2011 Net |
|---|---|---|---|---|---|
| Intangible assets | 8 | 130,998 | 83,072 | 47,926 | 50,039 |
| Property, plant and equipment | 9 | 345,279 | 230,224 | 115,056 | 107,464 |
| Financial assets | 10 | 2,535,796 | 66,147 | 2,469,650 | 2,433,665 |
| **NON-CURRENT ASSETS, NET** | | **3,012,073** | **379,442** | **2,632,632** | **2,591,168** |
| Inventories | 11.1 | 78,126 | 17,662 | 60,464 | 60,198 |
| Suppliers prepayments | 11.2 | 1,419 | 8 | 1,411 | 2,280 |
| Trade receivables | 11.2 | 227,850 | 3,294 | 224,556 | 204,404 |
| Other receivables | 11.2 | 182,278 | 21,166 | 161,112 | 116,493 |
| Marketable securities | 11.3 | 247,219 | | 247,219 | 133,446 |
| Cash | | 18,677 | | 18,677 | 6,260 |
| **CURRENT ASSETS** | | **755,569** | **42,130** | **713,439** | **523,081** |
| Prepaid expenses | 11.4 | 16,720 | | 16,720 | 3,890 |
| Conversion losses | | 244 | | 244 | 20 |
| **TOTAL ASSETS** | | **3,784,605** | **421,572** | **3,363,034** | **3,118,159** |

### Equity and liabilities

| € thousands | Notes | 2012 | 2011 |
|---|---|---|---|
| Share capital | 12.1 | 38,650 | 38,527 |
| Additional paid-in capital | | 311,622 | 307,401 |
| Legal reserve | | 3,879 | 3,879 |
| Other reserves | | 1,428,408 | 1,334,408 |
| Retained earnings | | 11,558 | 9,116 |
| Net profit | | 407,376 | 273,061 |
| Government grants | | 236 | 124 |
| Untaxed provisions | | 32,138 | 30,863 |
| Translation reserve | 1.12 | (1,713) | (1,429) |
| **EQUITY** | **12.2** | **2,232,155** | **1,995,950** |
| **PROVISIONS FOR CONTINGENCIES AND CHARGES** | **13.1** | **81,460** | **80,469** |
| Convertible bonds | | 0 | 9 |
| Other bonds | 14.1 | 229,260 | 0 |
| Bank borrowings and current account advances from subsidiaries | 14.1 | 306,593 | 577,933 |
| Other borrowings | 14.1 | 5,858 | 8,295 |
| **TOTAL BORROWINGS** | **14** | **541,711** | **586,238** |
| Trade payables | 14.1 | 127,239 | 116,958 |
| Accrued taxes and personnel expenses | 14.1 | 89,333 | 77,809 |
| Other liabilities | 14.1 | 290,458 | 257,939 |
| **TOTAL PAYABLES AND ACCRUALS** | | **507,031** | **452,705** |
| Deferred income | | 506 | 2,566 |
| Conversion gains | | 171 | 231 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,363,034** | **3,118,159** |

## 3.7.4 Cash flow statement at December 31, 2012

| € thousands | 2012 | 2011 |
|---|---|---|
| Net profit for the fiscal year | 407,376 | 273,061 |
| Elimination of non-cash items | 21,242 | 45,821 |
| Cash flow | 428,618 | 318,882 |
| Change in working capital[a] | (11,699) | 6,825 |
| **NET CASH FROM OPERATING ACTIVITIES** | **416,918** | **325,707** |
| Purchases of property, plant and equipment | (33,845) | (26,268) |
| Acquisition of shares in subsidiaries and affiliates and other investments | (54,125) | (216,566) |
| New loans extended | (863,714) | (939,546) |
| Proceeds from disposals of fixed assets | 461 | (19,824) |
| Repayment of long-term loans and advances | 853,276 | 906,115 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(97,947)** | **(296,089)** |
| Issue of share capital | 4,191 | 83,672 |
| Purchases and sales of treasury stock | 25,066 | (130,791) |
| Dividends paid | (176,619) | (171,541) |
| Increase/(Decrease) in borrowings | (57,622) | 186,651 |
| **NET CASH USED BY FINANCING ACTIVITIES** | **(204,984)** | **(32,009)** |
| Change in cash and cash equivalents | 113,987 | (2,391) |
| Cash at cash equivalents at January 1 | 122,753 | 125,211 |
| **CASH AND CASH EQUIVALENTS AT DECEMBER 31** | **236,740** | **122,820** |

*(a) Changes in working capital are as follows:*

| € thousands | 2012 | 2011 | Change |
|---|---|---|---|
| Prepayments to suppliers | 1,411 | 2,280 | 869 |
| Inventories | 60,464 | 60,198 | (266) |
| Operating receivables | 245,367 | 216,426 | (28,941) |
| Other receivables | 139,558 | 97,293 | (42,265) |
| Accrued interest on loans and dividends receivable | 1,901 | 14,231 | 12,330 |
| Advances and deposits from customers | 0 | 0 | 0 |
| Operating liabilities | (302,941) | (267,550) | 35,391 |
| Other liabilities | (203,451) | (178,046) | 25,472 |
| Accrued interest | (1,566) | (682) | 884 |
| Deferred income, prepaid expenses and conversion gains and losses | 16,287 | 1,113 | (15,174) |
| **WORKING CAPITAL** | **(42,971)** | **(54,737)** | **(11,699)** |

Cash and cash equivalents correspond to cash and short-term deposits, less bank overdrafts.

# 3.8 Notes to the 2012 Parent Company Financial Statements



The following notes provide additional information about items reported in the balance sheet at December 31, 2012, which shows total assets of €3,363,034 thousand, and the income statement, which shows a net profit of €407,376 thousand.

The financial statements cover the 12-month period from January 1 to December 31, 2012.

The parent company is Essilor International, hereinafter referred to as "Essilor."

All amounts are presented in thousands of euros, unless otherwise specified.

## Significant events of the year

### Commercial revenue

Essilor International's revenue excluding the Puerto Rico branch was up 8.7% on 2011. Sales of lenses were up by 6% in France and by 10.6% in the export market. Sales of instruments were up by 7.2% in France and by 2.1% in the export market. The logistics business grew strongly by 35.7%, driven by export sales. Finally, the Puerto Rico branch recorded revenue growth of 12,3%.

## Financial transactions

### Treasury stock transactions

During 2012, Essilor bought back 2,002,359 treasury shares. This transaction took place as part of the share buyback policy conducted by Essilor since 2003, the goal of which is to limit the dilutive effects related to the granting of stock subscription options and performance shares. By decision of the Board of Directors of January 26, 2012, February 29, 2012 and November 27, 2012, Essilor conducted a share capital increase of €555,433.92, representing the issuance of 3,085,744 new shares and the cancellation of 2,400,000 shares, resulting in a share capital reduction of €432,000.

Finally, 578,008 shares were delivered from the pool of treasury shares due to the exercise of stock subscription (or purchase) options and following the completion of the performance of the performance share plans of 11/25/2010 and 12/20/2010.

At December 31, 2012, the number of treasury shares was 4,387,477.

## Acquisitions

As part of its acquisitions policy, Essilor International continues to strengthen its presence in high-growth countries in Latin America, the Middle East and the Mediterranean basin.

- In Tunisia, Essilor took a majority stake in the SIVO laboratory and its commercial subsidiary SICOM, located in Sfax, which has distribution subsidiaries in Morocco, Côte d'Ivoire, Cameroon and Togo.
- In South Africa, Essilor acquired a majority stake in Evolution Optical, a prescription laboratory resulting from the merger of Uniti Optical and Progress Optical, based in Capetown and Johannesburg, respectively.
- In Mexico, Essilor took a minority stake in Cristal y Plástico, a major market player based in Guadalajara with two prescription laboratories and two distribution and edging-mounting centers.
- In Argentina, Essilor acquired 51% of the share capital of Optovision, a prescription laboratory based in Buenos Aires.
- In France, the Group acquired 68.3% of the share capital of Interactif Visuel Système (IVS), world leader in technological sales-support solutions for opticians. IVS designs, develops and markets under the Activisu® brand a wide range of sales support and ophthalmic measurement solutions. IVS generates annual revenues of about €20 million.

## New financing

In March 2012, Essilor International concluded a US private investment of $300 million (one five-year tranche of $200 million, one seven-year tranche of $100 million). This has allowed the Company to reinforce its financial structure by extending the average duration of its debt.

## Human resources

At its meeting on November 27, 2012, the Board of Directors decided to allot 1,274,980 performance shares. These shares will be definitively allotted only when the annualized growth rate of the share is greater than or equal to 2% of the reference price of €71.35 after the legal acquisition periods (which may last from two to six years). These new allotments caused a provision to be created.

In addition, all of the commitments of the Company with respect to its employees are recorded in the financial statements (which correspond for the most part to retirement bonuses, retirement pension supplements, and length-of-service awards).

## Income tax

The tax liability recognized in the financial statements for fiscal year 2012 amounted to €11.3 million. This amount reflects a number of factors:

- the impact of a lower tax rate on taxable income, and the impact of the settlement of a tax audit covering 2006 to 2008 (discussions with the French tax authorities having been settled over the course of 2012);
- tax income corresponding to the tax credits applicable (especially the research tax credit), and to the tax savings from fiscal consolidation (the Company posting negative taxable income on its earnings taxable at the ordinary rate).

Essilor International was the subject of a tax audit for 2009 to 2011 inclusive. The Company received a notification relating to the 2009 fiscal year which Essilor International will examine. Without prejudging the final position of the French tax authorities, a provision for tax risk was recorded in the 2012 financial statements.

# NOTE 1. Accounting policies

## 1.1 General

The annual financial statements have been prepared in accordance with the French 1999 General Accounting Plan and generally accepted accounting principles.

## 1.2 Intangible assets

Intangible assets correspond primarily to purchased goodwill, concessions, patents, licenses and software. Intangible assets are stated at their acquisition cost or production cost and are amortized:

- by work unit;
- or by the straight-line method over their estimated useful life.

| | |
|---|---|
| Software | 1 to 10 years |
| Patents | Period of legal protection |

Qualifying software development costs are capitalized only when it is probable that they will generate future economic benefits. Qualifying costs include the costs of organic analyses, programming, tests and test decks, documentation, parameterization and the preparation of the software for its intended use, that are evidenced by invoices (external developers) or time sheets (internal developers).

Intangible assets are tested for impairment when the occurrence of an event or a change of circumstances indicates that their recoverable amount may be less than their carrying amount.

When the test shows that an asset's recoverable amount is less than its carrying amount, a provision for impairment is recorded. The recoverable amount of an asset is the higher of its fair value and value in use.

The initial cost of the asset includes related transaction costs. Conversely, the Company has not used the option to record borrowing expenses in the initial cost of the intangible assets.

## 1.3 Research and development costs

Research costs are recognized as an expense for the period in which they are incurred.

Development costs are capitalized if, and only if the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the Group's intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the reliable measurement of development expenditures.

Due to the risks and uncertainties concerning market developments and the large number of projects undertaken, the above criteria are considered as not being fulfilled for ophthalmic lens development projects. Consequently, development costs for these projects are recognized as an expense.

Instrument development costs are recognized as an intangible asset when the above criteria are fulfilled.

## 1.4 Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Buildings | 20 to 33 years |
| Building improvements | 7 to 10 years |
| Industrial machinery, equipment and tools | 3 to 20 years |
| Other | 3 to 10 years |

Land is not depreciated.

Differences between straight-line depreciation and reducing balance depreciation charged for tax purposes are included in untaxed provisions on the liabilities side of the balance sheet (regulated provisions).

All internal and external costs of producing items of property, plant and equipment are capitalized, with the exception of administrative, start-up and pre-operating costs.

Property, plant and equipment are tested for impairment when the occurrence of an event or a change of circumstances indicates that their recoverable amount may be less than their carrying amount.

When the test shows that an asset's recoverable amount is less than its carrying amount, a provision for impairment is recorded. The recoverable amount of an asset is the higher of its fair value and value in use.

The initial cost of the asset includes related transaction costs. Conversely, the Company has not used the option to record borrowing expenses in the initial cost of the intangible assets.

## 1.5 Long-term investments

Investment securities are registered at acquisition cost. Acquisition costs for the investment securities are included in the initial costs.

The value in use of shares in subsidiaries and affiliates is estimated each year, generally on the basis of the investee's net assets and earnings outlook. In this case, the discount rate used is the weighted average cost of the capital.

Loans and receivables are stated at nominal value. Foreign currency loans and receivables are converted into euros at the year-end at the closing exchange rate or the hedging rate. Provisions are recorded to cover any risk of non-recovery.

Own shares bought back by the Company are recorded under "Other long-term investments" at cost. A provision for impairment is recorded for any shares whose cost is greater than their average price for the last month of the fiscal year, except where the shares have been bought back in order to be cancelled and those shares covered by a provision for risks because they were intended to hedge performance share plans and stock options.

For other investments, a provision for impairment is recorded when their recoverable amount, defined as the higher of fair value or value in use, is less than their carrying amount.

## 1.6 Inventories

Raw materials and goods inventories are stated at cost, including incidental expenses, determined by the weighted average cost method. Finished products, semi-finished products and work in progress are stated at actual production cost, which includes the cost of raw materials and direct and indirect production costs.

At each period-end, inventories are written down to net realizable value where applicable. Net realizable value is determined by reference to market prices, sales prospects and the risk of obsolescence, assessed on the basis of objective inventory levels.

## 1.7 Receivables and payables

Receivables and payables are stated at nominal value. Foreign currency receivables and payables are converted into euros at the year-end exchange rate or the hedging rate. Receivables are written down when their net realizable value, estimated by reference to the risk of non-recovery, is less than their carrying amount.

## 1.8 Marketable securities

Marketable securities, consisting primarily of units in SICAV mutual funds and bank deposits.

This item also includes own shares acquired under the liquidity contract.

A provision is recorded if the net asset value of the mutual fund units represents less than their cost.

## 1.9 Financial instruments

Derivative financial instruments are used only to hedge risks on commercial transactions and identified foreign currency receivables and payables. They include forward exchange contracts and currency options.

The Company uses derivative financial instruments solely for hedging purposes. All currency transactions are subject to pre-determined position limits designed to optimize the protection afforded by the hedges.

Gains and losses on hedging instruments are recognized in the year in which they are settled, on a symmetrical basis with the loss or gain on the hedged item. They are based on the forward rate at the balance sheet date for the remaining period to maturity.

The Company's interest rate management policy consists of hedging interest rate risks. To hedge interest rate risks, the Company uses interest rate and option swaps (Caps).

Financial expenses and profit related to interest-rate derivatives are recognized in income symmetrically to the gain or loss on the hedged item.

## 1.10 Foreign currency transactions

Almost all foreign currency transactions are hedged. They are then recognized at the hedge price. Any transactions that are not hedged are converted at the exchange rate on the transaction date.

At the year-end, unhedged foreign currency receivables and payables are converted at the closing exchange rate. The difference arising on conversion is recorded under "Conversion losses" or "Conversion gains" on the assets or liabilities side of the balance sheet.

A provision is booked for conversion losses.

Foreign currency bank balances are hedged at the month-end exchange rate.

## 1.11 Pension, length-of-service and other obligations

The Company has obligations towards employees for the payment of pensions, early-retirement benefits, length-of-service and other awards.

Where these benefits are payable under defined contribution plans, the contributions are expensed as incurred.

In the case of defined benefit plans, provisions are booked to cover the unfunded projected benefit obligation, as follows:

- the projected benefit obligation, corresponding to the vested rights of active and retired employees of the Company, is determined by the projected unit credit method, based on estimated final salaries, actuarial assumptions concerning inflation, staff turnover rates and the rate of future salary increases, and an appropriate discount rate;
- the discount rate corresponds to the prime interest rate in the country concerned for periods corresponding to the estimated average duration of the benefit obligation;
- in cases where all or part of the obligation is funded under an external plan, a provision is recorded for the difference between the projected benefit obligation and the fair value of the plan assets;
- actuarial gains and losses resulting from changes in assumptions and experience-based adjustments are recognized in profit by the corridor method. This method consists of amortizing over the expected average remaining service lives of plan participants only the portion of the net cumulative gain or loss that exceeds the greater of 10% of either the projected benefit obligation or the fair value of the plan assets;
- when a company introduces a defined benefit plan or changes the benefit formula under an existing defined benefit plan and rights under the new or modified plan are unvested, the related change in the Company's obligation is recognized in profit on a straight-line basis over the expected average remaining service lives of the plan participants. When rights under the new or modified plan vest immediately, the resulting change in the Company's obligation is recognized in profit immediately;
- provisions recorded in the balance sheet correspond to the projected benefit obligation less the fair value of any plan assets, the value of unrealized actuarial gains and losses and unrecognized past service cost.

## 1.12 Foreign currency translation

The Essilor Industries financial statements are prepared in US dollars.

The financial statement conversion process for the Essilor Industries branch, which is considered an autonomous institution, is as follows:

- income statement items are translated at the average hedging rate for the year.
- balance sheet amounts were converted into euros, at the balance sheet closing date rate, except for:
  - reserves, which are translated at the historical rate,
  - net profit, which is translated at the hedging rate.

The difference arising on translation is recorded in equity under "Translation reserve."

## 1.13 Corporate income tax (Group relief)

Essilor International files a consolidated tax return with ESSILOR, BBGR, OPTIM, INVOPTIC, VARILUX UNIVERSITY, NOVISIA, ESSIDEV, OSE, TIKAI VISION, BNL EUROLENS, FGX HOLDING, DELAMARE SOVRA and OMI and pays the corporate income tax due by the tax group.

Each company in the tax group records the income tax charge that would apply if it were not a member of the tax group. This has no impact on the parent company accounts.

The tax savings arising from the use of the tax losses of tax group members, which are returnable to them by Essilor are recognized as a liability via the booking of a debt in the Company's balance sheet.

## 1.14 Recognition and measurement of provisions

### Untaxed provisions

These mainly comprise provisions for excess tax depreciation.

### Provisions for contingencies and charges

A provision is recognized when there is an obligation towards a third party and it is probable or certain that an outflow of resources generating economic benefits will be necessary to settle the obligation without any benefit of at least equivalent value being expected in return.

Contingent liabilities are not recognized in the balance sheet but are disclosed in the notes to the financial statements unless the probability of an outflow of resources generating economic benefits is remote.

#### Provisions for customer warranties

The provision is calculated:

- by multiplying revenue for the warranty period by a percentage corresponding to the ratio of average annual warranty costs to annual revenue; or
- when the estimated product return period is shorter, by multiplying revenue for the estimated return period by a percentage corresponding to the ratio of average annual warranty costs to annual revenue.

#### Provisions for treasury shares

- Shares held under stock option plans: Parent company shares held for stock option plans granted to Group employees are carried at cost under "Other long-term investments." They are recognized at acquisition cost. Where applicable, a provision is recorded to cover the difference between the option exercise price and the weighted average price of the corresponding shares held at the year-end.
- Performance shares: A provision is recorded for the cost of performance shares, corresponding to the estimated number of shares that are expected to vest multiplied by the weighted average price of our own treasury stock at the fiscal year-end. The estimate takes into account staff turnover rates and share price assumptions.

Effective from 2008, this provision is recognized over the performance share vesting period in accordance with Regulation CRC 2008-15 of December 4, 2008; one of the vesting conditions is the grantee's continued employment by the Company.

Since the granting of stock options and performance shares constitute a compensation item, these provisions are recognized as personnel expenses.

#### Provisions for losses from subsidiaries and affiliates

An impairment loss is recognized for investments whose current value is less than their net asset value. As necessary, the provision is allotted in the following order: securities, current account, long-term receivables and provision for risk for up to the contingent amount. However, this provision for risk is recognized only under the following conditions:

- the legal form implies that Essilor is indefinitely and jointly responsible for the liability; or
- for the amount of the commitments undertaken by Essilor, for the other legal forms.

## 1.15 Loan issuance charges

Loan issuance charges may be:

- kept in expenses in their entirety in the year they are reported;
- distributed over the term of the loan.

The choice between these two methods is made when a loan is issued and cannot be changed subsequently for that same loan.

# NOTE 2. Revenue

## 2.1 Net revenue by business segment

| 2012<br>€ thousands | France | Export | Total | % Change 2012/2011 |
|---|---|---|---|---|
| Corrective lenses | 307,738 | 244,215 | 551,953 | 8.0% |
| Optical instruments | 32,015 | 51,438 | 83,453 | 4.0% |
| Industrial equipment | 186 | 22,356 | 22,542 | 35.7% |
| Other | 15,391 | 64,204 | 79,595 | 12.8% |
| **TOTAL** | **355,330** | **382,213** | **737,543** | **8.7%** |

| 2011<br>€ thousands | France | Export | Total | % Change 2012/2011 |
|---|---|---|---|---|
| Corrective lenses | 290,261 | 220,816 | 511,077 | -0.4% |
| Optical instruments | 29,852 | 50,357 | 80,209 | -4.8% |
| Industrial equipment | 1,601 | 15,011 | 16,611 | -17.6% |
| Other | 15,278 | 55,255 | 70,533 | 12.4% |
| **TOTAL** | **336,992** | **341,439** | **678,430** | **-0.3%** |

## 2.2 Breakdown between intercompany and external sales, France and export

| € thousands | 2012 | 2011 | % Change 2012/2011 |
|---|---|---|---|
| France: | | | |
| ■ Intercompany | 45,180 | 34,808 | 29.8% |
| ■ External | 310,151 | 302,184 | 2.6% |
| **SUBTOTAL** | **355,330** | **336,992** | **5.4%** |
| Export: | | | |
| ■ Intercompany | 349,904 | 284,856 | 22.8% |
| ■ External | 32,309 | 56,583 | -42.9% |
| **SUBTOTAL** | **382,213** | **341,439** | **11.9%** |
| **TOTAL** | **737,543** | **678,430** | **8.7%** |

## NOTE 3. Other income

| € thousands | 2012 | 2011 |
|---|---|---|
| Royalties and rebilling of expenses to Group companies | 203,512 | 200,696 |
| Other | 24 | 128 |
| **TOTAL** | **203,537** | **200,824** |

## NOTE 4. Other external purchases and expenses

| € thousands | 2012 | 2011 |
|---|---|---|
| Outsourcing | 49,663 | 38,289 |
| Rentals, maintenance and insurance | 26,164 | 25,455 |
| Studies, research and documentation | 28,678 | 27,475 |
| Temporary staff | 13,222 | 14,108 |
| Fees | 27,620 | 28,791 |
| Communication and advertising | 28,243 | 24,210 |
| Telecommunications, commissions and business travel | 35,392 | 33,523 |
| Other | 1,953 | 2,098 |
| **TOTAL** | **210,935** | **193,949** |

## NOTE 5. Net interest income

| € thousands | 2012 | 2011 |
|---|---|---|
| Interest expense | (13,369) | (6,493) |
| Interest income | | |
| ■ Dividends | 360,369 | 255,920 |
| ■ Investment income | 5,041 | 2,215 |
| ■ Interest income from loans | 20,114 | 12,756 |
| Net discounts | (3,437) | (2,987) |
| Provisions for losses on subsidiaries | (912) | (25,575) |
| Exchange gains and losses, net | (688) | 2,546 |
| Other | (695) | (993) |
| **TOTAL** | **366,424** | **237,388** |

## NOTE 6. Non-operating items

| € thousands | 2012 | 2011 |
|---|---|---|
| **REVENUE TRANSACTIONS** | **(5,709)** | **(2,907)** |
| Other income and expenses from revenue transactions | (5,708) | (2,793) |
| Restructuring costs | (1) | (114) |
| **CAPITAL TRANSACTIONS** | **21,372** | **(812)** |
| Disposal of investments | 0 | (875) |
| Other income and expenses from capital transactions[a] | 21,372 | 63 |
| **PROVISION MOVEMENTS** | **19,350** | **(9,728)** |
| Untaxed provisions | (1,276) | (2,733) |
| Other[b] | 20,626 | (6,994) |
| **TOTAL** | **35,013** | **(13,447)** |

*(a) Other non-operating financial income and expenses mainly include the sale of intellectual property rights.*
*(b) "Other" mainly includes the provision reversal for tax audits.*

## NOTE 7. Income tax expense

### 7.1 Profit excluding overriding tax assessments

| € thousands | 2012 | 2011 |
|---|---|---|
| Net profit | 407,376 | 273,061 |
| Income tax expense | 11,294 | (14,408) |
| Pre-tax profit | 418,670 | 258,654 |
| Change in regulated provisions | 1,276 | 2,733 |
| **PROFIT BEFORE TAX, EXCLUDING OVERRIDING TAX ASSESSMENTS** | **419,946** | **261,387** |

Besides a tax charge of €22,172 thousand, taxes recognized at Essilor include income related to the research tax credit of €12,807 thousand and tax consolidation income of €8,486 thousand. In addition, in 2012 Essilor also paid a tax adjustment in the amount of €9,384 thousand (expense provisioned since 2009). Essilor tax income ended up totaling €11,294 thousand.

## 7.2 Analysis of income tax expense

Income tax expense breaks down as follows between operating and non-operating items:

| 2012<br>€ thousands | Before tax | Tax | After tax |
|---|---|---|---|
| Profit before non-operating items and tax[a] | 383,657 | (5,991) | 377,666 |
| Non-operating income (expense), net | 35,013 | (5,303) | 29,710 |
| **NET PROFIT** | | | **407,376** |

(a) *Of which €372,231 thousand in dividends subject to the parent company-subsidiary treatment and €137,564 thousand in royalties taxed at the reduced rate of 15%.*

| 2011<br>€ thousands | Before tax | Tax | After tax |
|---|---|---|---|
| Profit before non-operating items and tax | 272,100 | 11,248 | 283,348 |
| Non-operating income (expense), net | (13,447) | 3,160 | (10,287) |
| **NET PROFIT** | | | **273,061** |

## 7.3 Unrecognized deferred tax assets and liabilities

### Assets

No deferred tax assets are recognized in the balance sheet.

| € thousands | 2012 | 2011 |
|---|---|---|
| Pension plan | 30,050 | 32,535 |
| Provisions for vacation pay[a] | 12,002 | 11,814 |
| Impairment of investments in subsidiaries and affiliates | 62,662 | 74,966 |
| Other | 12,494 | 10,970 |
| **TOTAL** | **117,208** | **130,285** |
| **TAX LOSS CARRYFORWARDS[b]** | **242,638** | **154,048** |
| Unrecognized tax asset (36.10% tax rate) | 129,904 | 102,644 |

(a) *The Company has elected to apply the provisions of Article 8 of the 1987 French Finance Act, allowing the deduction of vacation pay on a cash basis. The provision is therefore not deductible, giving rise to a future tax saving.*

(b) *This cumulative tax loss carry-forward corresponds to the tax loss carry-forward of the tax group. The tax savings arising from the use of the tax losses of tax group members, which are returnable to them by Essilor are recognized as a liability through the recognition of a debt in the Company's balance sheet. The amount of this tax loss is €3,214 thousand at December 31, 2012. The Company believes it will be able to use its tax loss carryforwards.*

### Equity and liabilities

No deferred tax liabilities are recognized in the balance sheet. Recognition of deferred taxes on timing differences would have the effect of increasing income tax expense by €11,687 thousand as follows:

| € thousands | At the fiscal 2010 year-end | Increase 2011 | Decrease 2011 | At the fiscal 2011 year-end | Increase 2012 | Decrease 2012 | At the fiscal 2012 year-end |
|---|---|---|---|---|---|---|---|
| Provisions for: | | | | | | | |
| ■ Excess tax depreciation | 28,129 | 7,871 | 5,138 | 30,863 | 7,457 | 6,181 | 32,138 |
| ■ Other | 122 | 2 | | 124 | 112 | | 236 |
| **TOTAL** | **28,251** | **7,873** | **5,138** | **30,987** | **7,568** | **6,181** | **32,374** |
| Unrecognized deferred tax liability (36.10% tax rate) | 9,727 | | | 11,186 | | | 11,687 |

## NOTE 8. Intangible assets

| € thousands | At the beginning of the fiscal year | Acquisitions | Disposals | Other movements | Amortization and impairment losses of the fiscal year | Reversals of amortization and impairment losses | At the end of the fiscal year |
|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | |
| Development costs | 3,551 | 9 | | 1,191 | | | 4,752 |
| Patents, trademarks and licenses | 99,591 | 2,580 | 121 | 15,611 | | | 117,659 |
| Purchased goodwill | 434 | | | | | | 434 |
| Other intangible assets | 20,873 | 5,055 | 968 | (16,807) | | | 8,153 |
| **GROSS AMOUNT** | **124,449** | **7,644** | **1,089** | **(5)** | | | **130,998** |
| Amortization and provisions | 74,410 | | | | 9,751 | 1,089 | 83,072 |
| **CARRYING AMOUNT** | **50,039** | | | | | | **47,926** |
| **2011** | | | | | | | |
| Development costs | 3,551 | | | | | | 3,551 |
| Patents, trademarks and licenses | 94,146 | 1,992 | 44 | 3,497 | | | 99,591 |
| Purchased goodwill | 434 | | | | | | 434 |
| Other intangible assets | 17,663 | 6,730 | 40 | (3,480) | | | 20,873 |
| **GROSS AMOUNT** | **115,794** | **8,722** | **85** | **17** | | | **124,449** |
| Amortization and provisions | 66,773 | | | | 8,600 | 963 | 74,410 |
| **CARRYING AMOUNT** | **49,021** | | | | | | **50,039** |

## NOTE 9. Property, plant and equipment

| € thousands | At the beginning of the fiscal year | Acquisitions | Disposals | Other movements | Depreciation and impairment losses of the fiscal year | Reversals of depreciation and impairment losses | At the end of the fiscal year |
|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | |
| Land | 13,881 | 21 | | (8) | | | 13,894 |
| Buildings | 117,980 | 424 | 3,434 | 1,234 | | | 116,204 |
| Plant and equipment | 135,927 | 3,373 | 2,600 | 1,222 | | | 137,922 |
| Other | 44,447 | 1,258 | 703 | 69 | | | 45,072 |
| Assets under construction | 13,860 | 21,066 | | (2,858) | | | 32,067 |
| Advance payments to suppliers | 9 | 120 | | (9) | | | 120 |
| **GROSS AMOUNT** | **326,103** | **26,262** | **6,736** | **(350)** | | | **345,279** |
| Depreciation and provisions | 218,639 | | | | 18,398 | 6,813 | 230,224 |
| **CARRYING AMOUNT** | **107,464** | | | | | | **115,056** |
| **2011** | | | | | | | |
| Land | 13,859 | 18 | 1 | 5 | | | 13,881 |
| Buildings | 117,093 | 1,005 | 1,673 | 1,555 | | | 117,980 |
| Plant and equipment | 129,062 | 5,568 | 3,607 | 4,904 | | | 135,927 |
| Other | 44,110 | 1,174 | 1,060 | 223 | | | 44,447 |
| Assets under construction | 10,062 | 9,660 | 66 | (5,796) | | | 13,860 |
| Advance payments to suppliers | 382 | 9 | | (382) | | | 9 |
| **GROSS AMOUNT** | **314,569** | **17,434** | **6,409** | **509** | | | **326,103** |
| Amortization and provisions | 204,122 | | | | 19,492 | 4,975 | 218,639 |
| **CARRYING VALUE** | **110,447** | | | | | | **107,464** |

# NOTE 10. Investments and other non-current assets

## 10.1 Analysis

| 2012<br>€ thousands | At the beginning of the fiscal year | Acquisitions | Disposals | Other movements | Depreciation and impairment losses of the fiscal year | Reversals of depreciation and impairment losses | At the end of the fiscal year |
|---|---|---|---|---|---|---|---|
| Shares in subsidiaries and affiliates[(a)] | 1,771,360 | 49,398 | 9,945 | 1,155 | | | 1,811,968 |
| Loans to subsidiaries and affiliates[(b)] (advances on share issues) | 465,870 | 883,105 | 872,711 | | | | 476,264 |
| Other long-term investments (own shares) | 266,983 | 230,436 | 256,362 | | | | 241,057 |
| Other loans | 44 | | | | | | 44 |
| Other non-current assets[(c)] | 4,375 | 5,584 | 2,341 | (1,155) | | | 6,463 |
| **GROSS AMOUNT** | **2,508,631** | **1,168,524** | **1,141,359** | | | | **2,535,796** |
| Provisions | 74,966 | | | | 14,157 | 22,977 | 66,147 |
| **CARRYING AMOUNT** | **2,433,665** | | | | | | **2,469,650** |

(a) *Increases:*
- *increases in share capital of FGX Holding and Optiben in the total amount of €1.4 million;*
- *acquisition of 51% of Evolution Optical Pty Ltd; 68.29% of IVS SA; 55% of Essilor Sivo SA; 51% of Cristal y Plastico; 51% of Optovision; total increases amounting to €37.4 million;*
- *acquisition of 10% of O'MAX increasing its holding to 85%; 20% of United Optical Laboratories LTD increasing its holding to 100%; 29% of Vision and Value Optical Laboratories increasing its holding to 80%; 5% of MGM Optical Laboratory Inc increasing its holding to 85%; total increases amounting to €2.2 million;*
- *creation of Essiholding and Essilor Optica International Holding totaling €1.6 million.*
- *Decreases:*
- *reduction in share capital of Canoptec in the amount of €0.8 million;*
- *disposal of 100% of its interests in Essilor Espana and Essilor Optica International Holding totaling €1.7 million.*
- *Transfers:*
- *long-term assets of various acquisition fees (€1.2 million).*

(b) *Increases and decreases are for the most part connected to renewals of loans to subsidiaries.*

(c) *Balance consists of deposits and sureties (€3.7 million) and the IVS SA escrow account (€2.8 million).*

| 2011<br>€ thousands | At the beginning of the fiscal year | Acquisitions | Disposals | Other movements | Impairment losses of the fiscal year | Reversals of impairment losses | At the end of the fiscal year |
|---|---|---|---|---|---|---|---|
| Shares in subsidiaries and affiliates | 1,579,557 | 211,949 | 21,188 | 1,043 | | | 1,771,360 |
| Loans to subsidiaries and affiliates[(a)] (advances on share issues) | 394,722 | 964,958 | 893,809 | | | | 465,870 |
| Other long-term investments (own shares) | 136,192 | 163,017 | 32,226 | | | | 266,983 |
| Other loans | 44 | | | | | | 44 |
| Other non-current assets[(b)] | 4,983 | 3,577 | 3,142 | (1,043) | | | 4,375 |
| **GROSS AMOUNT** | **2,115,497** | **1,343,500** | **950,366** | | | | **2,508,631** |
| Provisions | 85,830 | | | | 16,859 | 27,723 | 74,966 |
| **CARRYING AMOUNT** | **2,029,666** | | | | | | **2,433,665** |

(a) *Increases and decreases are for the most part connected to renewals of loans to subsidiaries and a dividend of €12.3 million to be received from Satisloh Holding AG.*

(b) *Total payment of fixed-term bank deposit (escrow): EIH.*

## 10.2 Subsidiaries and affiliates

**INVESTMENTS WITH A GROSS AMOUNT REPRESENTING**

| € thousands | Share capital | Other share capital | Book value | | Loans and advances extended by the Company | Guarantees and endorsements given by the Company | Pre-tax earnings in previous year | Profit in previous year | Dividends received by the Company during the year |
|---|---|---|---|---|---|---|---|---|---|
| | | | Gross | Net | | | | | |
| **A – More than 1% of Essilor International's capital** | | | | | | | | | |
| French companies | 112,922 | 266,468 | 267,162 | 252,689 | | | 400,198 | 30,542 | 31,708 |
| International subsidiaries | 504,481 | 1,222,245 | 1,543,833 | 1,495,985 | 261,168 | 319,254 | 5,282,375 | 519,264 | 319,998 |
| **B – Less than 1% of Essilor International's capital** | | | | | | | | | |
| French companies | | | | | | | | | |
| International subsidiaries | 11,358 | 60,560 | 1,007 | 666 | 20,147 | | 216,980 | 11,343 | 8,663 |

## 10.3 Analysis of long-term loans and receivables by maturity

| € thousands | 2012 | 2011 |
|---|---|---|
| More than one year | 329,793 | 198,911 |
| Less than one year | 152,978 | 271,378 |
| **TOTAL** | **482,771** | **470,289** |

# NOTE 11. Current assets

## 11.1 Inventories

| € thousands | 2012 | 2011 |
|---|---|---|
| Raw materials and other supplies | 39,657 | 42,629 |
| Goods for resale | 8,971 | 6,549 |
| Finished and semi-finished products and work in progress | 29,498 | 28,935 |
| **SUBTOTAL** | **78,126** | **78,113** |
| Provisions: | | |
| Raw materials and other supplies | (11,713) | (12,083) |
| Goods for resale | (1,278) | (1,915) |
| Finished and semi-finished products and work in progress | (4,671) | (3,916) |
| **SUBTOTAL** | **(17,662)** | **(17,914)** |
| **TOTAL** | **60,464** | **60,198** |

## 11.2 Analysis of operating receivables by maturity

| € thousands | 2012 |
|---|---|
| **MORE THAN ONE YEAR** | **15,774** |
| Trade receivables | 15,664 |
| Other receivables[b] | 110 |
| **LESS THAN ONE YEAR** | **395,773** |
| Prepayments to suppliers | 1,419 |
| Trade receivables[a] | 212,186 |
| Other receivables[b] | 182,168 |
| **TOTAL** | **411,547** |

*(a) The portion related to commercial paper represents €5.1 million.*
*(b) The "Other receivables" line primarily includes current accounts with regard to subsidiaries of €130.1 million and a carry-back receivable of €12.2 million.*

## 11.3 Marketable securities

| | 2012 | | 2011 | |
|---|---|---|---|---|
| € thousands | Gross | Net | Gross | Net |
| Money market funds[a] | 146,174 | 146,174 | 50,641 | 50,641 |
| Currency options | 1,045 | 1,045 | 805 | 805 |
| **TOTAL** | **147,219** | **147,219** | **51,446** | **51,446** |
| Bank deposits | 100,000 | 100,000 | 82,000 | 82,000 |
| **TOTAL** | **247,219** | **247,219** | **133,446** | **133,446** |

*(a) Money market funds held at closing are comprised solely of money market funds.*

Cash investments are subject to a policy that encourages safety and liquidity on the return. Available cash is invested only in short-term money-market funds, which limit the risk of capital loss and are immediately available. At December 31, 2012, counterparties for investment and capital markets transactions carried out by the Group Treasury Department were all rated at least A-2 (short-term) and A- (long-term) by Standard & Poor's.

## 11.4 Prepaid expenses

| € thousands | 2012 | 2011 |
|---|---|---|
| Prepaid expenses: | | |
| Operating income | 15,887 | 3,890 |
| Financial income | 833 | 0 |
| **TOTAL** | **16,720** | **3,890** |

### 11.5 Accrued income

| € thousands | 2012 | 2011 |
|---|---|---|
| Investments and other non-current assets | | |
| Loans to subsidiaries and affiliates[a] | 1,901 | 14,234 |
| Receivables | | |
| Trade receivables | 22,924 | 26,496 |
| Other receivables | 1,895 | 3,072 |
| **TOTAL** | **26,721** | **43,802** |

*(a) The change in loans to subsidiaries and affiliates can be explained by the dividend to be received from Satisloh Holding AG in the amount of €12.3 million at the end of December 2011.*

## NOTE 12. Equity

### 12.1 Share capital

| | Number of shares | | | | | |
|---|---|---|---|---|---|---|
| Number of shares, except for per share data | At the beginning of the fiscal year | Issued | Cancelled | Exchanged | At end of the fiscal year | Par value, in € |
| Ordinary shares | 214,038,296 | 3,085,744 | (2,400,000) | | 214,724,040 | 0.18 |
| **TOTAL** | **214,038,296** | **3,085,744** | **(2,400,000)** | | **214,724,040** | **0.18** |

Of which own shares:

| Number of shares | At the beginning of the fiscal year | Bought | Cancelled | Stock options exercised | Performance shares exercised | Number of shares at the end of the fiscal year |
|---|---|---|---|---|---|---|
| Treasury stock | 5,363,126 | 2,002,359 | (2,400,000) | | (578,008) | 4,387,477 |
| Held in the liquidity contract[a] | | | | | | |
| **TOTAL** | **5,363,126** | **2,002,359** | **(2,400,000)** | | **(578,008)** | **4,387,477** |

*(a) Essilor acquired and sold 503,301 shares between January 1 and December 31, 2012 under the liquidity contract.*

## 12.2 Statement of changes in equity

| € thousands | Share capital | Additional paid-in capital | Reserves and retained earnings | Net profit for the fiscal year | Untaxed provisions | Government grants | Translation difference[(a)] | Total equity |
|---|---|---|---|---|---|---|---|---|
| **EQUITY AT JANUARY 1, 2012** | **38,527** | **307,401** | **1,347,403** | **273,061** | **30,863** | **124** | **(1,429)** | **1,995,950** |
| Capital increase | | | | | | | | |
| ■ FCP Mutual funds | 69 | 21,927 | | | | | | 21,996 |
| ■ Subscription options | 486 | 95,417 | | | | | | 95,903 |
| Capital reduction | (432) | (113,122) | | | | | | (113,554) |
| Other movements in the fiscal year | | | | | 1,276 | 112 | (284) | 1,104 |
| Appropriation of profit | | | 273,061 | (273,061) | | | | 0 |
| Dividends paid | | | (176,619) | | | | | (176,619) |
| Net profit for the fiscal year | | | | 407,376 | | | | 407,376 |
| **EQUITY AT DECEMBER 31, 2012** | **38,650** | **311,623** | **1,443,845** | **407,376** | **32,139** | **236** | **(1,713)** | **2,232,155** |

*(a) The translation difference relates to the Puerto Rico branch.*

**2012**

Capital totaled €38,650 thousand, corresponding to an increase of 685,744 ordinary shares following:

- a reduction of capital via cancellation of treasury shares (-2,400,000 shares);
- subscriptions to Essilor group FCP mutual funds (385,354 shares);
- stock options (2,700,390 shares);

New shares were entitled to dividends starting January 1, 2012.

**2011**

Capital totaled €38,527 thousand, corresponding to an increase of 2,382,954 ordinary shares following:

- subscriptions to Essilor group FCP mutual funds (521,316 shares);
- stock options (1,861,638 shares);

New shares were entitled to dividends starting January 1, 2011.

## 12.3 Stock subscription and purchase options, performance shares and employee share issues

### Stock subscription and purchase options

The exercise price of stock subscription or purchase options corresponds to the average of the share prices quoted over the 20 trading days preceding the date of the Board Meeting at which the grants are decided. Gains on options granted since 2004 (corresponding to the difference between the share price on the option exercise date and the exercise price) are capped at 100% of the exercise price.

Stock subscription options granted in 2006, 2007 and January 2008 are subject to vesting conditions based on the share performance over a period of two to four years, as well as to the 100% cap on gains. The November 2008, November 2009, November 2010 and November 2011 and November 2012 stock subscription options are subject to vesting conditions based on the share performance over a period of two to six years, as well as to the 100% cap on gains.

### Performance shares

Since 2006, the Essilor group has launched performance-based bonus share allotment plans.

The number of shares vested at the end of a period of two to six years based on the grant date ranges from 0% to 100% of the number of shares originally granted, depending on the performance of the Essilor share compared with the reference price on the grant date (corresponding to the average of the prices quoted over the 20 trading days preceding the Board Meeting at which the grant is decided).

### Employee share issues

The main features of the employee share issues are:

| In € | 2012 | 2011 |
|---|---|---|
| Share subscription price | 57.08 | 41.34 |
| Total discount amount | 14.27 | 10.34 |
| Number of shares subscribed | 385,354 | 521,316 |

## NOTE 13. Provisions

### 13.1 Provisions for contingencies and charges

| 2012<br>€ thousands | At the beginning of the fiscal year | Charges | Utilizations | Releases (surplus provisions) | At the end of the fiscal year |
|---|---|---|---|---|---|
| Provisions for pensions and other post-employment benefits | 32,535 | 8,751 | 11,200 | 35 | 30,050 |
| Provisions for losses in subsidiaries and affiliates | 300 | - | - | - | 300 |
| Provision for losses on performance shares | 13,566 | 57,029 | 34,428 | - | 36,166 |
| Provisions for restructuring | - | 15 | - | - | 15 |
| Other provisions for contingencies and charges[a] | 34,038 | 10,549 | 16,980 | 12,710 | 14,927 |
| **TOTAL** | **80,469** | **76,344** | **62,608** | **12,745** | **81,460** |

*(a) "Other provisions for contingencies and charges" at the 2012 fiscal year-end mainly consisted of the provision for tax audits in the amount of €3.8 million, provisions for legal disputes in the amount of €2.2 million, and provisions for operating risks in the amount of €6.1 million and other provisions for charges in the amount of €2.4 million.*

| 2011<br>€ thousands | At the beginning of the fiscal year | Charges | Utilizations | Releases (surplus provisions) | At the end of the fiscal year |
|---|---|---|---|---|---|
| Provisions for pensions and other post-employment benefits | 29,157 | 7,087 | 3,513 | 197 | 32,535 |
| Provisions for losses in subsidiaries and affiliates | 300 | - | - | - | 300 |
| Provision for losses on performance shares | 16,316 | 23,568 | 26,318 | - | 13,566 |
| Provisions for restructuring | - | - | - | - | - |
| Other provisions for contingencies and charges[a] | 28,710 | 11,436 | 4,672 | 1,406 | 34,068 |
| **TOTAL** | **74,484** | **42,090** | **34,503** | **1,603** | **80,469** |

*(a) "Other provisions for contingencies and charges" were comprised primarily of the provision for tax audits which totaled €24.7 million at the 2011 fiscal year-end.*

## 13.2 Provisions for impairment

| € thousands | At the beginning of the fiscal year | Charges | Releases | At the end of the fiscal year |
|---|---|---|---|---|
| **2012** | | | | |
| **PROVISIONS FOR IMPAIRMENT** | **112,577** | **39,008** | **43,310** | **108,277** |
| Inventories | 17,914 | 17,662 | 17,914 | 17,662 |
| Receivables | 19,689 | 7,189 | 2,419 | 24,460 |
| Shares in subsidiaries and affiliates | 74,966 | 10,672 | 22,977 | 62,662 |
| Loans to subsidiaries and affiliates | - | 3,485 | - | 3,485 |
| Other long-term investments | - | - | - | - |
| Other | 8 | - | - | 8 |
| **2011** | | | | |
| **PROVISIONS FOR IMPAIRMENT** | **106,441** | **53,696** | **47,560** | **112,577** |
| Inventories | 17,697 | 17,914 | 17,697 | 17,914 |
| Receivables | 2,906 | 18,923 | 2,140 | 19,689 |
| Shares in subsidiaries and affiliates | 85,750 | 16,859 | 27,643 | 74,966 |
| Other long-term investments | 81 | - | 81 | 0 |
| Other | 8 | | | 8 |

# NOTE 14. Liabilities

## 14.1 Maturities of liabilities

### Analysis of total liabilities by maturity and by category

| € thousands | 2012 | 2011 |
|---|---|---|
| **DUE WITHIN ONE YEAR** | **815,217** | **1,035,652** |
| Borrowings | 314,335 | 586,238 |
| Operating liabilities[b] | 303,684 | 274,727 |
| Other liabilities[a] and [b] | 197,198 | 174,687 |
| **DUE IN ONE TO FIVE YEARS** | **157,733** | **3,292** |
| Borrowings | 151,584 | |
| Operating liabilities | | |
| Other liabilities | 6,149 | 3,292 |
| **DUE IN MORE THAN FIVE YEARS** | **75,792** | **0** |
| Borrowings | 75,792 | |
| Operating liabilities | | |
| Other liabilities | | |
| **TOTAL** | **1,048,742** | **1,038,944** |

*(a) "Other liabilities" consist mainly of current account advances from subsidiaries in the amount of €185.5 million.*
*(b) The portion related to commercial paper represents €0.9 million.*

### Analysis by maturity (total liabilities)

| € thousands | 2012 | 2011 |
|---|---|---|
| 2012 | | 1,035,652 |
| 2013 | 815,217 | 1,641 |
| 2014 | 4,498 | |
| 2015 | 1,652 | 1,651 |
| 2017 | 151,584 | |
| 2019 | 75,792 | |
| **TOTAL** | **1,048,743** | **1,038,944** |

### Analysis by currency (borrowings)

| € thousands | 2012 | 2011 |
|---|---|---|
| EUR | 160,038 | 191,689 |
| USD | 377,080 | 386,558 |
| GBP | 613 | 4,196 |
| CAD | | 3,794 |
| MXN | 1,001 | |
| PLN | 2,978 | |
| **TOTAL** | **541,711** | **586,238** |

### Covenants

The Company's financing is not subject to special financial covenants. Only the USD300 million private investment subscribed in 2012 is subject to a special financial ratio. This was complied with at December 31, 2012.

## 14.2 Accrued charges

| € thousands | 2012 | 2011 |
|---|---|---|
| Accrued interest | 2,714 | 948 |
| Trade payables | 49,070 | 39,090 |
| Accrued taxes and personnel expense | | |
| ■ Vacation pay | 33,911 | 31,701 |
| ■ Discretionary profit sharing | 5,172 | 4,474 |
| ■ Other | 28,415 | 20,956 |
| Other accrued charges | | |
| ■ Accrued customer discounts and rebates | 82,005 | 69,998 |
| ■ Amounts due to customers | 743 | 7,177 |
| ■ Credit notes to be issued | 4,363 | 2,785 |
| ■ Affiliates, dividends to be paid | 4 | 2 |
| Liabilities on long-term assets and related accounts | 1,833 | 2,540 |
| **TOTAL** | **208,229** | **179,671** |

## 14.3 Related party transactions

Related parties are companies that are fully consolidated in the Group's consolidated financial statements. Businesses with which the Company has capital ties correspond to other Group companies.

| Balance sheet<br>€ thousands | Net amount concerning<br>Related parties | other companies with which the Company has capital ties | Other | Total on balance sheet |
|---|---|---|---|---|
| Equity interests | 1,666,347 | 82,960 | 0 | 1,749,307 |
| Receivables from companies in which an equity interest is held | 467,266 | 1,072 | 7,926 | 476,264 |
| **TOTAL LONG-TERM FINANCIAL ASSETS (NET)** | **2,133,613** | **84,032** | **7,926** | **2,225,571** |
| Trade receivables | 141,137 | 4,072 | 79,346 | 224,556 |
| Other receivables | 110,653 | 386 | 50,073 | 161,112 |
| **TOTAL CURRENT ASSETS (NET)** | **251,790** | **4,458** | **129,418** | **385,668** |
| **TOTAL ASSETS** | **2,385,403** | **88,490** | **137,344** | **2,611,238** |
| Trade payables | 58,313 | 4,426 | 64,501 | 127,239 |
| Other operating liabilities | 1,299 | 0 | 175,146 | 176,445 |
| Other liabilities | 198,924 | 654 | 3,769 | 203,347 |
| **TOTAL LIABILITIES** | **258,536** | **5,080** | **243,415** | **507,031** |

| Income statement<br>€ thousands | Net amount concerning<br>Related parties | Other companies with which the Company has capital ties | Other | Total on income statement |
|---|---|---|---|---|
| Interest expense[a] | 29,684 | 0 | 93,692 | 123,557 |
| Interest income[b] | 342,333 | 82,337 | 65,310 | 489,980 |

*(a) Financial expense breaks down as follows:*
*Financial expense reported under "Related parties" corresponds mainly to impairment losses on shares in subsidiaries, interest on advances from the cash pool and interest on borrowings.*
*Financial expense reported under "Other companies with which Essilor has capital ties" corresponds mainly to impairment losses on shares in affiliates.*
*Financial expenses reported under "Others" mainly concern conversions of transactions at the end-of-month rate, interest on borrowings, discounts granted.*

*(b) Financial income breaks down as follows:*
*Financial income reported under "Related parties" corresponds mainly to dividend income, reversals of impairment losses on shares in subsidiaries, and interest on loans.*
*Financial income reported under "Capital ties" mainly concern deposited dividends.*
*Financial income reported under "Others" mainly concern conversions of transactions at the end-of-month rate, capital gains on investments (SICAVs, certificates of deposit), interest on borrowings and provisions for risks "exchange rate losses".*

# NOTE 15. Off-balance sheet commitments

## 15.1 Financial commitments

### Commitments given and received

| € thousands | 2012 | 2011 |
|---|---|---|
| **Commitments given** | | |
| Guarantees and endorsements[a] | 341,080 | 333,349 |
| **Commitments received** | | |
| Guarantees, endorsements and sureties received | 0 | 141 |

*(a) Mainly consisting of guarantees given by Essilor International to financial institutions in favor of Group subsidiaries.*

Confirmed lines of credit not drawn down at December 31, 2012 amounted to €1,543 million.

### Forward foreign exchange contracts

At December 31, 2012, forward foreign exchange transactions (excluding cross-currency swaps) were as follows:

| € thousands | Contractual amounts (initial price) | Fair value at December 31, 2012 |
|---|---|---|
| Foreign currency sell position | 164,401 | 1,059 |
| Foreign currency buy position | 63,399 | (1,578) |
| **TOTAL** | | **(519)** |

The Company is a net seller of GBP, SGD, AUD and CAD for the most part and is a net buyer of USD and JPY.

### Currency options

At December 31, 2010, currency options were as follows:

| € thousands | Nominal amount (valuation at exercise price) | Premiums received/(paid) at inception | Fair value at December 31, 2012 |
|---|---|---|---|
| Foreign currency call purchases | 1,394 | (50) | 40 |
| **TOTAL** | | **(50)** | **40** |

### Cross-currency swap

In 2007, the Company implemented a financing transaction for its subsidiary Essilor of America for €250 million. This transaction was hedged by internal and external cross-currency swaps, which obtained the classification of hedges of existing assets or liabilities.

In 2012, the Company unwound interest rate swaps amounting to $150 million.

| In thousands of currency units | Notional amount (USD) | Notional amount (EUR) | Fair value at December 31, 2012 |
|---|---|---|---|
| External cross-currency swaps | 328,375 | 250,000 | 12,437 |
| Internal cross-currency swaps | 328,375 | 250,000 | (12,480) |
| Interest rate swaps | 150,000 | | (7,216) |
| EUR interest rate caps | | 50,000 | 33 |
| USD interest rate caps | 50,000 | | 16 |
| **TOTAL** | | | **(7,210)** |

## 15.2 Finance lease commitments

There have been no commitments under finance leases since 2006.

## 15.3 Commitments under non-cancelable operating leases and other contracts

| Contractual obligations 2012 | Future minimum payments | | | |
|---|---|---|---|---|
| € thousands | up to 1 year | 1 to 5 years | more than 5 years | Total |
| Non-cancelable operating leases | 3,297 | 3,297 | | 6,593 |
| **TOTAL** | **3,297** | **3,297** | **0** | **6,593** |

### 15.4 Commitment relating to the sale of put options on minority interests

Essilor granted put options to the minority shareholders of various controlled subsidiaries. At December 31, 2012, the valuation of all of these put options if they were fully exercised totaled €124,395 thousand.

## NOTE 16. Employee data

### 16.1 Pension, length-of-service and other obligations

#### Supplementary pensions

The commitment to executive and similar employees with regard to supplementary pensions was updated in 2012, according to a retrospective method. The actuarial assumptions used for 2012 are as follows: inflation rate (2%), employee turnover rate, salary increase rate (2.5%) and discount rate (3.2%).

On this basis, the total obligation at December 31, 2012 stood at €43,760 thousand, including €18,913 thousand funded under insured plans at that date.

| € thousands | 2012 | 2011 |
|---|---|---|
| Projected benefit obligation | 43,760 | 37,956 |
| Fair value of plan assets | (18,913) | (9,219) |
| Deferred items[a] | (17,257) | (17,897) |
| **PROVISIONS RECOGNIZED IN THE BALANCE SHEET** | **7,590** | **10,840** |

*(a) Deferred items correspond to actuarial losses or gains and costs for past services. In 2012, these elements included a reversal of €9.8 million corresponding to the reclassification to assets of an Article 39 tax surplus. The balance of €7.6 million corresponds to obligations under Article 83.*

#### Length-of-service awards

The Company's obligation for the payment of length-of-service awards in application of French labor laws, collective bargaining agreements and trade union agreements was estimated at €2,400 thousand at December 31, 2012 based on a discount rate of 3.2%.

| € thousands | 2012 | 2011 |
|---|---|---|
| Projected benefit obligation | 2,400 | 2,268 |
| Fair value of plan assets | 0 | 0 |
| **PROVISIONS RECOGNIZED IN THE BALANCE SHEET** | **2,400** | **2,268** |

#### Retirement benefits

The Company's obligation for the payment of retirement benefits for all types of retirement was estimated, according to a retrospective method, at €34,619 thousand at December 31, 2012 based on a discount rate of 3.2%.

| € thousands | 2012 | 2011 |
|---|---|---|
| Projected benefit obligation | 34,619 | 33,427 |
| Fair value of plan assets | 0 | 0 |
| Deferred items[a] | (16,262) | (16,636) |
| **PROVISIONS RECOGNIZED IN THE BALANCE SHEET** | **18,357** | **16,791** |

*(a) Deferred items correspond to actuarial losses or gains and costs for past services.*

### Expenses for the year

| € thousands | 2012 | 2011 |
|---|---|---|
| Cost of services rendered in the period | (3,637) | (3,124) |
| Interest expense on discounting | (3,011) | (2,921) |
| Contributions paid | 16,800 | |
| Benefits paid | 3,469 | 3,367 |
| Expected return on plan assets | 282 | 376 |
| Actuarial losses (gains) | (2,268) | (2,086) |
| Cost of past services | (302) | (302) |
| **EXPENSE FOR THE YEAR** | **11,333** | **(4,690)** |

## 16.2 Average workforce

| Breakdown of average number of employees | 2012 | 2011 |
|---|---|---|
| Management | 1,293 | 1,254 |
| Supervisors and administrative | 1,299 | 1,324 |
| Production | 865 | 886 |
| **TOTAL** | **3,457** | **3,464** |

## 16.3 Management compensation

| € thousands | 2012 | 2011 |
|---|---|---|
| **Executive bodies** | | |
| Compensation received | 1,661 | 2,282 |
| Length-of-service award payable on retirement (actuarial value) | 585 | 413 |
| Supplementary retirement benefit obligations (actuarial value) | 9,119 | 5,890 |
| Valuation of performance shares granted during the period[a] | 1,213 | 1,038 |
| **TOTAL** | **12,578** | **9,623** |
| **Administrative bodies** | | |
| Compensation received | 371 | 397 |
| **TOTAL** | **371** | **397** |

*(a) The amounts indicated are the fair-value accounting amounts of the options and stocks in accordance with IFRS. Therefore, these are not real amounts which May be realized when and if the options are exercised or at the time of acquisition of the stock, if vested It should also be noted that awards of shares are subject to employment and performance conditions.*

## 16.4 Other employee information

### "Individual Training Entitlement ("DIF")

The cumulative number of hours training available to employees under the "DIF" incentive was 332,880 at December 31, 2010.

The cumulative number of hours for which no training request had been received at the balance sheet date was 304,607.

## NOTE 17. Fees paid to the auditors and members of their networks

| € thousands, except for percentages | PricewaterhouseCoopers | | | | Mazars | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | As a % | | Amount | | As a % | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Audit services** | | | | | | | | |
| Statutory and contractual audit services | 447 | 462 | | | 282 | 281 | | |
| Other audit-related services | 325 | 281 | | | 171 | 138 | | |
| **SUBTOTAL** | **772** | **743** | **100%** | **100%** | **453** | **419** | **100%** | **100%** |
| **Other services** | | | | | | | | |
| Legal and tax advice | | | | | | | | |
| Other | | | | | | | | |
| **SUBTOTAL** | 0 | 0 | 0% | **0%** | **0** | **0** | **0%** | **0%** |
| **TOTAL** | **772** | **743** | **100%** | **100%** | **453** | **419** | **100%** | **100%** |

## NOTE 18. Events after the balance-sheet date

### Acquisitions made in early 2013

In Morocco, Essilor finalized the acquisition of Movisia, a distributor of Nikon® and Kodak® lenses with annual earnings of approximately €1 million. Movisia strengthens the local base of the Company formed by L'N Optic and Optiben.

### Share buyback

Essilor International is continuing its share buyback policy, the purpose of which is to set off the dilution related to share-based payment programs. As of February 26, 2013, the company had redeemed 309,000 million shares on the market for an investment amount of around €22.5 million.

### Liquidity contract

At the end of January 2013 Essilor interrupted the liquidity contract on its treasury shares.

## NOTE 19. Five-year financial summary

| Capital at the fiscal year-end<br>€ thousands | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Share capital | 38,650 | 38,527 | 38,098 | 38,792 | 37,984 |
| Number of ordinary shares outstanding | 214,724,040 | 214,038,296 | 211,655,342 | 215,509,972 | 211,019,922 |
| o/w treasury stock | 4,387,477 | 5,363,126 | 2,894,112 | 4,630,653 | 4,006,005 |
| Number of preferred, non-voting shares outstanding | 0 | 0 | 0 | 0 | 0 |

| Results of operations<br>€ thousands | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Net revenue | 737,543 | 678,430 | 680,533 | 670,474 | 714,306 |
| Profit before tax, depreciation, amortization and provisions | 445,205 | 300,219 | 362,900 | 246,094 | 277,208 |
| Income tax expense | 11,294 | (14,408) | (5,077) | (14,111) | (8,274) |
| Employee profit-sharing | | | | | |
| Net profit | 407,376 | 273,061 | 341,947 | 214,753 | 239,156 |
| Total dividends | 185,096 | 177,374 | 173,272 | 147,616 | 136,629 |

| Per share data<br>€ thousands | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Earnings per share after tax and employee profit-sharing, before depreciation, amortization and provisions, excluding treasury stock | 2.06 | 1.51 | 1.76 | 1.23 | 1.38 |
| Earnings per share, after tax, employee profit-sharing, depreciation, amortization and provisions, excluding treasury stock | 1.94 | 1.31 | 1.64 | 1.02 | 1.16 |
| Net dividend per ordinary share | 0.88[a] | 0.85 | 0.83 | 0.70 | 0.66 |
| Net dividend per preferred, non-voting share | | | | | |

*(a) Subject to the decision of the Shareholders' Meeting of May 16, 2013.*

| Employee data<br>€ thousands, except for the average number of employees | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Average number of employees | 3,457 | 3,464 | 3,528 | 3,584 | 3,714 |
| Total payroll | 167,943 | 161,028 | 157,673 | 151,855 | 150,856 |
| Total benefits | 96,729 | 81,492 | 79,270 | 76,982 | 74,561 |