# 26 Appendices to the Registration Document

## 26.1 Chairman's Report

**On Corporate Governance and Internal Control and related Auditors' Report**

Dear Shareholders,

In accordance with Article 117 of France's Financial Security Act (Act No. 2003-706), Article 62 III of the French Employee Stock Ownership Act (Act No. 2006-1770 of December 30, 2006), Article 621-18-3 of the French Monetary and Financial Code and Article 26 of Act No. 2008-649 of July 3, 2008 adapting various provisions of French company law to comply with European Union legislation, and in application of Article L.225-37, paragraphs 6 to 10, of the French Commercial Code, I present below my report regarding:

- Board membership and application of the principle of equal representation of men and women on it;
- the membership of the Board of Directors and the preparation and organization of Board meetings during the year ended December 31, 2011;
- the Company's internal control and risk management procedures;
- any restrictions on the powers of the Chief Executive Officer decided by the Board of Directors;
- the corporate governance code adopted by the Company, any provisions of that code not applied by the Company and the reasons for not applying them;
- specific procedures for shareholder participation in General Meetings;
- the principles and rules applied by the Board of Directors to determine the senior corporate officer's compensation and benefits;
- contracts containing a change of control clause;

The purpose of this report is to help shareholders understand our Company's management processes and methods.

This report was prepared after certain procedures had been performed, in particular by the Corporate Senior Vice President, Legal Affairs. Section 2 was prepared in close collaboration with the Internal Audit department based on written consultations and discussions with the heads of the various departments involved in internal control at the corporate level. It was presented to the Audit Committee (on February 28, 2012) before being presented to the Board of Directors. This makes it possible for priorities and works in progress to be validated and for awareness of the importance of internal controls to the company to be raised. We also relied on the principles of the AMF reference framework for risk management and internal control procedures for listed companies for the preparation of this report. Finally, the contents of this report were approved by the Board of Directors on February 29, 2012.

We are committed to steadily improving our corporate governance, year after year, not only in terms of the practices of the Board of Directors and the Board committees, but also as regards the Company's internal control procedures.

## PREPARATION AND ORGANIZATION OF MEETINGS OF THE BOARD OF DIRECTORS

### 1. CORPORATE GOVERNANCE CODE

In application of the Law of July 3, 2008 adapting various provisions of French company law to comply with European Union legislation and which transposed European directive 2006/46/EC of June 14, 2006 into French law, at its meeting on March 4, 2009 the Board of Directors formally decided to adopt the December 2008 AFEP/MEDEF "Corporate Governance Code for Listed Corporations." The Code is based on the 2003 AFEP/MEDEF consolidated report and the AFEP/MEDEF recommendations of January 2007 and October 2008 on the compensation of senior corporate officers of listed companies. It may be consulted at the MEDEF website at the following address: http://www.medef.fr/main/core.php.

### 2. DIRECTORS' CHARTER

The Directors' Charter adopted for the first time by the Board on November 18, 2003 describes the rights and obligations of the members of the Essilor Board. It was updated by the Board on January 27, 2005, to reflect the provisions of the Market Abuse Directive (2003/6/EC) of January 28, 2003 on insider dealing and market manipulation, and the disclosure by executive directors of their transactions in the issuers securities and those of any closely related persons. For more information, refer to Section 16.1.2 of this Registration Document.

The charter requires each Board member to commit to remaining independent, to regularly attend Board meetings and Shareholders' Meetings, and to notify the Chairman of the Board of any potential or actual conflict of interest and – at the Chairman's discretion – either leave the meeting while the matter concerned by the conflict of interest is discussed or abstain from voting on said matter. Directors must consider themselves subject to an obligation of professional secrecy – which goes further than the obligation to be discreet provided for in Article L.225-37-4 of the French Commercial Code – with regard to non-public information that comes into their possession in their capacity as a Board member.

The charter also stipulates that each Board member:

- is entitled to receive, when first elected and throughout his or her term, any and all training that he or she considers necessary to independently exercise his or her judgment. The training is organized, offered and paid for by the Company;
- must be given all relevant information about the Company; and
- may participate in meetings to examine in detail the matters put before the Board.

This charter was amended again:

- on November 26, 2009 to reflect the change in the Company's bylaws following the two-for-one stock split, as a result of which each Board member is now required to hold 1,000 Essilor International shares, and also to stipulate that each Board member has the right to meet with Company senior managers on a one-to-one basis, provided that senior management is informed of the meeting;
- on November 25, 2010, in order to harmonize the provisions of stock market ethics that it already contains with the AMF recommendation of November 3, 2010 relating to the prevention of insider trading offenses attributable to senior managers of listed companies. Accordingly, the black-out periods have been increased from 21 to 30 days before the release of privileged information and of annual, semi-annual, and, as the case may be, quarterly financial statements and are set at 15 days before financial information meetings; the date of publication of such information is now also included in the black-out periods. The calendar for these black-out periods is prepared annually.

### 3. BOARD OF DIRECTORS' INTERNAL RULES

The procedures of the Board of Directors and the Committees of the Board are governed by internal rules adopted by the Board on November 18, 2003, and revised on several occasions.

After the first assessment of the Board's practices, the results of which were presented and discussed at the Board meeting of November 18, 2004, the following stipulations were added to the internal rules:

- "Directors shall receive training in the financial and legal aspects of the matters put before the Board;
- The members of the Committees of the Board may be given the opportunity to compare notes with their counterparts at other listed companies;
- Site visits will be organized for directors and special presentations will be made to them by members of the Executive Committee."

The purpose of the revision carried out by the Board of Directors at its meeting on November 26, 2009 was to:

- ensure that the internal rules are fully aligned with the provisions of the AFEP/MEDEF corporate governance code;
- set the monetary thresholds above which proposed acquisitions must be submitted to the Board for approval. Essilor acquires around twenty businesses each year;
- allow directors more time to examine meeting documents before Board meetings;
- align the internal rules with the legal provisions related to audit committees following the transposition into French law of European Directive 2006/43/EC of May 17, 2006 concerning the audit of the individual company and consolidated financial statements;
- allow the Audit Committee to retain the services of external consultants, within a budget set by the Board;
- specify the terms of reference and procedures of the Appointments Committee that will meet for the first time in 2010.

The most recent revision to the internal rules took place at the Board meeting of November 25, 2010. The purpose of this revision was to clarify that the Audit Committee is to issue in its summary report the opinions that it deems appropriate regarding:

- the ability of various processes and the overall procedure to achieve their goal of controlling information and risks;
- the effective implementation of the procedures in place and, where appropriate, the measures implemented to achieve them;
- the financial position, cash position and commitments of the Company.

The most recent revision of the internal rules was conducted by the Board at its meeting on November 24, 2011. The purpose of this most recent revision was to adapt corporate governance in light of the merger of offices of Chairman of the Board of Directors and Chief Executive Officer and clarify the for risk control procedures.

The main internal rules governing the Board's practices are set out in Section 16.1.2 of the Registration Document and those governing the Committees of the Board are presented in Section 14.1.2 of that Document.

The internal rules also stipulate that:

"Each Board member shall ensure that he or she has all essential information to enable the Board or the Committees of the Board to engage in an informed discussion and make informed decisions. If any information is not made available, or if the director believes that information may have been withheld, he or she shall ask for it to be supplied. The request shall be made to the Chairman of the Board (or the Chief Executive Officer if the two positions are separated), who is under the obligation to ensure that directors are able to fulfill their duties."

## 4. MEMBERS OF THE BOARD OF DIRECTORS

Hubert Sagnières, Chief Executive Officer then Chairman and Chief Executive Officer starting January 2, 2012.

Xavier Fontanet, Chairman of the Board of Directors until January 2, 2012, continues to hold a seat on the Board.

Philippe Alfroid, Chief Operating Officer until June 30, 2009, has remained on the Board after retiring from the Company.

Independent directors:

At its meeting on 24.11.11, after examining the situation of each director in relation to the independence criteria set out in the Bouton corporate governance report (as reproduced in the AFEP/MEDEF Corporate Governance Code), the Board decided that of the 14 members of the Board as of December 31, 2010, 8 were independent, as follows:

Benoît Bazin

Antoine Bernard de Saint-Affrique

Yves Chevillotte

Mireille Faugère

Bernard Hours

Maurice Marchand-Tonel

Olivier Pécoux

Michel Rose

The AFEP/MEDEF Code recommends that in companies with a broad shareholder base and no controlling shareholder, at least half of the Board members should be independent directors. Essilor International is in this case, as about 90% of its capital is held by the public. For more information, see "Board decisions and information," paragraph 3 "Annual review of directors' independence."

Board members representing employee shareholders:

Aïcha Mokdahi

Yves Gillet

Yi He

Each Board member must hold at least 1,000 Essilor International shares.

## 5. CALLS TO MEETING

In accordance with the Board's internal rules, calls to meeting were sent to directors by email, confirmed by letter sent by regular mail, at least seven days before each meeting. The Auditors were asked to attend the Board meetings called to review the interim and annual financial statements, as provided for in Article L.225-238 of the French Commercial Code.

## 6. FREQUENCY OF BOARD MEETINGS

In 2011, the Board held six scheduled meetings on the dates planned in 2010 (January 26, March 1, May 5, July 7, August 25 and November 25, 2011). Each meeting lasted an average of two hours. One unscheduled meeting was held on April 5, 2011.

## 7. ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Company's bylaws state that directors may participate in certain meetings by videoconference or other telecommunications link, with the exception of the cases explicitly stipulated, such as the approval of the financial statements and preparation of the management report. Under the Board's internal rules, directors who participate in meetings in this way are included in the calculation of the quorum and voting majority for the meeting. The average attendance rate at Board meetings was more than 95% (unscheduled meeting included). The Company's Auditors attended the two Board meetings to which they were invited. As in prior years, the Labor-Management Committee representatives on the Board attended all Board meetings held in 2011.

Twelve directors attended the Combined (Ordinary and Extraordinary) Shareholders' Meeting held on May 5, 2011.

## 8. INFORMATION MADE AVAILABLE TO BOARD MEMBERS

All necessary documents to inform the Board members about the matters to be discussed at Board meetings are enclosed with the notice of meeting or sent, handed to or otherwise made available to them reasonably in advance of the meeting. As in prior years, Board members were informed of the black-out periods for 2012, during which they are banned from trading in Essilor International shares or any instruments that have Essilor International shares as their underlying, either directly or through a third party. They were also given a copy of the ethics guidelines drawn up by the Company which state that Board members are considered as permanent insiders because they regularly receive price-sensitive and other confidential information.

## 9. MINUTES OF BOARD MEETINGS

The draft minutes of each Board meeting were sent to all directors at the latest with the call to the next meeting.

## 10. COMMITTEES OF THE BOARD

Since 1997, the Board of Directors, on the proposal of its Chairman, has had three permanent specialized committees made up of Board members: the Audit Committee, Remunerations Committee and Strategy Committee.

At the end of 2009, the Board decided to set up an Appointments Committee, which held its first meeting in 2010.

All four Committees are tasked with making recommendations to the Board in their respective areas of competence. The rules governing their membership and terms of reference are set out in the internal rules adopted on November 18, 2003, which are regularly updated – most recently at the Board meeting held on November 24, 2011. Extracts from the internal rules are presented in Sections 14 and 16 of this Registration Document.

**The Audit Committee**

The missions of this committee are carried out with the help of the AMF working group report on audit committees of June 14, 2010. To give an example of one recent topic of discussion, the Audit Committee will soon conduct its self-evaluation in the form of an internal questionnaire, as is the practice of the Board of Directors as a whole.

The Audit Committee met on two occasions regarding the 2011 financial statements; once on August 23, 2011 to examine the semi-annual consolidated financial statements and a second time on February 28, 2012 to review the final consolidated financial statements for 2011. At these meetings, the committee heard Chief Financial Officer and the Corporate Senior Vice President, Legal Affairs, the Vice-President, Internal Audit, and the statutory auditors, who commented on the financial statements and responded to various questions.

The Chairman of the Committee had lengthy discussions with the Chief Financial Officer prior to each of these meetings to review the consolidated financial statements and operating highlights in detail, as well as with other risk management executives including the Corporate Senior Vice President, Legal Affairs and the Vice President, Internal Audit.

The Audit Committee also met on May 12 and December 5, 2011.

The following topics were discussed at these various meetings:

- Internal audit team developments and the roadmap for the next three years (see the section "Internal audit");
- Overview of 2011 internal and external audit missions;
- Presentation by the statutory auditors of the audit strategy, their work schedule, and the planning for their work;
- Monitoring of litigation and tax audits in France;
- Development and communication of the "Principles of Essilor" charter of values;
- Development of the compliance program;
- Review of the "integration method" and process by means of various examples;
- Monitoring of risk management;

The Committee's work was presented to the Board of Directors by the Chairman of the Committee, Yves Chevillotte.

The audit committee also met with the statutory auditors with the Group representatives not present.

The attendance rate at Audit Committee meetings in 2010 was 92%.

**Appointments Committee**

The committee met on January 26, August 25 and October 21, 2011.

In accordance with what was announced at the Annual Shareholders' Meeting in May 2011, the Appointments Committee proposed that the Board of Directors merge, effective January 2, 2012, the offices of the Chairman of the Board of Directors and the Chief Executive Officer, which are held by Hubert Sagnières, and prepared the ensuing changes to corporate governance.

The committee studied Board member candidates and proposed Louise Fréchette, a Canadian, as a Board member. It was mentioned that she played a major role in international associations and global corporate governance and could contribute positively to the development of the Essilor Vision foundation.

If the Annual Shareholders' Meeting of 2012 approves the appointment of Ms. Fréchette to the Board, this will increase the diversity of the Board, both in terms of nationality and gender parity.

The attendance rate was 100%.

**Remunerations Committee**

The Remunerations Committee met three times in 2011 to examine topics related to:

- senior management compensation;
- evaluation of the classification of independent director and the work of the Board.

<u>Remuneration of senior management</u>

The Chairman of the committee, Michel Rose, presented reports that enabled the Board of Directors to:

- conduct the evaluation of the Chief Executive Officer's financial and personal goals for 2010 and determine the amount of the variable portion of his compensation to pay him for that year; set the structure, goals and terms for evaluating the Chief Executive Officer's variable portion for 2011;
- determine the compensation, starting January 2, 2012, of the Chairman and Chief Executive Officer following the merger of the offices of Chairman of the Board of Directors and Chief Executive Officer. In accordance with Article 21.1 of the AFEP/MEDEF corporate governance code, the components of management compensation were disclosed on the Company's website following the Board meeting of November 24, 2011, at which they were decided.
- approve the 2011 capped performance share and stock option grants to key managers and talents in the Group, as well as the collective grant of 15 performance shares to employees of the Group's French companies en pursuant to Law 2008-1528 of December 3, 2008.

<u>Evaluation of the classification of independent director and the work of the Board</u>

At the August 24, 2011 Board meeting, the directors were each given a questionnaire to help them review their status based on the independence criteria stipulated in the Bouton corporate governance report and taken up in the 2003 AFEP/MEDEF consolidated report, which continues to serve as the French reference on this subject as it was folded into the AFEP/MEDEF Corporate Governance Code. The Remunerations Committee then prepared an executive summary of the survey results.

Lastly, at the November 24, 2011 Board meeting, the Remunerations Committee presented the results of the directors' self-assessment of the Board's practices.

The attendance rate at Remunerations Committee meetings was 100% in 2011.

Principles and rules for determining senior management compensation in 2011

For any developments regarding the principles and rules established by the Board of Directors to determine compensation and benefits of all kinds granted to the corporate officers, please refer to Chapter 15 ("Compensation and Benefits") of the Registration Document.

For 2012, the Board decided to merge the functions of Chairman of the Board of Directors and Chief Executive Officer, which has an impact on the remuneration structure of senior corporate officers. Accordingly, for the Chairman and Chief Executive Officer, the principle of compensation, which includes a fixed portion (base salary) and a variable portion (bonus) tied to goals, is maintained – and the bonus can be increased if the goal is exceeded within a ceiling set at 150% of the target amount, with the understanding that, if necessary, the bonus is tied to general management functions).

For 2012, the definition of the objectives used to determine the variable portion, as well as their measurement method, weighting and amount will be decided by the Board in February 2012.

Moreover, the specific rules governing grants of performance shares and stock options to corporate officers are reviewed below.

Grants of performance shares and stock options are governed by maximum limits:

- the value (under IFRS) of stock options and/or performance shares granted to each senior corporate officer may not exceed the sum of his or her contractual annual compensation (fixed + bonus);
- the aggregate amounts granted to all senior corporate officers may not exceed 20% of the total grants made by the Company (options + performance shares) each year.

Besides the performance criterion applicable to all plan beneficiaries, a second performance criterion is applied to corporate officers. It is based on the average ratio of actual results of the targets of their variable annual compensation:

- during the acquisition period for performance shares (from two to six years);
- during the period between the year of grant and the year when the option becomes exercisable (inclusive).

Since this average is capped at 1, it can only reduce the number of shares acquired or the number of options exercisable by the senior corporate officers in relation to beneficiaries who are not senior corporate officers.

During their entire term of office, the senior corporate officers are required to keep:

- one third of vested performance shares acquired, or
- one third of the balance of shares acquired on exercise of stock options, excluding those shares sold immediately to finance the exercise price and the tax due on the capital gain;
- to the extent, however, that the number of shares kept from various performance share and stock option grants does not exceed two times the annual monetary compensation (fixed and variable actually received) for the year ended December 31 preceding the acquisition date of the shares or exercise date of the options.

In accordance with the AFEP/MEDEF Code, the senior corporate officers promise not to use a hedging mechanism until the expiration of their term.

Supplementary defined benefit loyalty-based retirement plans

With regard to retirement, executive directors have the same defined-benefit supplementary pension plan (Article 39 of the French General Tax Code) as all other category IIIC and HC executives as defined in the metalworking industry collective bargaining agreement.

Under the terms of this plan, an additional pension benefit is paid to category IIIC and HC executives who:

- have a minimum of ten years of seniority in the Group;
- are members of the workforce of Essilor International (or a member company) and cease their professional activity in that company in order to retire.

If both of these conditions are met, the additional pension is determined at the moment of retirement in the following manner:

- 10% of the reference salary
- plus, for each year of seniority above ten years and less than or equal to twenty years:
  - 1% of the reference salary
  - 1.5% of the fraction of the reference salary above French Social Security tranche C up to 5% of the reference salary.

**Strategy Committee**

The Strategy Committee met five times in 2011. The primary mission of the committee, as part of the Board's work, is to review the Group's strategies on a regular basis, from products and technologies as well as geographic and marketing angles. After each of its meetings, a summary of presentations and various discussions was presented to the Board of Directors by its Chairman. In 2011, these presentations included:

- market share through the end of 2013 ;
- assessment of acquisitions from 2008 to 2010;
- priorities in the Essilor acquisition plan for the next three years;
- Human Resources needs in mature countries and emerging countries, the need to work on diversity and rethink the concept of mobility;
- R&D projects;
- the progress of operations in the United States;
- Satisloh and the optician instrument department.

The attendance rate at Strategy Committee meetings was 94%.

## REPORT ON ESSILOR INTERNATIONAL S.A. INTERNAL CONTROL PROCEDURES

The system of Essilor internal control procedures exists pursuant to the legal framework applicable to companies listed on the Paris Bourse and is inspired by the reference framework for risk management and internal control mechanisms published by the AMF on July 22, 2010.

### 1. COMPANY INTERNAL CONTROL OBJECTIVES

Generally speaking, internal controls at Essilor are a mechanism that is applicable to the parent company and its consolidated subsidiaries in France and abroad ("Group"). Its aim is to ensure that:

- the achievement of economic and financial goals is conducted in accordance with the laws and regulations in force;
- the instructions and guidelines set by Senior Management are implemented;
- the Company's internal processes, particularly those contributing to the protection of assets, perform properly;
- the Group's accounting and financial information is reliable and honestly presented.

Internal control contributes to the disciplined management of the business, the effectiveness and efficiency of operations and the efficient use of resources. The parent company guarantees the existence of internal control mechanisms within its subsidiaries that are adapted to their sizes and associated risks.

In practice, the purpose of internal control is to ensure that:

- all acts of management, all transactions, and the behavior of all Company employees, comply with the general strategic guidelines established by the Board of Directors, applicable laws and regulations, and the Company's corporate values, standards and internal rules;
- all accounting, financial, legal and management information reported to the Board of Directors, the regulatory authorities, shareholders or the public presents fairly the Company's business and financial position;
- the Company's internal policies and procedures provide reasonable assurance that the business is managed efficiently and effectively.

One of the goals of the system of internal controls is to prevent and limit the risk of error or fraud, in particular of an economic, financial and legal nature, to which the Group may be exposed. However, no system of controls can provide an absolute guarantee that all such risks have been completely avoided, eliminated or entirely brought under control, or that the Company's objectives will be met. Indeed, the probability of achieving these goals does not depend solely on the Group's wishes, but on several factors, such as, for example, the uncertainty of the outside world or the commitment of an act of fraud.

Additional information on risks that the Company may face is provided in Section 4 of this Registration Document.

### 2. COMPONENTS OF THE INTERNAL CONTROL MECHANISM

<u>Control environment and Group values</u>

The control environment that underlies the control mechanism plays an essential role at Essilor. It was forged in a long history of commitment and a very strong entrepreneurial culture among employees and executives. This foundation makes it possible for Essilor to welcome, both now and in the future, an ever-growing number of employees and partners while preserving its corporate culture.

The "Essilor Principles" document, which was prepared in 2011 by the legal and human resources departments and is the product of a broad consultation and gathering of proposals from around the world, is part of this environment and makes it possible to share the mission, principles and values of Essilor. It is organized around three major concepts that give all of the employees of Essilor and of its partners the feeling of sharing the reputation and responsibilities of their Group in the wider sense: a position as a world leader, rapid global expansion and a strong corporate culture. The document is available on the Group's intranet suite and on the website in the 26 languages currently used in the Group's companies worldwide.

Our values foster governance, business ethics and a culture of accountability and are based on "our entrepreneurial spirit", "respect and trust", "innovation", "working together" and "our diversity".

Sharing and respecting our common principles and values helps us, in our day-to-day work, live out the mission and spirit of our company, which consists of offering everyone ways to "See the world better". Our mission mobilizes us in that good sight is an essential asset to health, as well as to social and professional integration, child development, and personal well-being in our day-to-day lives. Yet 2.5 billion people around the world do not have access to corrective lenses.

At the same time, a part of the charter of Valoptec, an association comprised of active and retired Essilor employees, includes a code of values. The goal of this association is to "promote the adoption by group companies of sound business practices and human resources management policies". The charter upholds the values of respect and trust among individuals. Members promise to uphold this charter as the foremost condition of their membership and, even though Essilor employees who are not Valoptec members do not sign this charter personally, its spirit infuses the corporate culture in a very real way. The members of Valoptec and other employee shareholders together hold 14.1% of the Company's voting rights. The association's bylaws are regularly updated and reviewed to ensure they are aligned with its development.

<u>Organization of internal controls</u>

It is our intention to promote a system of internal control based on:

- clear definitions of responsibilities, backed by the necessary resources and skills, appropriate information systems, procedures and processes, tools and practices;
- internal communication of all the information needed to enable each individual to fulfill his or her responsibilities;
- the identification and analysis of the main risks that could negatively impact the Company, and the implementation of procedures to manage these risks;
- control procedures that are proportionate to the risks associated with each process and are designed to provide assurance that measures are taken to limit and, to the extent possible, manage the risks that could prevent the Company from fulfilling its objectives;
- supervision of the internal control and risk management process and regular reviews of its effectiveness.

The Board of Directors and senior management of Essilor International consider that an effective system of internal control is of critical importance and this is borne out by the Audit Committee's attention to internal control issues and the wide range of matters examined by multidisciplinary teams. Senior management defines the general principles of internal control and ensures that they are fully implemented within the Group. Support for these general principles is provided by the members of the Executive Committee, who are business executives with oversight of a geographical area or corporate executives such as the Chief Financial Officer and the Senior Vice President, Legal Affairs.

### 3. PRESENTATION DES PRINCIPALES ACTIVITES DE CONTROLE

Internal control is a process that ensures that the standards and procedures defined at corporate level are consistent with the strategies followed by senior management.

The departments with specific responsibility for internal control are as follows:

#### Internal Audit, Internal Control and Risk Analysis

The ongoing mission of the internal audit is to evaluate how well risk management and internal control mechanisms function, ensure their constant oversight and make any recommendations necessary for their improvement. Internal audits are carried out according to the same methodology in all host countries. For each mission, a report is prepared and distributed to the management of the entity, to the regional President of the audited unit, Company senior management, the Corporate Finance and Legal Departments of the Group, as well as, depending on the nature and impact of the points to be discussed, the Senior Management and the heads of the operating and corporate units concerned. This report summarizes the observations made and the recommendations for needed improvements. The audited units are responsible for implementing the recommendations. The internal auditors ensure that their recommendations are acted upon, by reviewing implementation of the action plans decided jointly with the management of the audited units in accordance with a defined timetable.

The Vice President, Internal Audit is in turn under the authority of one of the Chief Operating Officers and holds discussions at regular intervals with the Senior Management (Chairman and Chief Operating Officers). He has no authority over, or responsibility for, the audited operations. He also reports on his department's activities to the Audit Committee and presents an executive summary each year to the Executive Committee. The department is organized around teams located at the corporate headquarters in Charenton (for auditing Corporate, Europe and Africa corporate units and operations), Dallas (for auditing North America corporate units and operations), Singapore (for auditing Asia-Pacific and Middle East corporate units and operations) and Rio de Janeiro (for auditing Central America and South America corporate units and operations).

In 2011, under the leadership of its Vice President, the Internal Audit Department defined and began to implement a roadmap for the next three years. This roadmap was created based on a study that combined various benchmarks and best practices in these areas. The roadmap was then presented to the core and enlarged Management team (Executive Committee), to the Audit Committee, as well as various internal audit and internal control partners (including the Statutory Auditors). It was discussed and commented on and resulted in various action plans intended to help the department keep pace with the challenges inherent to a high-growth company.

The roadmap is organized around the following themes: governance, risk management and internal control, terms of office, human resources, technology, performance, quality and value creation.

Thanks to the roadmap,

- the internal control and risk analysis functions with dedicated staff were recently created. For purposes of efficiency and visibility (and consistent with a basic trend observed in large companies), internal control and risk analysis were placed under the authority of the Vice President, Internal Audit. The specific purpose of the internal control function is to guide the updating process for the Group rules reference (Group Finance Manual, or GFM), define and measure compliance with Standard Controls and overseeing the self-evaluation process for the internal quality control in the Group ("iCare" – see below). In cooperation with the management, the risk analysis function will be developed in 2012 and make it possible to gather and structure the various practices that already exist throughout the Group to identify, evaluate and handle the major strategic, operational, compliance and reporting risks;
- a reworking of the self-evaluation campaign "iCare", which has affected over 230 entities through a questionnaire that has been renewed, enriched, and better adapted to their environment. This questionnaire now covers eleven sections (purchases, sales, inventories, fixed assets, cash, consolidation, information systems, compliance, tax regimes, business continuity plans, salaries). The questionnaires include the principles described in the AMF's internal control framework and accompanying guidelines. They are administered through specially designed software and can be signed electronically by the Chairman and the Chief Financial Officer of each entity being evaluated. In addition, tests are conducted by the internal control function and the Internal Audit Department as part of the compliance review type of audit missions. The action plans are being monitored by the operational units, senior management and the Audit Committee;
- the establishment of local audit committees. The purpose of these committees is to bring together, within a given geographical region, the Chairman, the Chief Financial Officer, Internal Audit and Legal Departments as well as any actor considered relevant to the pre-established agenda. These committees regularly review the identified points that may lead to unsatisfactory internal audits and guarantee that the lessons are heeded at the local level;
- an expansion of internal audit resources (initial increase from 10 to 14 full-time employees). Special efforts have been made to guarantee a diversity of skills, experience and cultures within each team with both internal and external hiring and the establishment of an attractive development program. Moreover, internal audits should develop in the form of a rotational program, which represents an additional opportunity for the company to train future managers. Other internal resources may also be added from time to time to the audit team to provide it with special skills (such as purchasing, IT, and taxes) during an audit (guest auditor program) or over a longer period (transition auditor program) after having received accelerated training and provided that there are no potential conflicts of interest;

- a strengthened audit methodology. The assurance and advisory missions carried out by the Internal Audit Department cover a wide spectrum, with specialized working programs that may be classified into the following categories: compliance audits, efficiency reviews (for financial or operational procedures), post acquisition audits, IT audits, special investigations, due diligence (for smaller acquisitions in North America). Accordingly, some audits correspond to a single given entity (legal or operational), whereas others cover several entities at once for one or more specific procedures. An audit plan by geographical area adapted to the maturity of internal controls and the understanding of risks has thus been established;
- the generalized use of internal letters of representation for the various consolidated legal entities, countries and geographical regions.

**Consolidation**

The Consolidation department is responsible for defining consolidation rules and methods that comply with the applicable standards, to be applied throughout the Group, and preparing quarterly and annual consolidated income statements and balance sheets in accordance with the Group's general policies. It also leads and coordinates the financial reporting activities of the consolidated entities.

It produces the consolidated financial statements based on the accounts of the various subsidiaries, as adjusted to comply with Group accounting policies, and analyzes quarterly accounting data for each legal entity included in the scope of consolidation. Regular reconciliations of statutory and management reporting data help to guarantee the consistency of financial information and also to swiftly identify and resolve any errors or inconsistencies.

The Consolidation department informs all consolidated companies on a timely basis of new and amended rules affecting the preparation of the financial statements. Changes in accounting methods resulting from the adoption of new standards are presented to the Audit Committee before being applied.

**Business Analysis**

Each Group entity has its own controlling team responsible for analyzing the entity's performance, with guidance from the regional or divisional management accounting department. Group controlling performs consistency tests on management reporting data, to check the overall reliability of the information. It also oversees a network of controllers, provides decision-making guidance and monitors the monthly management results of each Group entity or business unit. Group controlling produces the monthly consolidated management accounts and the consolidated budget, performs monthly variance analyses and checks the consistency of transfer prices. The controllers report to both line and local management.

**Sustainable Development**

The Sustainable Development Unit plays a cross-functional role. This cross-functional unit is primarily responsible for anticipating and influencing foreseeable changes in the business, and analyzing the economic, human and environmental consequences, to enable the Company, its stakeholders and the community to benefit from the opportunities that arise and to warn management of possible risks. The unit is also responsible for producing the Group's non-financial disclosures.

**Health, Safety and Environment (HSE)**

The head of the HSE department (titled "Global HSE Department") reports directly to the Corporate Senior Vice President, Global Engineering (a member of the Executive Committee) and also has a dotted-line reporting relationship with the Vice President, Sustainable Development. The HSE department is responsible for applying the Company's safety strategy to protect individuals and assets, prevent industrial risks, preserve employees' health and protect the environment. The department leads the network of HSE correspondents and sets up programs and systems to ensure regulatory compliance and continually improve the Group's HSE performance. It also provides technical expertise in the areas of REACH compliance, chemical products management, fire protection, equipment safety, transportation hazardous materials, ergonomics, etc., to the Group's other departments, as required.

**Legal Affairs**

The Legal Affairs department offers advice and assistance to all departments of the Company and its subsidiaries in preventing claims and litigation. It is responsible for negotiating and drafting contracts and other legal documents relating in particular to business acquisitions, in order to ensure that the warranties obtained are aligned with the related risks.

As part of its risk management strategy, the department ensures that contracts include an arbitration clause whenever possible. It also ensures that the Company's intellectual property rights are monitored and protected and initiates legal proceedings in the event that the rights are breached. In addition, the department plays a key role in legal and regulatory compliance programs.

It advises the Group and the Board of Directors (as well as its special committees) on good corporate governance practices. It also takes part in Audit Committee meetings. It ensures that executives throughout the organization are aware of potential liability risks and proposes legal solutions that contribute to strengthening the control environment. It provides answers to all legal questions raised by the various departments of the Group in an international legal and regulatory environment that is increasingly complex and burdensome.

Legal Affairs ensures that the Company fulfills its more than sixteen thousand contractual obligations, with the help of a contracts database that is constantly updated. It keeps an up-to-date list of claims and lawsuits filed by or against the Group (such as judicial disputes, industrial property disputes, tax audits or claims), and posts information memoranda on its intranet site announcing changes in legal, tax or insurance rules or practices. To help enhance the reliability and quality of legal and financial information on the many subsidiaries, the department has integrated a new software to manage and update this information.

The insurance department, which is part of Legal Affairs, implements a policy that combines prevention, in the form of regular site visits and audits with our insurers and brokers, with protection, in the form of international insurance programs.

Our compliance policy is structured around major legal topics related to Group business activity, especially antitrust law, confidentiality management, and prevention of corruption. It aims to be the first step in instilling a reflexive awareness of legal risks in managers in order to guarantee that this policy is truly effective by gradually building a culture of compliance within the Group.

To this end, a roadmap was developed and approved by senior management and the executive committee that covered the main points to be considered – risk identification, assessment of existing risks, individual accountability, capacity and effectiveness of compliance, and the necessary support of senior management.

In this context, actions to raise awareness of competition law have been conducted within the head office departments and all of the subsidiary and area managers in Europe and their management committees, which comprise major account, business, financial, marketing, production, and computer managers. Over 400 managers in Europe attended these awareness-raising meetings and over a thousand managers in the United States benefited from these awareness-raising and information campaigns. Similar actions or even guides to the basic rules of antitrust law were completed on a global scale, especially in Asia, including India.

These actions were supplemented by documentation specific to the educational content in order to be accessible to all employees. This consisted of, besides audio kits, electronic media versions of awareness raising actions, guidelines, PowerPoint presentations, best practices sheets and guides, and lists of “do’s and don’ts”. All of this documentation has been put online on the Legal Affairs Department’s intranet site in a section dedicated to compliance for wide distribution and round-the-clock consultation. Updated legal guidelines, as well as guides, charts and manuals for use by employees are also produced.

Local legal teams that have a dotted-line reporting relationship with the Corporate Senior Vice President, Legal Affairs, can thus guarantee uniformity an continuity in the deployment of our policy by adapting this documentation and the awareness raising meetings to local contexts. They also regularly prepare and send to the operational entities legal guidelines on professional topics relating to security and standards and prepare legal and compliance guides for employees in their regions.

The audio kits will evolve towards e-learning modules for training tailored to local laws, practices, and languages under the responsibility of the human resources department and accessible via the LOFT platform.

The results of these awareness-raising actions with a reporting of identified legal risks and actions to implement (legal audits, implementation of compliance programs, good practices guide) were presented to the executive committee by the group legal director, who may also have topics or reports registered on the executive committee agenda in order to raise the appropriate level of awareness.

As part of the execution of the roadmap and the identification of legal risks, audits for antitrust law and trade practices in the major European subsidiaries have been conducted. Audit reports have been presented to the Senior Management and the Corporate Europe Division with recommendations to be implemented as part of an ongoing plan to improve our prevention policy.

Given the Group’s business activities, confidentiality is also an important topic for compliance. Actions to raise awareness of best practices have been conducted, in particular with the global teams of the Operations Department, Global Engineering, and R&D, marketing, and IT Department teams. A special guide detailing the best practices to be complied with as part of the collaborative platforms (Wetalk, Wedoo) accessible via the intranet site was presented to the teams in question.

As part of the responsible purchasing policy, a section on compliance rules and good practices relating to supplier compliance was included in the awareness-raising actions conducted with the purchasing department teams worldwide and in Europe. This compliance component covers not only issues of competition law/business practices and confidentiality, but also corruption and conflicts of interest, issues that were discussed for a lay audience on electronic audio kit media. Documentation specific to purchases (guidelines, practical information sheets, do’s and don’ts) is also available on the Legal Affairs Department’s intranet site. It provides special information to purchasers in the geographical regions.

In light of the new legal requirements as part of the fight against corruption, the obligations and challenges mentioned in the UK Bribery Act that are applicable on a global scale were presented to the Executive Committee. As part of the initial actions to raise manager awareness, a news flash accompanied by the distribution of an audio kit detailing the obligations and actions to be implemented was distributed worldwide.

Compliance actions are communicated regularly in internal publications such as Connection, Essilook, and Repères.

Lastly, compliance procedures are gradually being deployed throughout the Company, relating mainly to Company-wide agreements and charters such as the charter for the protection of personal data, the updating of the charter for information and communication technology, the charter for IT administrators, a computer systems security policy that defines roles and responsibilities, and the principles and processes needed for their implementation (such as confidentiality management) in the Group’s computer systems. Information memoranda have been available for a number of years on the Legal Affairs intranet site regarding compliance with securities legislation, anti-money laundering and corruption legislation, competition law and other trade practices and principles.

The memorandum on securities legislation is reviewed at least once a year and more often in the event of a legal or regulatory change. It urges directors, Executive Committee members, employees, employees’ relatives and other individuals with access to inside information to exercise caution when trading in the Company’s shares and emphasizes that insider dealing is subject to sanctions. The appendix to the memorandum provides a schedule detailing the periods in which Company shares may not be sold, bought or transferred. In order to guarantee that information is complete and accessible to all employees, this memorandum on securities legislation is supplemented by an audio kit that explains in everyday terms the legal obligations dealing with financial information and documentation on respecting confidentiality.

**Quality**

The Quality and Customer Satisfaction department is responsible for establishing and upgrading a quality system designed to continuously enhance satisfaction levels for all customer categories. Led and coordinated by a small central team, the department's decentralized organization is closely aligned with the market structure and helps to reduce response times. Its four core aims are to:

- enhance satisfaction with products and services, taking into account the diverse expectations of the various customer segments;
- improve the efficiency and consistency of internal processes, aligning them with the overall strategic objectives and developing techniques to measure their efficiency;
- ensure that decision-making processes are results-oriented, particularly by contributing to the establishment of indicators, based where possible on comparable company and related business activities benchmarks in this industry;
- encourage the involvement, motivation and personal development of employees.

**Mergers and Acquisitions**

The Vice President, Merger and Acquisitions and his team report to one of the Chief Operating Officers and define the Group's external growth strategies and coordinate the strategic growth initiatives undertaken by subsidiaries. They also analyze, monitor and validate the financial aspects of the Group's various planned business acquisitions, and have the authority to approve the financial terms of such acquisitions or divestments. Under no circumstances may Essilor entities decide alone to acquire outside companies or to sell all or some of the shares in a subsidiary. All acquisition (and divestment) projects may be submitted to the Board of Directors prior to being implemented. Projects representing over €100 million in the case of strategic investments in new business segments or new geographic markets or over €150 million for all other acquisitions must be formally authorized in advance by the Board of Directors.

**Group Treasury**

The department is in charge of the funding, risk hedging and cash management of the Group. It also provides a general advisory and assistance role for the Group subsidiaries for these missions. It reports directly to the Corporate finance department.

Medium- and long-term financing as well as the basics of short-term liquidities are managed in a centralized manner by the parent company through bank loans, private investments, confirmed medium-term lines of credit or commercial paper. The financing of the major Group subsidiaries is guaranteed through cash pooling and short- and medium-term loans, which allow for liquidity to be centralized.

Cash investments are subject to a policy that encourages safety and liquidity on the return. Cash surpluses are invested only in short-term formats (mutual funds, certificates of deposit), thus excluding the risk of capital loss and making them immediately available.

Exposures to currency risk are routinely hedged by the appropriate market instruments. Invoicing in local currency of importing or exporting companies allows the concentration of the bulk of foreign exchange risk on a small number of entities. Those companies that are exposed to significant currency risk are hedged with the support of the Group Treasury department. The risk to other subsidiaries, if reduced, is nonetheless monitored centrally.

The interest rate management policy is to minimize the cost of financing while protecting the Group against an adverse change in interest rates. Since Group financing is centralized at the parent company, interest-rate risk management is also centralized there.

Moreover, for the above responsibilities, the Group Treasury department is in charge of the banking relationship.

It also participates with the Consolidation department in the proper compliance with procedures related to the application of IFRS to financial instruments.

## 4. REFERENCE TEXTS, STANDARDS, PROCEDURES, AND MEMBERSHIP IN BODIES THAT STRUCTURE THE INTERNAL AUDITS

a) The Group Finance Manual (GFM) sets out the mandatory policies and procedures to be followed by all Essilor units and departments in such areas as purchasing, acquisitions, communications, finance, legal affairs, operations, R&D and human resources.

The procedures are organized by process, including fixed assets, inventories, sales/receivables, treasury, purchasing, on- and off-balance sheet commitments, tax, R&D and production start-up costs, production accounting, fraud prevention, insurance, human resources, legal affairs, consolidation and acquisitions of companies, assets and businesses. It also includes ethical criteria that are applicable to the entire Group and focused around four themes: human rights, working conditions, the environment and the fight against corruption.

The GFM is accessible online in French and English on the Group's intranet site and a dedicated extranet address. It is an indispensible tool, both for the preparation of financial statements and for guaranteeing and maintaining an internal control environment that is adapted in the Group's entities. The latest developments in Group rules are covered by a specific release at the time of inclusion in the manual (newsletter and intranet announcement).

The application of all of the rules and procedures contained in the GFM is the responsibility of corporate and business managers (financial managers, purchasers, etc.) at the local and Group level.

b) The quality and reliability of financial information is guaranteed by the use of an integrated management and statutory reporting system, FIGURES. Local accounting data are entered in the system either directly or via an interface, according to a detailed reporting timetable issued by Corporate Finance at the beginning of each year.

Consolidation procedures guarantee the consistency of financial information. A specific manual includes a glossary describing the information to be entered for each module in accordance with Group rules (income statement, balance sheet, notes, treasury, inventory, capital expenditure) and defining accounting flows and business segments.

The glossary and all reporting instructions are available for consultation on the Group's intranet. They are updated each time a change is made and when new standards are adopted.

Local and corporate finance managers are responsible for ensuring that the data reported in FIGURES comply with the Group accounting policies and procedures. The use of FIGURES guarantees consistent accounting treatment of transactions and enables us to exercise close control over the preparation of the accounts of the various units.

The unified reporting system now includes a twinned application, “Sustainability,” which can be used to report economic, social and environmental data as well as to produce the schedules containing non-financial data reported by the Sustainable Development department. The procedures associated with Sustainability are similar to those for the consolidation system, and it is supported by specific reporting instructions and a specific glossary. The information is collected from the managers concerned by local and corporate finance managers.

c) We have numerous information systems to manage, monitor, analyze and control both upstream activities (production/logistics) and downstream activities (prescription/distribution).

Various reporting, reports or controls by external bodies (monthly, quarterly or annually) facilitate the monitoring and control of our subsidiaries’ operations, especially in the areas of accounting, financial and logistical performance; monitoring of commercial activities; workplace accidents; health and safety audits; APAVE inspections; ISO certifications; sustainable development reports; claims and claims prevention, insurance, litigation, etc.

Moreover, each function has the responsibility to document (in line with the GFM rules) the specific procedures to follow. An intranet charter makes it possible to coordinate at an international level the various actions related to the circulation and sharing of information via the ESSILOR intranet.

d) Essilor is included in six sustainable development indices: ASPI Eurozone®, ECPI® Ethical EMU Equity, ECPI® ETHICAL Europe Equity, FTSE4Good, Ethibel Excellence and STOXX® Global ESG Leaders.

e) Essilor supports the Global Compact initiative and is committed to embracing and enacting its ten universal principles within its sphere of influence. The Company regularly reports its achievements and progress to the Global Compact Office at UN Headquarters in New York.

Essilor International would like to take this opportunity to renew for the coming year its commitments to include the ten principles of the Global Compact in its strategies and operations.

f) Attentive to and aware of the consequences of climate change, Essilor supports the Carbon Disclosure Project and Caring for Climate initiatives. The production of a pair of corrective lenses generates only a few hundred grams of $CO_2$ equivalents. Used for many months, these small, light objects do not consume any energy. Essilor has also been associated with the Water Disclosure Initiative since its creation by the CDP.

g) The ophthalmic lens production plants under the direct control of Essilor have ISO 9001-certified quality management systems (100%), ISO 14001-certified environmental management systems (100%) and OHSAS 18001-certified workplace health and safety systems (100%). They guarantee the regular maintenance of these systems and the renewal of their certifications in subsequent accreditation audits.

## 5. INTERNAL CONTROL PROCEDURES RELATING TO THE PRODUCTION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

Each operating division draws up its own three-year business plan setting strategic objectives based on the overall strategy decided by the Company’s senior management. The medium-term business plan submitted to senior management reflects these strategic objectives and the related action plans.

The budgeting process begins each year in August, with significant input from the regional units, which provide analyses of transaction volumes between the central marketing unit, the logistics unit and the regions. Each entity’s budget is prepared on the basis of objectives and guidelines issued by the regional or operating division, and of the entity’s own strategy for the coming year.

The budgets are presented to the Group’s senior management at budget review meetings held at the end of the year. The consolidated budget is produced at the end of November and the final budget is issued in December. The annual budget is updated in June of the budget year and again in November, when the following year’s budget is prepared.

The process, which concerns all Group units, is led and monitored by the Group Business Analysis unit, in order to ensure that all budgets are prepared on the same basis and are consistent with the overall strategic objectives of senior management. Actual performance is monitored and analyzed on a monthly basis via the FIGURES reporting system, which is used not only for business analysis but also for statutory consolidation. All units are managed by the system to maintain strict control over accounting and financial information.

For statutory consolidation purposes, balance sheet data are reported on a quarterly basis, in addition to the monthly reporting. The Consolidation Department checks the figures entered in the system and ensures that they comply with Group policies. The aims of consolidation procedures are to:

- guarantee compliance with the applicable rules (IFRS, Group policies, AMF guidelines, etc.) through the implementation of general procedures and the issuance of specific consolidation instructions to the various entities;
- provide assurance concerning the reliability of financial information, through the execution of controls programmed into the system or performed by the various Finance departments (business analysis, consolidation, treasury) within the required timeframes;
- guarantee data integrity through high-level systems security.

Specific instructions are issued to reporting entities before each consolidation exercise, including a detailed reporting timeline. The procedures for monitoring off-balance sheet commitments and assets are included in the Group Finance Manual. They stipulate the types of commitments to be recorded on- and off-balance sheet. Full information about these commitments is provided by the reporting system.

The budgeting process and consolidation procedures enable us to constantly monitor the performance of the various units and to swiftly identify any variances from budget in order to take immediate corrective action.

All of the procedures set out in the GFM apply to all Group companies, whether or not they are consolidated, and the work plans of local management, internal controlling and the internal auditors include checking that the procedures are implemented. Moreover, at each closing date, the financial information deemed most relevant is presented by the Financial Department to the Audit Committee. Such meetings, which are attended by the statutory auditors, discuss all material transactions and the main accounting options selected to address potential risks.

Finally, even though it is not an integral part of the internal control procedures, the statutory auditors review the accounting and internal control systems to plan their missions, deign their audit strategies and test a certain number of key internal controls. The accounts of all Group subsidiaries are audited by local auditors, most of whom are members of the networks of the accounting firms that audit the Group's consolidated accounts.

## MATTERS SUBMITTED TO THE BOARD AND RELATED DECISIONS

A provision of the Code of Corporate Governance is rejected and the reasons why this occurred are as follows: at its meeting on November 27, 2008, the Essilor Board of Directors voted on the October 2008 AFEP/MEDEF recommendations concerning the compensation of executive directors of listed companies.

The Board of Directors approved these recommendations, which are consistent with Essilor's long-standing corporate governance policies.

Generally speaking, Essilor has always had a policy of transparency and moderation with regard to executive compensation.

However, concurring with the position of the Remunerations Committee, the Board expressed reservations about the "requirement" that would be imposed on a corporate officer to terminate his or her employment contract when appointed Chief Executive Officer or Chief Operating Officer.

While it would appear reasonable not to give an employment contract to a corporate officer newly recruited from outside the company, the requirement is difficult to accept in the case of a manager who has been asked to take on higher responsibilities after a long and successful career within the organization.

By reducing the protection afforded to executive directors at a time when they are taking on increased risks by virtue of their new responsibilities, this could lead internal candidates to turn down the promotion or to ask for a bigger increase in their compensation, which is obviously not in line with the spirit of the AFEP/MEDEF recommendations.

It would also open up a breach between corporate officers and the managers below them that would work against the principles of internal promotion and sustainable management that we consider to be instrumental in building powerful and stable companies.

The Board of Directors of Essilor will therefore continue to suspend senior managers' employment contracts when they are appointed Chief Executive Officer or Chief Operating Officer, if they have been with the Company for at least ten years at the time of their appointment. The AMF has recognized the validity of this position.

Having played a pioneering role in promoting employee stock ownership, Essilor has long preferred to promote executives from within, thereby encouraging them both to take a long-term view and to share in the entrepreneurial risk; the large number of Essilor shares held by them is in fact the clearest illustration of this.

### Annual review of each BOARD MEMBER with regard to independence criteria

In 2005, the Board reviewed for the first time the situation of each director with regard to the independence criteria established in the AFEP/MEDEF's 2003 corporate governance report. Every following year, the Board has examined the situation of each Board member based on the independence criteria set out in the 2008 Corporate Governance Code. The most recent review took place at its meeting on November 24, 2011.

After conducting this thorough review, the Board determined that, out of the 14 members of the Board , eight member s can be considered "independent", which is over the 50% required by the internal rules and the AFEP/MEDEF Code, and one Board member will reach the 12-year limit in office in 2012, which is the conventional definition of the end of independence for an external Board member.

### Self-assessment of Board operations

A formal evaluation of the operations of the Board of Directors has been conducted each year since 2004. These have often led to the amendment of the internal rules of the Board of Directors and the Director's charter. In 2011, a new formalized self-evaluation was initiated and the summary report on the questionnaires completed by the corporate officers committee resulted in the following findings by the Board:

Major themes common to all responses

- mutual respect between all directors;
- integration of new directors perceived as highly successful by the "old-timers"; a feeling that the company will be in good hands after they leave;
- high level of involvement;
- respect of Essilor management and real passion for the corporate culture;
- unanimous interest in following and understanding Essilor's growth in R&D.

Major points emphasized

- good practical management of the Board but preparatory documents and minutes could be received in a more timely fashion;
- strong demand for understanding R&D and production, meeting Executive Committee members, visiting sites (R&D, Asia, new FGX-type activities);

- receive annual global updates at Strategy Committee meetings on strategic priorities and their progress;
- request for ongoing competitive mapping;
- request for annual, in-depth treatments of corporate governance topics.

In conclusion, this most recent self-evaluation demonstrated that the directors consider the Board to be very well prepared and very well supervised and that its effectiveness has shown further improvement.

The directors believe that the evaluation conducted internally, considering that everyone was involved, is effective and, for the time being, do not wish to engage the service of an external firm.

The matters discussed by the Board in 2011 and the decisions taken covered a wide range of areas, including:

- the Group's business performance;
- competition;
- the interim, annual, and estimated consolidated financial statements;
- annual budget;
- press releases on 2010 earnings and earnings for the first half of 2011;
- presentations or summary reports from the Audit Committee, Strategy Committee, Appointments Committee and Remuneration Committee;
- a general survey of the body of shareholders;
- commission trading points;
- the Company's dividend policy;
- draft resolutions to be submitted to the Shareholders' Meeting;
- reports to shareholders;
- acquisitions and other strategic projects, especially the planned equity investment in Shamir;
- changes in financing;
- the amount of guarantees given by the Company;
- employee share issues and matching payments by the company;
- performance share and stock subscription option grants;
- the share buyback program;
- renewal of the office of Chief Executive Officer;
- senior management compensation;
- allocation of directors' fees;
- corporate governance issues;
- stock market ethics;
- an amendment to the internal rules to reflect the change in governance;
- the composition of committees;
- the main employee-related issues;
- professional equality between men and women;
- press articles and financial analysts' research reports;
- delegations and sub-delegations of authority to the Chief Executive Officer;
- the dates of Board meetings and the Annual General Meeting in 2012.

Additional information on corporate governance and the Board of Directors' internal rules is presented in Sections 14, 15 and 16 of this Registration Document.

## POWERS OF THE CHIEF EXECUTIVE OFFICER

The board had decided, with effect from January 1, 2010, to separate the roles of Chairman and Chief Executive Officer without limiting the powers of the CEO. However, the restructurings and significant non-strategic investments announced will continue to be subject to prior approval of the Board, as stated in the original internal rules of November 2003. In addition, the CEO is assisted by two senior vice presidents.

This dissociation was studied extensively by the appointments and remunerations committee, as was the distribution of functions that enabled the CEO to assume the full measure of all strategic, operational, and functional aspects of the Group while having at his side a Chairman experienced in all these functions and capable of ensuring the continuity of leadership of the Board of Directors and the Shareholders' Meeting while continuing to promote the governance of Essilor. Starting January 2, 2012, since this change and assumption of office has been carried out, the Board decided to merge the offices of Chairman of the Board of Directors and Chief Executive Officer into the hands of the Chief Executive Officer.

## SPECIFIC RULES GOVERNING SHAREHOLDER PARTICIPATION IN GENERAL MEETINGS

All holders of ordinary shares are entitled to participate in General Shareholders' Meetings, however many shares they own, provided such shares have been paid up to the extent called.

The rights of shareholders to be represented by proxy and to participate in the vote are exercised in accordance with the relevant laws and regulations. The Company's bylaws do not contain any restrictions on the exercise of these rights.

The Company's bylaws (Section V – General Shareholders' Meetings) include the following provisions concerning the organization of general meetings, the meetings' main powers and the rights of shareholders, which are in compliance with the law:

### Article 24 – General rules

5) Shareholders' right to information

All shareholders have the right to receive the documents needed to allow them to make informed decisions and to form an opinion concerning the management and control of the Company.

The type of documents concerned and the manner in which they are made available to shareholders are determined according to the relevant laws and regulations.

### Article 25 – Ordinary Shareholders' Meetings

The Ordinary Shareholders' Meeting votes on all matters involving the Company's interests that do not fall within the competence of an Extraordinary Shareholders' Meeting.

The Ordinary Shareholders' Meeting makes all decisions that exceed the powers of the Board of Directors and do not lead to a change in the bylaws.

An Ordinary Shareholders' Meeting is held at least once a year, within six months of the fiscal year-end, to deliberate on all aspects of the annual financial statements and, as applicable, of the consolidated financial statements. This meeting may be held more than six months after the fiscal year-end by decision of the court.

Ordinary Shareholders' Meetings can validly conduct business if holders of at least one-fifth of the voting shares are present or represented.

If the quorum is not met, the Shareholders' Meeting must be called again.

There is no quorum requirement meetings held on second call. Resolutions of the Ordinary Shareholders' Meeting are adopted by a majority of the votes cast by the shareholders present or represented, including ballots cast by mail.

### Article 26 – Extraordinary shareholders' meetings

The Extraordinary Shareholders' Meeting has the power to modify all provisions of the bylaws, except to change the Company's nationality other than in the cases provided for by Law, or to increase the shareholders' commitments.

Subject to these restrictions, the Extraordinary Shareholders' Meeting may, for example, decide to increase or reduce the share capital, change the corporate purpose, change the Company's name, extend its life or wind it up in advance, or change its legal form.

The Extraordinary Shareholders' Meeting may validly conduct business provided that the shareholders present, represented or voting by post hold at least one quarter of the voting shares on first call and one-fifth on second call. If the quorum is not met on either first or second call, the Meeting can be postponed for up to two months, before being called again.

Resolutions of the Extraordinary Shareholders' Meeting are adopted by a two-thirds majority of the votes cast by the shareholders present or represented, including postal votes, except where different legal rules apply.

Exceptionally, resolutions concerning the capitalization of reserves, earnings or additional paid-in capital are subject to the quorum and voting majority rules applicable to Ordinary Shareholders' Meetings.

The Extraordinary General Meeting may also amend the rights of various classes of shares; but, in the event that a decision by the Extraordinary General Meeting would affect the rights attached to a class of shares, this decision will become final only after it has been ratified by a Special Meeting of the shareholders for the class targeted. Said Special Meeting will be subject to the legal and regulatory provisions applicable to Extraordinary Shareholders' Meetings. If none of the Company's directors holds shares in the class concerned, the Special Meeting elects its own Chairman.

## CONTRACTS CONTAINING A CHANGE OF CONTROL CLAUSE

In application of Article L.225-37, paragraph 9, of the French Commercial Code, the information required under Article L.225-25-3 of the Code is presented in the management report and in Section 18.4 of this Registration Document.

Charenton, February 29, 2012

**The Chairman of the Board of Directors**