2.3 Chairman's Report on corporate governance and internal control

Dear Shareholders,

In accordance with Article 117 of the French Financial Security Act (Act 2003-706), Article 62 III of the French Employee Stock Ownership Act (Act 2006-1770 of December 30, 2006), Article 621-18-3 of the French Monetary and Financial Code and Article 26 of Act 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 fiscal year ended December 31, 2012;
- 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 25, 2013) 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 27, 2013.

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.

2.3.1 Preparation and organization of meetings of the Board of Directors

2.3.1.1 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 2010 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.

2.3.1.2 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.

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.

The Directors' Charter 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. In relation to this the charter states that each Board member who has access to inside information may not trade in the Company's shares, directly or through a third party or cause any other person to trade in the Company's shares on the strength of that information for as long as this information has not been made public. In compliance with the AMF's recommendation of November 3, 2010 on preventing insider trading by senior managers of listed companies, new requirements building on the stock market Code of Ethics already in place at Essilor were added to the charter on November 25, 2010. As for Company employees who may have access to privileged information, the charter specifies that Board members may not trade in the Company's shares during the period preceding the publication of privileged information of which they are aware and also during the 30-day period that precedes the publication of the annual, half-year and where applicable, quarterly earnings. The day of publication of such information is part of the black-out period.

Corporate directors and officers are required to disclose any trading in the Company's shares by themselves or their close relations. In relation to this, the charter states that in accordance with Article 621-18-2 of the Monetary and Financial Code, introduced in Act 2003-706 of August 1, 2003 (the Financial Security Act), Articles 222–14 and 222-15 of the General Regulations of the *Autorité des Marchés Financiers* (AMF), the AMF's press release of December 27, 2004 and the AMF note of April 16, 2008, Board members undertake to report immediately to Essilor, through the Company's registrar, any and all transactions in the Company's shares or financial instruments carried out by him or her or by any close relation, in order to enable the Company to report these transactions to the AMF and to announce them in a press release, within the required timeframe.

2.3.1.3 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.

The main internal rules governing the Board's practices are as follows:

Purview of the Board of Directors

The Company's Board members contribute their experience and expertise. They have a duty of vigilance and exercise their judgment freely

and independently when participating in the decisions or work of the Board and, where applicable, the special Committees of the Board.

The Board of Directors is a collegial body whose role and responsibilities – in addition to those defined by law and regulations – are to:

- decide the criteria to be applied to determine whether directors are independent and review these criteria each year;
- Identify the directors who meet the independence criteria;
- review and if appropriate, approve major strategic choices;
- review and if appropriate, approve acquisitions and disposals 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;
- approve material restructuring and investment projects that do not form part of the stated strategy;
- monitor implementation of the Board's decisions;
- review and approve the financial statements;
- assess the performance of Board members (collectively and individually) and of members of senior management;
- ensure that Essilor's tradition of managerial excellence is maintained;
- discuss and if appropriate, approve the choice of candidates for election as corporate directors or officers and their compensation recommended the Appointments and Compensation Committee;
- discuss and if appropriate, approve the appointment of the members of the special Board committees on the recommendation of the Appointments Committee ;
- discuss and if appropriate, approve senior management succession plans and major organizational changes ;
- examine the procedures for identifying, evaluating, auditing and monitoring the Company's commitments and risks.

Information made available to Board members

All necessary documents to inform the Board members about the agenda and matters to be discussed at Board meetings are enclosed with the notice of meeting, sent by post or handed to directors five days in advance of the meeting.

Each Board member is required to ensure that he or she has all the information they deem essential to the proper operation of the Board or the special Committees of the Board. 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. Board members' requests are 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 Board members are able to fulfill their duties.

Between meetings, Board members also receive all useful as well as business-critical information about all events or transactions that are material to the Company. In particular, they receive copies of all press releases published by the Company.

Board meetings

The Board meets as often as necessary in the Company's interest and at least five times per year. The dates of the following year's meetings are set no later than one month before the end of the year, except for extraordinary meetings.

Special Committees of the Board

On the recommendation of the Appointments Committee and with the approval of the Chairman of the Board of Directors, the Board may create special committees and set the rules governing their remit and composition. These committees act on the authority delegated to them by the Board and make recommendations and proposals to the Board.

Annual self-assessment of the operations of the Board

Once a year, the Board performs a formal assessment of its operations and takes any appropriate measures to improve them. The results of the self-assessment are presented to shareholders in the Annual Report. The assessment covers the three objectives listed in Article 9.2 of the AFEP-MEDEF Corporate Governance Code.

Amendments to the internal rules

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 internal rules were revised 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 procedures and overall strategy to achieve information literacy and control risk;
- the effective implementation of existing procedures and if necessary, how this is achieved;
- the Company's financial position, cash position and liabilities.

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 2.1 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."

2.3.1.4 Members of the Board of Directors

Hubert Sagnières, Chairman and Chief Executive Officer since 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 November 27, 2012, 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 15 members of the Board, nine were independent, as follows:

- Benoît Bazin
- Antoine Bernard de Saint-Affrique
- Yves Chevillotte
- Mireille Faugère
- Louise Fréchette
- 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
- Maureen Cavanagh, coopted to replace Yves Gillet
- Yi He

2.3.1.5 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.823-17 of the French Commercial Code.

2.3.1.6 Frequency of Board meetings

In 2012, the Board held six scheduled meetings on the dates planned in July 2011 (January 26, February 29, May 11, July 10, August 30 and November 27, 2012). Each meeting lasted an average of two hours.

2.3.1.7 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 those 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 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 2012.

Thirteen directors attended the Combined (Ordinary and Extraordinary) Shareholders' Meeting held on May 11, 2012.

The table below shows the number of Board and Committee meetings held during 2012, as well as their members and the individual attendance at each of these meetings.

	Board of Directors	Attendance (as a %)	Audit Committee	Part. (as a %)	Compen-sation Committee	Part. (as a %)	Appoint-ments Committee	Part. (as a %)	Strategy Committee	Part. (as a %)
Number of meetings in 2012	**6**	**100**	**5**	**100**	**3**	**100**	**2**	**100**	**4**	**100**
Hubert SAGNIÈRES	6	100							4	100
Philippe ALFROID	5	83	5	100					3	75
Benoît BAZIN	6	100	5	100					4	100
Antoine BERNARD DE SAINT-AFFRIQUE	6	100	5	100					4	100
Maureen CAVANAGH	1/1 member since Nov.	100							Non member	
Mireille FAUGÈRE	6	100			3	100			4	100
Xavier FONTANET	6	100					2	100	4	100
Louise FRÉCHETTE	4/4 member since Nov.	100							2/2 member since May	100
Yves GILLET	4/5 resigned in Oct.	80							3/4 due to resignation	100
Yi HE	6	100							4	100
Bernard HOURS	6	100			3	100			4	100
Maurice MARCHAND-TONEL	6	100			3	100	2	100	4	100
Aïcha MOKDAHI	6	100	4	80					4	100
Olivier PÉCOUX Chairman of the Audit Committee	4	66							3	75
Yves CHEVILLOTTE Chairman of the Corporate Directors and Officers Committee	6	100	5	100			2	100	4	100
Michel ROSE	6	100	Non member		3	100	2	100	4	100

2.3.1.8 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.

2.3.1.9 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.

2.3.1.10 Committees of the Board

Since 1997, the Board of Directors, on the proposal of its Chairman, has had three permanent special committees made up of Board members: the Audit Committee (as it was called at the time), Corporate Directors and Officers and Compensation Committee and Strategy Committee.

At the end of 2009, the Board decided to set up a fourth permanent special committee, the Appointments Committee, which held its first meeting in 2010.

At the end of 2011, the Audit Committee became the Audit and Risk Committee as it gradually took on more work related to risk (see the report of its work below).

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.

The Audit and Risk Committee

The work of this committee is based on the AMF working group report on Audit Committees of June 14, 2010. To give an example, in 2012 the Audit and Risk Committee conducted its self-evaluation in the form of an internal questionnaire, as was the practice of the Board of Directors as a whole. The results of this self-evaluation showed a high level of overall satisfaction. Nevertheless, several areas were identified in which more improvement could be made, in particular making changes to the way the committee operates so that it could handle a greater number and range of matters.

The Audit and Risk Committee met twice in respect of the 2012 financial statements; once on August 27, 2012 to review the interim consolidated financial statements and once on February 25, 2013 to review the final consolidated financial statements for 2012. At these meetings the committee heard from the Group's Chief Financial Officer, Corporate Senior Vice President, Legal Affairs and Vice President, Internal Audit and the Statutory Auditors who commented on the financial statements and answered 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 governance executives from the Group, including the Corporate Senior Vice President, Legal Affairs and the Vice President, Internal Audit.

The Audit and Risk Committee also met on June 5 and November 29, 2012 in regular session.

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");
- monitoring of 2012 internal and external audits and internal audit plan for 2013;
- results and follow-up of the self-evaluation questionnaire on internal control procedures;
- implementation of the "Minimum Control Standards";
- management of innovation protection;
- risk management; processes in place, distribution of roles between the Audit and Risk Committee and Board of Directors;
- process for consolidating acquisitions;
- monitoring of litigation and tax audits in France.

The Audit and Risk Committee also met in a special session on October 12, 2012 to review in detail the progress made in the process to reappoint the Statutory Auditors and to formulate a draft opinion for the Board of Directors.

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

The committee also met with the Statutory Auditors with the Group representatives not present.

Appointments Committee

The committee met on February 28 and October 26, 2012.

It set in motion the process of discussing future changes to the membership of the Board of Directors, especially the legal obligation to have 40% women on the Board by 2017.

Corporate Directors and Officers and Compensation Committee

The Corporate Directors and Officers Committee met three times in 2012 to examine matters related to the compensation of corporate directors and officers and the evaluation of the classification of independent directors and the work of the Board.

Compensation of corporate directors and officers

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 2011 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 2012;
- set the compensation of the Chairman 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 27, 2012, at which they were decided;
- approve the 2012 capped performance share and stock option grants to key managers and talents in the Group, as well as the collective grant of 20 performance shares to employees of the Group's French companies en pursuant to Law 2008-1528 of December 3, 2008.

Evaluation of the classification of Independent Director and the work of the Board

At the August 30, 2012 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 Corporate Directors and Officers Committee then prepared an executive summary of the survey results.

Lastly, at the November 27, 2012 Board Meeting, the Corporate Directors and Officers Committee presented the results of the directors' self-assessment of the Board's practices.

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 corporate directors and officers, please refer to Section 2.2 ("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 impacts the compensation 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).

Moreover, the specific rules governing grants of performance shares and stock options to corporate directors and 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 directors and 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;
- 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 fiscal 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.

The Strategy Committee

The Strategy Committee met four times in 2012. The primary duties of the Committee, as part of the Board's work, is to review the Group's strategies on a regular basis both in terms of market changes and products and technologies value creation and in terms of geography and marketing. After each of its meetings, a summary of presentations and various discussions was presented to the Board of Directors by its Chairman.

2.3.2 Report on Essilor International SA 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.

2.3.2.1 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 ("the 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 control 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 rather on several factors, such as 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 1.7 of this Registration Document.

2.3.2.2 Components of the internal control mechanism

Control environment and Group values

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 the basis of this environment and makes it possible to share Essilor's mission, principles and values. It is organized around three major concepts which give all Essilor employees and 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 currently available in 28 languages on the Group's intranet site and on its website.

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, to 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 the sense that good sight is an essential asset to health and also 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, 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 14.3% of the Company's voting rights. The association's bylaws are regularly updated and reviewed to ensure they are aligned with its development.

Organization of internal controls

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 efficacy.

Senior Management considers that an effective system of internal control is of critical importance and this is borne out by the wide range of matters presented to the Board by multidisciplinary teams and the Audit and Risk Committee. Senior management defines the general principles of internal control, relays them to staff and ensures that they are fully implemented within the Group.

2.3.2.3 Presentation of the principal control procedures

Internal control is a process which 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 and Internal Control

The ongoing duties of the internal audit are 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 audit, a report is prepared and distributed to the management of the entity, to the regional President of the audited unit, to the Chairman and Chief Executive Officer, to Chief Operating Officers, to 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 heads of the operating and corporate units concerned. This report summarizes the observations made and the recommendations for needed improvements. The Audit and Risk Committee is informed of the key points. 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 Senior Management (Chairman and Chief Operating Officers). He has no authority over, nor responsibility for, the audited operations. He also reports on his department's activities to the Audit and Risk 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 which 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 and Risk Committee, as well as to 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. In 2012, progress was generally in line with the roadmap.

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.

Consolidation

The Group's consolidated financial statements are prepared by the Consolidation and Group Reporting Department. This department is in charge of updating consolidation procedures which are first presented to the Audit and Risk Committee. It is also tasked with training the newly consolidated subsidiaries and including them in the reporting.

The Group's consolidation is established on the basis of the local accounts of the various subsidiaries or existing sub-groups. The Consolidation and Reporting Department receives detailed financial statements according to a set schedule, performs a full review of the statements and makes the adjustments required for the preparation of the consolidated financial statements. These are audited by the Joint Statutory Auditors who apply the standards of the profession.

The reporting process ensures that the Group's interim and annual financial statements are reliable. To prepare for the fiscal periods ending June 30 and December 31, a hard close procedure is performed at May 31 and November 30.

Business Analysis

Each Group entity or reporting unit has its own business analysis unit responsible for analyzing performance and preparing forecast cycles. The Group's entities are supported by a business analysis unit in each operating division to which they are attached.

The Group's business analysis unit defines and monitors the indicators for checking that the Group is operating in accordance with its targets. It measures the contribution of the Group's various operating divisions.

It performs consistency tests on management reporting data to check the overall reliability of the information, working in collaboration with the business analysis units in each operating division.

It flags differences compared with targets set, identifies risks and opportunities and provides decision-making guidance. It oversees the forecasting phases (forecasts, budget, MTP).

It also manages and streamlines internal flows within the Group and in particular establishes transfer prices and royalties.

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 Global Health, Safety and Environment (HSE) Department reports directly to a member of the Executive Committee (the Corporate Senior Vice President, Global Engineering) and also has a dotted-line reporting relationship with the Sustainable Development unit. It is responsible for applying the Group'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 of 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 and takes part in meetings of the Audit and Risk Committee and Strategy Committee. It ensures that executives throughout the organization are aware of potential liability risks and proposes legal solutions which 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 which is increasingly complex and burdensome.

Legal Affairs ensures that the Company fulfills some twenty-thousand contractual obligations, with the help of a contracts database which 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 web-enabled intranet application 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 for preventing legal risk is structured around major legal topics related to the Group's business activity, especially antitrust law, confidentiality management, and prevention of corruption. Its main purpose is to inform and educate managers about legal risks, communicate and formalize good practices and 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, the Executive Committee and the Audit and Risk Committee. It covers 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 – and continues to be rolled out gradually.

In this context, actions to raise awareness of competition law are still being pursued 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. In 2012, briefings and awareness-raising sessions on specific topics related to competition law and trade practices were adapted to local legislation and presented in the local language to managers of the Belgian, Spanish and Dutch subsidiaries (more than forty people).

Similar actions or even legal guides to the basic rules of antitrust law and trade practices continued on a global scale, especially in Asia, India and the United States.

To provide all Group employees with regular, accessible information, specific documentation with educational content has been posted on the Legal Affairs intranet site in a section dedicated to compliance. It consists of "audio kits" (multimedia presentations for awareness-raising sessions), briefing notes, PowerPoint presentations, fact sheets, guides to best practices and a list of do's and don'ts. The information is constantly being updated and consulted on an ongoing basis. Guides, charts and manuals for use by employees are also produced at regular intervals.

Local legal teams which have a dotted-line reporting relationship with the Corporate Senior Vice President, Legal Affairs, can thus guarantee uniformity and 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. At plants in Asia, training sessions have been held in conjunction with the Global HSE Department.

The results of these awareness-raising actions and a report 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 have been conducted in the major European subsidiaries, particularly those in Eastern Europe. Audit reports have been presented to Senior Management and the Corporate Europe Division with recommendations to be implemented as part of an ongoing plan to improve our prevention policy.

Human Resources have completed the development of audio kits of awareness-raising e-learning training modules adapted to local laws and practices and in local languages. The first phase of the roll-out was to employees in France and will be followed gradually by roll-out to the rest of Europe.

In the United States, some 1,000 employees have followed the e-learning training module on local antitrust law and trade practices.

Furthermore, owing to the Group's international acquisitions, a guide to good practices for information exchange in the context of competition law has been drawn up and widely distributed to managers. This guide is designed to enable employees to exchange information with external partners (customers, suppliers, and so on) and Group subsidiaries in compliance with good practices.

Similarly, owing to the development of new communication tools such as social media, which are increasingly being used by employees, the Communications and Human Resources Departments have produced a guide to good practices. This has been distributed to all Group employees so that they can be alert to the content and nature of information sent across this media, with particular regard to the requirement for confidentiality. Given the Group's business activities, confidentiality is an important part of our compliance policy.

Actions to raise awareness and provide information on proper confidentiality management have been carried out, in particular with global R&D teams, including instruments R&D teams, marketing departments and the management teams of subsidiaries in China, India, Thailand and the Philippines (some 300 employees in all).

A guide to good practices in support of these actions has been posted on the Legal Affairs intranet site and pamphlets translated into local languages, particularly Mandarin, have been widely disseminated throughout the Group.

As an innovative, manufacturing company, we are subject to major confidentiality compliance challenges. Awareness-raising initiatives and documentation are therefore supplemented by training sessions focusing on good practices. These training sessions have been outsourced to an external supplier under the responsibility of Human Resources. They were initially given to the heads of the global R&D teams but will be extended to all Group managers.

On a more practical level and in conjunction with the Group's Communications Department, standard internal communication documents (PowerPoint presentations, meeting summaries, etc.) automatically containing relevant legal notices are available to staff on the intranet site.

To prevent corruption and, in particular to take the extraterritorial application of the UK Bribery Act 2010 (UKBA) into account, information and awareness-raising tools have been developed in collaboration with local legal advisors aimed at all applicable employees in China, India, the Philippines and Thailand. The tools comprise:

- multimedia modules in English and Mandarin, presenting local anti-corruption legislation and the resulting good practices, to support the awareness-raising sessions;
- reminders in the form of pamphlets in English and Mandarin for wide distribution.

To raise awareness and provide more information about the rules and consequences of the UKBA, a special meeting was held with all the managers of the UK subsidiaries and members of their Executive Board (i.e. some 20 managers).

Obligations under the UKBA also require an assessment of the risks to which the Company may be exposed so that if necessary, adequate internal procedures, commensurate with the risks identified, can be implemented. With this in mind, a specialist provider has been entrusted with preparing a report on the Global Purchasing Department's current practices and making recommendations to improve these policies and the internal procedures for our relationships with our suppliers.

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 which defines roles and responsibilities and the principles and processes needed for their implementation (such as confidentiality management) in the Group's computer systems.

Under new European legislation – expected to apply directly to member states from the beginning of 2014 and requiring companies to appoint a data privacy representative – a legal audit has been performed by an external provider under the joint responsibility of the IT and Human Resources Departments to ensure that our internal procedures and processes comply with the 1978 law and to make recommendations as necessary.

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. To ensure that all employees have access to complete information on securities legislation, the memorandum on this topic is accompanied by an audio kit detailing the legal obligations pertaining to financial information. More generally, a memorandum, also supplemented by an audio kit, is available containing full details of all the criminal risks to which the Company may be exposed and the consequences for the criminal liability of the Company, its directors and its employees. This memorandum, designed to inform and raise awareness among all employees, is available at all times on the Legal Affairs intranet site for the widest possible circulation.

Compliance actions are communicated regularly in internal publications such as Connection, Essilook, and Repères and all documentation and audio kits are bilingual (French/English) or translated into local languages so that the compliance policy is applied consistently throughout the Group.

In July 2012 the Industrial Property Department sent all Group managers guidelines for using, protecting and globally complying with our trademarks, logos and other identity elements.

Quality

Reporting directly to the Corporate Senior Vice President, Global Engineering (a member of the Executive Committee), 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;
- represent the Essilor group on standardization bodies and promote the interests of consumers on these bodies.

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 Group Treasury 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 duties. It reports directly to the Corporate Finance Department.

Medium- and long-term financing as well as a large percentage 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 gradually centralized.

Cash investments are subject to a policy that encourages safety and liquidity upon return. Cash surpluses are invested only in short-term formats (mutual funds, certificates of deposit), thus limiting 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 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.

2.3.2.4 Reference texts, standards, procedures, and membership in bodies that structure the internal audits

a) The Guide to Group Standards (GGS) 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. The GGS 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 GGS is accessible online in French and English on the Group's intranet site and a dedicated extranet address. It is an indispensable tool, both for the preparation of financial statements and for guaranteeing and maintaining an internal control environment which is adapted in the Group's entities. The latest developments in the Group's 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 GGS is the responsibility of corporate and business managers (financial managers, purchasers, etc.) at 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 site. 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 GGS 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.

Corporate Knights has ranked Essilor International among the "2013 Global 100 Most Sustainable Corporations in the World." Announced every year since 2005 during the World Economic Forum in Davos, the Global 100 ranking is considered most extensive data-driven corporate sustainability assessment in existence.

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 has supported the Carbon Disclosure Project and Caring for Climate initiatives since their launch. 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 mass 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. Some of the ophthalmic lens prescription manufacturing laboratories that essentially play a service role also have these systems, although only when justified by their size.

2.3.2.5 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. All of these objectives are included in the GSG, presented to the Company's senior management.

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 GSM. 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 GGS apply to all Group companies, whether they are consolidated or not 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 Finance Department to the Audit and Risk 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 audits, 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.

2.3.3 Matters submitted to the Board and related decisions

Generally speaking, the Company complies with the "AFEP-MEDEF" Corporate Governance Code.

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 Corporate Directors and Officers 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 directors or officers and the managers below them which would work against the principles of internal promotion and sustainable management that we consider to be instrumental in building powerful and stable companies.

The Essilor Board of Directors 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 10 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.

2.3.3.1 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 2003 Corporate Governance Report. Each 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, of the 15 members of the Board, nine members 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.

2.3.3.2 Self-assessment of Board operations

A formal evaluation of the Board of Directors operations has been conducted each year since 2004. These have often led to the amendment of the Board of Directors internal rules and the Directors' Charter. In 2012, a new formalized self-evaluation was initiated and the summary report on the questionnaires completed by the Corporate Directors and Officers Committee resulted in the following findings by the Board.

In 2012, a new formalized self-evaluation was initiated and the summary report on the questionnaires prepared by the Corporate Directors and Officers Committee found progress has been made on the following points, compared to the previous year:

Satisfactory reform of governance and the quality of communication with management (quality and transparency of presentations); broad range of matters undertaken by the Board and the seminar organized by management in Dallas, which was particularly instructive and an opportunity to understand American business and get to know the team. Other progress to be made includes an examination by the Board of a secure information solution.

The matters discussed by the Board in 2012 and the decisions taken covered a wide range of areas, including:

- the organization of the Group's top management;
- the Group's business performance;
- competition;
- the interim, annual, and estimated consolidated financial statements;
- annual budget;
- press releases on 2011 earnings and earnings for the first half of 2012;
- presentations or summary reports from the Audit and Risk Committee, Strategy Committee, Appointments Committee and Corporate Directors and Officers and Compensation Committee;
- procedure for reappointing the Statutory Auditors;
- 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 assessment of acquisitions from 2008 to 2012;
- changes in financing;
- the amount of guarantees given by the Company;
- employee share issues and matching payments by the Company;
- grants of performance shares and stock options with the introduction of specific performance conditions for Executive Committee members;
- the share buyback program;
- share cancellation;
- the appointment of two new Board members;
- senior management compensation;
- continuation of previously authorized related party agreements;
- allocation of directors' fees;
- Chairman's Report on corporate governance and internal control procedures;
- stock market ethics;
- the main employee-related issues;
- analysts' research reports;
- professional equality between men and woman;
- delegations and sub-delegations of authority to the Chief Executive Officer;
- the dates of Board meetings and the Annual General Meeting in 2013.

Additional information on corporate governance and the Board of Directors' internal rules is presented in Section 2.1 of this Registration Document.

2.3.4 Powers of the Chief Executive Officer

The duties of Chairman of the Board and Chief Executive Officer are performed jointly without any formal restrictions on the powers of the Chief Executive Officer. However, the restructurings and significant non-strategic investments announced are still 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.

2.3.5 Specific procedures for 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. However, 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.

2.3.6 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 paragraph 5.2.1.4.4 "Arrangements resulting in a change in control of the Company and shareholders' pacts" of this Registration Document.

Charenton, February 27, 2013

The Chairman of the Board of Directors