2.2 Chairman's Report on corporate governance and internal control

To the Shareholders,

Pursuant to Article L.225-37(6) to (10) of the French Commercial Code, I present below my report regarding:

- Board membership and the application of the principle of equal representation of men and women on it;
- the preparation and organization of Board Meetings during the fiscal year ended December 31, 2013;
- 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 Shareholders' Meetings;
- the principles and rules applied by the Board of Directors to determine the Executive 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 2.2.3 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 24, 2014) 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 *(Autorité des Marchés Financiers)* 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 26, 2014.

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.

2.2.1 Board of Directors Membership

Article 12 of Essilor's bylaws stipulates that the Company's affairs are to be managed by a Board of Directors of no less than three and no more than fifteen members, not including Board members representing employee shareholders (Article 24.4).

At December 31, 2013, Essilor's Board of Directors had fifteen members, including three members representing employee shareholders. An amendment of the bylaws to allow for the appointment of a Board member representing employees under the Employment Security Law will be subject to the approval of the Shareholders' Meeting of May 7, 2014.

2.2.1.1 Representation of women on the Board of Directors

The Board of Directors currently has four women among its fifteen members and therefore complies with the provisions of Article 5. II of Law 2011-013 of January 27, 2011 applicable to companies whose shares are admitted to trading on a regulated market, according to which the proportion of Directors or members of the Supervisory Board of each sex cannot be less than 20% at the end of the first Ordinary Shareholders' Meeting held after January 1, 2014. See also "Major accomplishments of the Appointments Committee in 2013" in Section 2.2.2.6.

2.2.1.2 Term of office of members of Board of Directors

Board members are currently elected for a three-year term and may stand for re-election. The terms of one-third of the Directors expire at an Ordinary Shareholders' Meeting, so that the entire Board is re-elected over a rolling three-year period. To help make the renewal process smoother, at its meeting of February 26, 2014, the Board of Directors decided to submit a revision of Article 14 of the Bylaws to the Shareholders' Meeting to be held on May 7, 2014.

2.2.1.3 Qualifying shares

In accordance with Article 13 of the Bylaws in force at December 31, 2013, each Director must own at least 1,000 shares in the Company. The Board of Directors, at its meeting of February 26, 2014, decided to submit a revision of Article 13 of the Bylaws to the Shareholders' Meeting to be held on May 7, 2014.

2.2.1.4 Expertise and experience of Directors

Members of the Board of Directors contribute management expertise and/or experience to the Company in a variety of areas, including general and practical business knowledge, expertise in a specific Essilor International business segment or several years of experience in managing international companies and thus contribute their management expertise and/or experience. For more details, see the list of directorships in Section 2.1.1.2.

The Company's Directors have a duty of vigilance and exercise their judgment freely and independently when participating in the decisions and work of the Board and, where applicable, in the special committees of the Board.

2.2.1.5 Independence of the members of the Board of Directors

The criteria for determining the Board members' independence are set out in the Company's internal rules as adopted by the Board on November 18, 2003 and amended from time to time. These criteria, which comply with the AFEP-MEDEF Corporate Governance Code, are as follows:

"A Board member is independent when he or she has no relationship of any kind whatsoever with the Company, the Group or the management thereof which may color his or her judgment. In particular, a Board member does not qualify as an Independent Director if:

- such Board member is an employee or Executive Director of the Company or of a company of the Group (or has been during the previous five years);
- such Board member is an Executive Director of a company in which the Company holds, either directly or indirectly, a seat on the Board or in which Board membership is held by an employee of the company designated as such or by a current or former (going back up to five years) Executive Director of the Company;
- such Board member is a customer, supplier, investment banker or commercial banker – in each case – which is material for the Company or the Group or for which the Company or the Group represents a material proportion of the entity's activity;
- such Board member has any close family ties with an Executive Director;
- such Board member has been a Statutory Auditor of the Company over the past five years;
- such Board member has been a Director for more than 12 years.

Board members representing shareholders who do not have a controlling interest in the Company are considered Independent Directors.

However, if a Board member represents a shareholder holding more than 10% of the share capital or voting rights, the Board of Directors determines whether that Board member is an Independent Director, based on the opinion of the Appointments Committee issued in writing. Such opinion namely takes into account:

- the composition of the share capital of the Company;
- and whether there exists potential for any conflicts of interest."

Each year, the Board of Directors reviews the situation of each of its members with regard to the independence criteria set out in the AFEP-MEDEF Code in force.

The Board of Directors, at its meeting of November 25, 2013, on the recommendation of the Appointments Committee and after having examined the situation of each Director with regard to the independence criteria established by the AFEP-MEDEF Code, concluded that out of the fifteen Directors on the Board of Directors, nine were independent (at least half, as required by the rules), namely:

- 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 of June 2013 states that Directors representing employee shareholders are not counted to determine percentages of Independent Directors. Accordingly, the rate of independence (9 out of 12) is 75%.

The Board is of the opinion that none of these Directors had any material business relationships with the Company and its group. In particular, it is noted that the Saint-Gobain group, of which Benoît Bazin is an Officer, and *Assistance Publique – Hôpitaux de Paris*, of which Mireille Faugère was Managing Director until November 13, 2013, have no significant business dealings with the Company and that the services provided to Essilor by the companies of the Rothschild group, of which Olivier Pécoux is an Officer, do not constitute a significant part of Group activities or a significant part of the services provided to Essilor in the banking sector.

However, the following Directors did not qualify as independent:

- Hubert Sagnières, Chairman and Chief Executive Officer since January 2, 2012;
- Xavier Fontanet, Chairman of the Board of Directors until January 2, 2012;
- Philippe Alfroid, Chief Operating Officer until June 30, 2009, after his retirement on that date;

and the Directors representing the employee shareholders:

- Maureen Cavanagh;
- Yi He;
- Aïcha Mokdahi.

2.2.1.6 No potential conflicts of interest

Every year, each Board member completes and signs a statement as provided in Annex 1 of European Regulation (EC) 809/2004 of April 29, 2004 implementing the so-called "Prospectus" Directive.

To the Company's knowledge:

- there are no potential conflicts of interest between the duties, with regard to the issuer, and the private interests and/or other duties with regard to third parties, of any of the members of the Company's Board of Directors. To this end, the Directors' Charter stipulates that Directors have an obligation to inform the Board of any conflict of interest, even potential, and must refrain from participating in the deliberations related thereto;

- no member of the Board of Directors or any Chief Executive Officer has a service contract with Essilor or any of its subsidiaries providing for the award of benefits at the end of such contract;
- none of the Executive or Non-Executive Directors have been convicted of a fraudulent offence in the last five years;
- in the last five years, none of the Executive or Non-Executive Directors have been involved in a case of bankruptcy, receivership or liquidation as a member of a Board, a management or supervisory body or as a Chief Executive Officer;
- none of the Executive or Non-Executive Directors have been publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies);
- there are no family ties between the members of the Board of Directors.

2.2.2 Preparation and organization of meetings of the Board of Directors

The operations of the Board of Directors and the special committees are governed by internal rules adopted by the Board at its meeting of November 18, 2003 and revised several times, most recently on November 25, 2013, and, by a Directors' Charter. The main elements of these two documents are reproduced or summarized below. They are reproduced in full, along with the bylaws, on the "governance" pages of the Company's website.

2.2.2.1 Directors' Charter

The Directors' Charter adopted for the first time by the Board on November 18, 2003 and revised several times, most recently on November 25, 2013, describes the rights and obligations of the members of the Essilor Board.

The charter requires each Board member to commit to attending meetings of the Board of Directors and Shareholders' Meetings regularly, to inform the Board of Directors of any potential or actual conflict of interest, and to refrain from participating in the corresponding proceedings, including the work of specialized committees. Board members must also keep the Board informed of directorships held in other French and foreign companies and, in the case of Executive Directors, seek the advice of the Board before accepting a new corporate office. 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 Group; and
- may participate in meetings to examine in detail the matters put before the Board.

The Directors' Charter states the obligations resulting from Articles 622-1 and 622-2 of the AMF's General Regulations, in particular 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 accordance with the AMF *(Autorité des Marchés Financiers)* Recommendation of November 3, 2010 on the prevention of insider trading attributable to managers of listed companies, 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.

Executive Directors are required to disclose any trading in the Company's shares by themselves or their close relations. To this end, the charter states that in accordance with Article 621-18-2 of the French Monetary and Financial Code and Articles 222–14 and 222-15 of the General Regulations of the *Autorité des Marchés Financiers* (AMF) and AMF Position N°. DOC-2006-14 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.

2.2.2.2 Role and responsibilities of the Board of Directors.

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 Executive Directors and their compensation recommended by 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 Group senior management succession plans and major organizational changes;
- examine the procedures for identifying, evaluating, auditing and monitoring the Group's commitments and risks;
- monitor the Group's financial reporting so as to ensure that investors receive relevant, balanced and strategic information on the company's strategy, development model and long-term outlook.

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.

2.2.2.3 Self-assessment of the operations of the Board

A formal assessment of the operations of the Board of Directors 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. The results of the self-assessment are presented to shareholders in the Registration Document. The assessment covers the three objectives set out in Article 10.2 of the AFEP-MEDEF Code of Corporate Governance (review the operating procedures of the Board, ensure that important issues are suitably prepared and discussed, measure the contribution of each Director to the Board's accomplishments).

In 2013, a new formal self-assessment was entrusted to the Corporate Senior Vice President, Legal Affairs under the leadership of the Appointments Committee. The report on the questionnaires showed that the Directors have an overall positive assessment of the Board, which they consider to be "involved and strengthened," and of the relationships with senior management regarding the inclusion of its concerns and freedom of expression in the meetings of the Board and the committees. Improved quality of information, minutes of Board Meetings and committee minutes and the Board's ability to function as a team were acknowledged.

Additional improvements could be made to further continue improving the quality of governance:

- training of Directors and contacts with business leaders;
- anticipation of discussions, including with regard to acquisition projects;
- information on financial market trends (analysis briefs, summaries of roadshows);
- presentation of agendas and increased focus on issues related to human resources and overall corporate strategy.

Other potential topics were suggested, such as the number of Directors.

2.2.2.4 Information provided to the Board of Directors

All necessary documents to inform the Board members about the agenda and any matters to be discussed by the Board are enclosed with the notice of meeting or sent, handed to or otherwise made available to them reasonably 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 a Director believes that information may have been withheld, he or she must 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.

As in prior years, Board members were informed of the black-out periods for 2013, during which they may not trade 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.

Directors may, if they deem it necessary, receive additional training in the specifics of the company, its business and its industry. Upon their appointment, the members of the Audit and Risk Committee are provided with specific details about the company's accounting, financial and operational practices.

2.2.2.5 Meetings of the Board of Directors

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. The Independent Directors meet at least once a year without the Executive Directors in attendance, to conduct the performance evaluation of the Chairman and CEO.

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 Statutory Auditors are invited 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.

In 2013, the Board of Directors held six meetings on the dates planned in 2012 (January 24, February 27, May 16, July 10, August 26 and November 28). The last meeting was held in Shanghai (People's Republic of China). In addition, on July 26 and October 28, the Board held two meetings *via* conference call devoted to the final approval of major transactions (takeover of Transitions, acquisition of Costa). The meetings lasted on average 2 hours and 15 minutes.

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 2013.

All the Directors attended the Combined (Ordinary and Extraordinary) Shareholders' Meeting held on May 16, 2013.

The table below shows the number of Board and Committee Meetings held during 2013, as well as their members and the individual attendance at each of these meetings. The average attendance of Directors at Board Meetings was 95.8%

	Board of Directors	Audit and Risk Committee	Executive Directors and Compensation Committee	Appointments Committee	Strategy Committee	CSR Committee
Number of meetings in 2013	**8**	**4**	**3**	**4**	**5**	**3**
Participation (%)						
Hubert SAGNIÈRES	100%				100%	
Philippe ALFROID	100%	100%			100%	
Benoît BAZIN	87.5%	100%			100%	
Antoine BERNARD DE SAINT-AFFRIQUE	100%	100%			100%	
Maureen CAVANAGH	100%				100%	
Yves CHEVILLOTTE	100%	100%		100%	100%	
Mireille FAUGÈRE	100%		100%		100%	
Xavier FONTANET	87.5%			100%	100%	
Louise FRÉCHETTE	100%				100%	100%
Yi HE	100%				100%	
Bernard HOURS	87.5%		100%		100%	100%
Maurice MARCHAND-TONEL	100%		100%	100%	100%	
Aïcha MOKDAHI	100%	75%			100%	100%
Olivier PECOUX	75%				80%	
Michel ROSE	100%		100%	100%	100%	

Major accomplishments of the Board of Directors in 2013

The matters discussed by the Board in fiscal year 2013 and the decisions taken covered a wide range of areas, including:

- business developments: at each meeting (except for those convened at short notice to deliberate on a strategic transaction), the Chairman and CEO presented the Company's general position for the previous period: changes in key financial indicators, "key events" in the commercial and technical fields, state of competition, consolidation of acquired businesses, etc.;
- 2013 budget: this was discussed at two meetings at the beginning of the year;
- 2012 financial statements: they were approved by the Board after hearing the reports of the Audit and Risk Committee and the Statutory Auditors;

- external growth: at each meeting scheduled the previous year, the Board was informed of and discussed acquisitions that were planned or underway; two meetings called on short notice were devoted to the final approval of major transactions (takeover of Transitions, acquisition of Costa); in addition, the Board was informed in advance of the company's general external growth policy, through the Strategy Committee's Reports;
- financial transactions: the Board approved the private placement transactions with US investors (US PP) and the issue of US (US Commercial Paper Notes) and European (European Medium-Term Notes) bonds, delegated its powers to the Chairman and CEO to issue bonds and for the implementation of the share buyback program authorized by the Tenth Resolution of the Shareholders' Meeting of May 16, 2013, and decided to cancel 1.5 million shares pursuant to the Tenth Resolution of the Shareholders' Meeting of May 11, 2012;
- notice of Shareholders' Meeting: at two meetings, the Board reviewed and approved (after discussing dividend policy and hearing a report on the opinion of the main shareholders) the draft resolutions submitted to the Shareholders' Meeting of May 16, 2013;
- governance: the Board approved a reorganization under which the Chairman and CEO will personally assume the presidency of the subsidiary Essilor AMERA, which oversees the Group's development in Africa, the Middle East, Russia and Asia (with no impact on his total compensation), heard reports from the CSR Committee and the Appointments Committee, a report on the main changes introduced by the revision of the AFEP-MEDEF Code and the Employment Security Act, revised its internal rules accordingly, reviewed a report from the Egon Zehnder firm on the role of the Board and governance with regard to strategy, risk control and succession and conducted a self-assessment (see Section 2.2.2.3) and the annual review to determine the independence of its members (see Section 2.2.1.5);
- employee-related issues: the Board heard a report by management on company developments in employee-related matters in 2012 (workforce developments, business combinations of entities and reorganization of the distribution of instruments in France, major trade union negotiations, company policy regarding equal employment opportunity and pay, etc.) awarded "capped" stock options and performance shares to employees in France and the major foreign subsidiaries pursuant to the Twelfth, Thirteenth and Fourteenth Resolutions of the Shareholders' Meeting of May 11, 2012 and a capital increase for employees as part of a company savings plan pursuant to the Eleventh Resolution of the Shareholders' Meeting of May 16, 2013 (see Section 5.2.1.4);
- compensation of corporate directors and officers: the Board allocated Directors' fees to its members and set the compensation of the Chairman and CEO, and also approved in accordance with the procedure concerning related party agreements of the terms of his severance pay under his suspended employment contract and his supplementary pension (see Sections 2.3.1 and 2.3.2);
- guarantees, endorsements and sureties: the Board delegated to the Chairman and CEO, with the right to further delegate such powers, the authority to grant the Company's guarantee for an overall annual limit of €400 million;
- committee reports: the Board heard, for the preparation of its deliberations above in the areas that concern them respectively, reports by the Audit and Risk Committees (five reports), the Appointments Committee (two reports), the Executive Directors and Compensation Committee (two reports), the Strategy Committee (three reports) and the Corporate Social Responsibility (two reports).

Minutes

The draft minutes of each Board Meeting were sent to all Directors no later than the date of notice the next meeting.

2.2.2.6 Committees of the Board of Directors

The Board confirmed the composition of its committees upon the renewal by the Shareholders' Meeting of May 16, 2013 of the terms of four Directors.

Audit and Risk Committee

Membership

The Board's internal rules stipulate that the Audit and Risk Committee is to be comprised of at least three members appointed by the Board from among the Directors. At least two thirds of the committee members must be Independent Directors. The members of the Audit Committee cannot hold senior management positions or be Executive Directors. They should have specific expertise in accounting and financial matters.

The Audit Committee is chaired by Yves Chevillotte.

At December 31, 2013, the other members of the committee were Philippe Alfroid (since July 1, 2009), Antoine Bernard de Saint-Affrique, Benoît Bazin and Aïcha Mokdahi, all of whom have held responsibilities requiring financial and accounting skills during their careers.

Role

Under the Board of Directors' internal rules, as amended by the Board at its meeting of August 28, 2013 and in accordance with Article L.823-19 of the French Commercial Code, the Audit and Risk Committee examines issues related to the preparation and control of accounting and financial information.

Without encroaching upon the responsibilities of senior management, the Audit Committee is tasked with overseeing:

- processes for the preparation of financial information;
- internal control and risk management procedures;
- the audit of the parent company and consolidated financial statements by the Statutory Auditors;

- the Statutory Auditors' independence;
- and, generally speaking, reviewing all financial statements presented during the year.

The Audit Committee makes recommendations concerning the choice of Statutory Auditors to be appointed by the Shareholders' Meeting.

As part of its role, the Audit and Risk Committee also has to report regularly to the corporate body in charge of the management of its activities and notify it immediately of any difficulties or material problems that it encounters.

In this context, its remit also extends to analyzing the procedures in place within the Company to ensure:

- the integrity of the financial statements:
  - presentation of the semi-annual and annual financial statements and elements of the associated Registration Document to the Audit and Risk Committee,
  - review of the key assumptions impacting the recognition and reporting of any material changes made to the accounting principles;
- the effectiveness of internal control and major risk management procedures:
  - understanding of how the Company identifies, evaluates, anticipates and manages its key financial, operational, compliance and reporting risks (on the contrary, the committee is not responsible for investigating issues related to the strategic risks and risks related to governance unless requested otherwise by the Board), assessment of the jurisdiction, availability and positioning of the organization in charge of monitoring the Company's risk control,
  - issuing recommendations, if necessary, for the implementation of corrective actions in the event of weaknesses or significant deficiencies, improvement of existing procedures, and the introduction of potential new one.

The Audit and Risk Committee may also be consulted by the Board or by management about any issues concerning procedures to control non-recurring risks:

- compliance with legal and statutory requirements:
  - compliance with accounting regulations and proper application of the Company's accounting principles and policies,
  - cognizance of major disputes for the year,
  - review of actions to prevent risks related to economic regulation (compliance),
  - compliance with securities regulations and the strict insider dealing rules in force within the Company;
- the performance, qualifications and independence of the Statutory Auditors:
  - recommendation regarding the appointment of the Statutory Auditors,
  - resolution of potential disagreements between the positions of the Statutory Auditors and management,
  - review and evaluation of the qualifications, performance, fees, independence and compliance with the rules of professional incompatibility of the Statutory Auditors, including the main partner,
  - review of the rotation regulations applicable to the main partner and evaluation of the need for rotation among the Statutory Auditors,
  - review of the Statutory Auditors' Reports, information brought to the attention of the Board pursuant to Art. L. 823-16 of the French Commercial Code and the responses provided by management, including the quality of internal control procedures and the preparation process for financial information;
- the performance of internal audits:
  - review of the Internal Audit's Charter, its role and scope of work,
  - review of the budget, resources and means available to the internal audit team,
  - review of the proposed audit plan for the year by the Internal Audit Director,
  - review of the main results presented by the Internal Audit Director,
  - review of the effectiveness of the Internal Audit Department,
  - opinion on the appointment and replacement of the Internal Audit Director.

Major accomplishments in 2013

The work of this committee is based on the recommendations of the AMF Audit Committee Working Group of June 14, 2010 and the committee's 2012 self-assessment.

The Audit and Risk Committee met four times (with a participation rate of 95% for the year) and heard the Group's Chief Financial Officer, the Group Legal Director, the Group's Internal Audit Director and the Statutory Auditors.

The following topics were discussed at these various meetings:

- financial statements: review of the financial statements for the third quarter of 2012, the year 2012, a summary of 2013 budget estimates, the financial statements for the first quarter and first half of 2013 (this examination was performed with sufficient time before the relevant meetings of the Board of Directors);
- internal audit and internal control: internal audit plan for 2013 as part of the multi-year "roadmap" with a monitoring of internal and external audits, Chairman's Report on corporate governance and internal control, Internal Audit Charter, performance indicators, budget and review of activity (productivity measurement) of the internal audit;
- finalization of proposals for the selection of Statutory Auditors;
- financing strategy;
- risk control: thematic reviews (protection of innovation and intellectual property, litigation risks, supplier vulnerability, liquidity, interest rates, trapped cash, subsidiary counterparties, fraud across the Group), review of the Group' s insurance

program, business continuity plan, legal compliance program and the process of self-assessment of the internal control and the risk to the Group associated with so-called "iCare";

- other financial matters: calculation of Return on Capital Employed to monitor acquisitions;
- litigation and fraud.

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

On February 24, 2014, the 2013 consolidated financial statements were reviewed by the Audit and Risk Committee.

Appointments Committee

Membership

The internal rules of the Board of Directors stipulate that the Appointments Committee is comprised of a maximum of six members, at least three of whom are Independent Directors. The Chairman is appointed by the Board after approval by the members of the Appointments Committee.

The Appointments Committee is comprised of Xavier Fontanet (Chairman), Yves Chevillotte, Maurice Marchand-Tonel and Michel Rose, all three of whom are Independent Directors. The Chairman and CEO and a Director elected on the proposal of Valoptec Association are involved in the work of the committee.

Role

As described in the Board's internal rules, the principal role of the Appointments Committee, as part of the duties of the Board of Directors, is to:

- make recommendations to the Board concerning the choice of Directors;
- supervise the Board's self-assessment process;
- make proposals to improve the functioning of the Board;
- identify Independent Directors to be approved by the Board;
- evaluate Director performance;
- manage the Board's development process and Director performance;
- suggest people as members of the special committees to the Board;
- reflect on the composition of the Board of Directors and any possible developments;
- prepare for a change of Directors as needed.

Major accomplishments in 2013

The committee met four times in 2013 (with a participation rate of 100% year).

It reviewed the following topics:

- creation of a Corporate Responsibility Committee, a recommendation that was adopted by the Board;
- consideration of draft resolutions for submission to the Shareholders' Meeting for the reappointment of four Directors;
- confirmation of Independent Director classification attributed to certain Directors, after a review conducted by one of the independent members of the committee (see Section 2.2.1.5);
- examination of the report by the Egon Zehnder firm (see "Major accomplishments by the Board of Directors" in Section 2.2.2.5), from which the committee has identified a number of recommendations to guide the preparation of the renewal of the mandates in the coming years (particularly with regard to improving gender disparity);
- review the findings of the Board's self-assessment (see Section 2.2.2.3).

Executive Directors and Compensation Committee

Membership

The Board's internal rules stipulate that the Executive Directors and Compensation Committee is to have at least three members, all of whom must be Independent Directors.

The Compensation Committee is made up of Michel Rose (Chairman), Mireille Faugère, Bernard Hours and Maurice Marchand-Tonel, all four of whom are Independent Directors.

Missions

The role of the Executive Directors and Compensation Committee, as described in the Board's internal rules, is to:

- make recommendations concerning Executive Directors' compensation;
- make recommendations concerning the allocation of stock options and/or so-called "performance" shares for Executive Directors;
- review the Company's general compensation policies;
- make recommendations to the Board concerning the choice of candidates for election as Executive Directors;
- assist the Chairman and the Board in the Group's senior management succession planning.

Major accomplishments in 2013

The Executive Directors and Compensation Committee met three times in 2013 (with a participation rate of 100% for the year) to consider the following topics to submit as recommendations to the Board:

- review of the 2012 performance of the Chairman and CEO for the final calculation of his variable compensation for the fiscal year ended;
- rules for determining the variable compensation of the Chairman and CEO for 2013;
- review of a benchmark for the compensation of executives of comparable companies;

- review of the adjustments made to the supplementary pension scheme for executives, in particular to take account of the revision of the AFEP-MEDEF Code;
- all compensation components of the Chairman and CEO for 2014 (including the continuation of the regulated agreements concerning his employment contract and supplementary pension).

Strategy Committee

Membership

The Board's internal rules stipulate that the Strategy Committee is to include all Essilor Board members. The Chairman of the Strategy Committee is the Chairman of the Board of Directors.

Role

The role of the Strategy Committee, as described in the Board's internal rules, is to regularly review the Company's product, technology, geographic and marketing strategies. To do this, the Chief Executive Officer makes regular presentations to the Board on these issues, assisted where necessary by Executive Committee members. The agenda is determined by a strategic steering group.

Major accomplishments in 2013

The Strategy Committee met five times in 2013 (with a participation rate of 98% for the year).

The committee reviewed the following topics:

- the Company's competitiveness;
- alternatives to progressive lenses;
- the Group's financial strategy;
- general market developments, including internet, solar, retail.

After each of its meetings, a summary of presentations and various discussions was presented to the Board of Directors by its Chairman.

Corporate Social Responsibility (CSR) Committee

Membership

The CSR Committee was established following the decision of the Board at its meeting of February 27, 2013. The internal rules, as amended to that effect, stipulate that the CSR Committee shall be composed of a minimum of four members and a maximum of six, including two Independent Directors and the Chairman and CEO and one non-Independent Director from Valoptec.

The CSR Committee is chaired by an Independent Director appointed by the Board of Directors on the recommendation of the Appointments Committee.

The CSR Committee is chaired by Louise Fréchette (Independent Director), and is composed of Aïcha Mokdahi and Bernard Hours (Independent Director) and Hubert Sagnières.

Role

The main role of the CSR Committee, within the remit of the Board of Directors, is to ensure that the Group is even more effective at addressing the economic and societal challenges associated with our mission to "improve sight," which involves helping as many people as possible to see better, in order to live better. The Group strives to offer products customized to each individual within its entire global scope.

This covers all areas of corporate social responsibility relating to the Group's mission and operations.

The CSR Committee is also responsible for governance of the Group's societal project.

As such, and with particular regard to the Group's voluntary CSR process, the committee must:

- examine the main opportunities and risks for the Group and for all stakeholders regarding challenges specific to its role and activities;
- remain informed and help to define and approve the scope of the Group's general CSR policy as required;
- oversee the implementation and gradual roll-out of this policy and its initiatives;
- guide the Board of Directors on the Group's long-term development, including its economic development, through its CSR initiatives in matters of sight and its improvement;
- assess the risks, identify new opportunities, take account of the impact of the CSR policy in terms of economic performance and evaluate the impact for the Group of investments with social and societal goals in different businesses and in all countries;
- ensure that the Group's interests are protected and anticipate potential conflicts of interest regarding CSR investments and other Group activities;
- review once a year a summary of the ratings given to the Group and its subsidiaries by rating agencies and *via* non-financial analyses.

The CSR Committee receives and reviews the report on the Company's economic, human (social and societal) and environmental contribution as well as the non-financial information reported by the Group relating to society and the environment.

Major accomplishments in 2013

During 2013, the committee met three times (with a participation rate of 100% for the year) and discussed the following topics:

- setting of Group societal policy objectives ("inclusive business");
- organization of its own work;
- work of the Vision Impact Institute.

2.2.3 Internal control procedures implemented by Essilor

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.

2.2.3.1 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") (See Section 2.2.3.3) 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:

- ensure that management actions or execution of transaction, and staff behavior, fall within the scope defined by the guidelines given to activities undertaken by corporate bodies. This includes compliance with applicable laws and regulations, as well as values, standards and rules internal to the company;
- 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;
- cover all of the Company's implemented policies and procedures that provide reasonable assurance that 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.

Risk control takes into account the main characteristics of the Group:

- its significant role in international activities;
- its decentralized structure;
- the specific nature of risks (see information on the risk factors that our Company may face in Chapter 1.6);
- the strong corporate culture.

2.2.3.2 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 built through a long history of commitment and a very strong entrepreneurial culture on the part of employees and management. This foundation enables Essilor to welcome, both now and in the future, an ever-growing number of employees and partners, while at the same time 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 33 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 14.6% 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 operations.

2.2.3.3 Key control activities and key players

Various internal control activities help to ensure that the application of standards and procedures defined at the corporate level are consistent with senior management's guidelines.

The departments with specific responsibility for monitoring activities are:

Internal Audit and Internal Control

The ACS Department (Audit & Consulting Services) covers Internal Audit and the Group's Internal Control with a total dedicated workforce of 21 people as of December 31, 2013 (19 for Internal Audit, 1 for Group Internal Control and its Director). Geographically, the ACS workforce as of that date included employees located at the corporate headquarters in Charenton (6 people for Corporate, Europe and Africa operations), Dallas (7 people for North America operations), Singapore (6 people for Asia-Pacific and Middle East operations) and Rio de Janeiro (2 people for Central America and South America operations). The ACS Director reports to one of the Senior Vice Presidents and has no authority over, nor responsibility for, the operations audited. The internal audit team also reports on the Department's activities to the Audit and Risk Committee.

The ongoing role of the internal audit is, within the limits of the resources allocated to it, to evaluate operation of risk management and internal control mechanisms, carry out regular checks and make any recommendations for its improvement. Internal audits are carried out using the same methodology applied in all geographic areas. For each audit, a report is prepared and distributed to the management of the entity, the regional Director of the audited entity, the Chairman and CEO, the Senior Vice Presidents, the Finance Department and the Legal Department of the Group and, depending on the nature and impact of the issues raised, the operational or functional departments. This report summarizes the observations and recommendations for improvement needed and the Audit and Risk Committee is informed of the most significant issues. Implementation of the recommendations is the responsibility of the audited entities. The internal audit function monitors the implementation of these recommendations by monitoring the implementation of action plans decided in agreement with them in accordance with the schedule set.

Since 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 is organized around the following themes: governance, risk management and internal control, terms of office, human resources, technology, performance, and quality and value creation. 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 2013, progress was generally in line with the roadmap. Substantial progress recorded in several areas relating to its operation and its internal efficiency have also allowed ACS to win the "Grand Prix Innovation" 2013 organized by the IFACI (French Institute of Internal Control) and its partners. This award, which is given to one of 59 participating organizations, is intended to raise awareness of and distinguish the good practices of companies and public organizations for innovation in the field of internal audits and internal controls. ACS fits well in its area of work, in the long tradition of innovation at all levels of Essilor.

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.

Environment, Health and Safety (EHS)

The Global Environment, Health and Safety (EHS) 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 common safety strategy to protect individuals, facilities and assets, prevent industrial risks, preserve employees' health and protect the environment. The Department leads the network of EHS representatives and sets up programs and systems to ensure regulatory compliance and continually improve the Group's EHS 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.

Legal Affairs

The Group's Legal Affairs and Development 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. It is located in North America, South America, China, France, India, Israel, Singapore and Switzerland.

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 (and its special committees) on good practices of corporate governance. It regularly attends meetings of the Audit and Risk Committee and the 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 a French and international legal and regulatory environment that is increasingly complex and burdensome and in an operating environment of increasing competitiveness.

Legal Affairs ensures that the Company fulfills some twenty 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 (including intellectual property), 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, awareness raising actions and legal guides to the basic rules of antitrust law and trade practices continued on a global scale, especially in Europe, Asia (including India) and the United States.

To provide all Group employees with regular, accessible information, specific, detailed, bilingual (French/English) 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 prepare and submit regularly to operational staff legal information memos on professional issues, safety and standards, or "Legal and Compliance" guides for employees in their regions. At plants in Asia, training sessions are ongoing and are carried out jointly with the Global Environment, Health and Safety Department and local Human Resources Departments.

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 a result, at the local level, local lawyers also carry out regular reporting of compliance measures implemented with areas for improvement in the Executive Committees of subsidiaries (including for factories in India, the Philippines and Thailand).

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. A plan for monitoring these areas for improvement was developed in collaboration with the Audit and Internal Control Department.

The development of awareness-raising audio kits in e-learning training module form tailored to the laws, practices and local languages under the responsibility of the Human Resources Department have been completed and were made for all European subsidiaries for the main managers and employees concerned (350 people).

In addition, because of the new Group organization and the creation of the Country Manager function, the good practices guide for information exchange in the context of competition law has been updated. To this end and with the assistance of the Strategy Department, Country Managers have had a training session on best practices for intra-Group information exchange, the availability of multimedia tools (quizzes, specific e-learning modules on the exchange of information, legal notes) to enable them and the employees to exchange information both with external partners (customers, suppliers, etc.) and with subsidiaries by following a few best practices.

A "common principles" module in competition law intended to inform and educate senior managers within the Group on the ordinary rules of applicable competition law in major countries was also produced and distributed widely.

In general, the Group's legal compliance policy reinforces the gradual creation of a network of Compliance Officers within the Group for the purposes of applying the compliance program to local competition law.

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 these media, with particular regard to the requirement for confidentiality.

Given the Group's business activities, confidentiality is an important part of our legal compliance policy.

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.

Awareness-raising exercises and provision of full documentation continued to be supplemented by training sessions focused on the right behavior to adopt.

As part of the prevention of corruption and taking particular account of the extra-territorial application of the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), relevant information and outreach tools (multimedia modules, triptychs in multilingual version including Mandarin) prepared in collaboration with local legal experts in Brazil, China, India, the Philippines, Thailand and Singapore were produced for all employees.

Obligations under French and international anti-corruption laws 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. To this end, an inventory of existing practices within the Global Purchasing Department and any recommendations to improve these internal policies and procedures in our relationships with our suppliers has been conducted. An e-learning module on the prevention of corruption for purchases is being deployed for global purchasing teams.

In this context of continuous improvement of our internal risk prevention procedures, the "gifts" policy has been supplemented and the Group's policy on conflicts of interest is now being updated and adapted to the new legal requirements applicable to all Group employees. A monitoring procedure for the disclosure of conflicts of interest is being enhanced in collaboration with the management of the Audit and Internal Control and Human Resources Departments.

Lastly, other compliance procedures are gradually being deployed throughout the Group, relating mainly to Group-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.

These agreements and charters are in addition to the information memoranda that 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 sure to be applied consistently throughout the Group.

To provide regular information on developments in the legal environment that is targeted to compliance topics, a monthly newsletter, a tool to prevent legal risks mainly for legal experts and Country managers has been established.

Finally, 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 Essilor 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 Mergers and Acquisitions Department reports to the Financial Department and defines the Group's external growth policy and coordinates initiatives in subsidiaries to ensure consistency. It also analyzes, monitors and validates the financial aspects of the Group's various planned business acquisitions and has the authority to approve the financial terms of such acquisitions or divestments. Group entities can never approve the acquisition of external companies, assets or business segments or the total or partial sale of Group companies, assets or business segments on their own. All external growth operations (including sales) are 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. Financing of the major Group subsidiaries is guaranteed through cash pooling and short- and medium-term inter-company loans, which allow for liquidity to be gradually 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 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 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.

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

Group Standard Guide

The Group Standard Guide (GSG) 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 GSG 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 GSG is the responsibility of corporate and business managers (financial managers, purchasers, etc.) at local and Group level.

In 2013, the Audit & Consulting Services (ACS) Department published the Minimum Control Standards (MCS), which show in a simple format 75 internal controls generally regarded as the most critical to be in place. Brochures available on the ACS intranet site were specially communicated and are available in 33 languages. The MCS also form the basis for annual questionnaire for self-assessment of internal controls (iCare).

Unified reporting system

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.

Other reporting systems

The unified reporting system now includes a twinned application, "Sustainability," which can be used to report economic, human (social and societal) and environmental data as well as 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.

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

Various reports or controls of outside agencies (monthly, quarterly or annual) facilitate the monitoring and control of the activity of the Group's subsidiaries, particularly in the areas of financial, accounting and logistics performance, tracking business, accidents at work, monitoring of health and safety controls, APAVE controls, ISO certifications, reports on sustainable development, claims and loss prevention, insurance, litigation, etc.

Moreover, each function has the responsibility to document (in line with the GSG rules) the specific procedures to follow. An Intranet Charter makes it possible to coordinate internationally the various actions related to the circulation and sharing of information *via* the Essilor intranet.

Indices of corporate social responsibility and adherence to international initiatives

Essilor is included in six sustainable development indices: ECPI® Ethical EMU Equity, ECPI® Ethical Europe Equity, FTSE4Good, and Ethibel Excellence .

For the second consecutive year, Corporate Knights has ranked Essilor International among the 100 most sustainable companies in the world for 2014. Announced each year at the World Economic Forum in Davos since 2005, the Global 100 ranking is considered to be an assessment documented by the most comprehensive figures for Corporate Sustainability.

Essilor is a member of the Global Compact 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.

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.

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.

2.2.3.5 Internal control procedures relating to the production and processing of accounting and financial 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 medium-term plan 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 Group entity prepares its budget on the basis of objectives 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 consolidation of all budgets ends in November or December and is formalized in December or January of the following year. The budget is then presented to the Board of Directors. 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 GSG. 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 procedures included in the GSG are applicable by the Group companies, whether consolidated or not, and enforcement is the responsibility of operational management ("first line of control" in the terminology of French Audit and Internal Control Institute (IFACI)), functional departments responsible for areas of expertise (management control, human resources, internal control, etc. or "second line of control") and the internal audit ("third line of control"). 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 financial statements.

2.2.4 Organization of powers of management and control of the Company and powers of the Chief Executive Officer

At its meeting of November 24, 2011, the Board of Directors decided to entrust its chairmanship, effective January 2, 2012, to Hubert Sagnières, Chief Executive Officer, and thus reunite the offices of Chairman of the Board and Chief Executive Officer. This structure combining the two functions, which has been adopted by most French corporations, ensures responsiveness and greater efficiency of operations in terms of governance and strategic management of the Company. In addition, the presence on the Board of a high proportion of Independent Directors and three representatives of the Valoptec Association (while the important role of employee shareholders is a key feature of the Group's identity) ensures that the Board fully exercises its oversight functions over the executive part of the organization.

The general management functions are carried out without formal limitation of the powers of the Chief Executive Officer. However, acquisitions and disposals as part of the "new business/new country" strategy, as well as restructuring and significant non-strategic investments announced, are to receive the prior approval of the Board, in accordance with Article 2 of the internal rules.

In addition, the CEO is assisted by two Chief operating officers.

2.2.5 Corporate governance

Pursuant to Article L.225-37 of the French Commercial Code and in accordance with the decision of the Board of Directors that it adheres to the AFEP-MEDEF Corporate Governance Code for listed companies.

The Code may be consulted at the MEDEF website at the following address: http://www.medef.fr/main/core.php

Provisions of the Corporate Governance Code that were not retained and explanations thereto

Maintaining a corporate officer's employment contract (Article 22 of the AFEP-MEDEF Code)

At its meeting of 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 Executive Directors and Compensation Committee, the Board expressed reservations about the requirement that would be imposed on an Executive Officer to terminate his or her employment contract when appointed Chairman and CEO or Chief Executive Officer. See Section 2.3.3 table 11.

While it would appear reasonable not to give an employment contract to an Executive 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.

This measure would also open up a breach between Executive Directors and the managers below them, which would work against the principles of internal promotion and sustainable management that Essilor considers to be instrumental in building powerful and stable companies.

The Essilor Board of Directors will therefore continue to suspend senior managers' employment contracts when they are appointed Chief Executive Officer or Chairman and CEO, 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. However, Hubert Sagnières has 25 years of seniority in the Group.

Moreover, the benefits to which Hubert Sagnières would be entitled under his employment contract if he were to leave the Company at the termination of his employment (severance pay, supplementary retirement benefits) were approved by the Shareholders' Meetings of May 11, 2010 and May 5, 2011 in accordance with Article L.225-42-1 of the French Commercial Code and are in compliance with the AFEP-MEDEF Code.

Essilor, a pioneer of employee shareholding, has always sought, wherever possible, to rise up leaders from within its ranks, to promote their long-term vision and to share their entrepreneurial risk. The large number of Essilor shares held by its leadership is the clearest illustration of this.

Obligation to purchase shares corresponding to the allocation of performance shares (Article 23.2.4 of the AFEP-MEDEF Code)

Please refer to Section 2.3.2.3 ("Enhanced conditions for Executive Officers and members of the Group Executive Committee") and Section 2.2.2.1 for the exercise periods.

2.2.6 Specific procedures for shareholder participation in Shareholders' Meetings

All holders of ordinary shares are entitled to participate in Shareholders' Meetings, regardless of the number of 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 – Shareholders' Meetings) include the following provisions concerning the organization of Shareholders' Meetings, its main powers and the rights of shareholders, which are in compliance with the law.

2.2.6.1 Shareholders' right to information (Article 24)

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.

2.2.6.2 Ordinary Shareholders' Meetings (Article 25)

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 court order.

Ordinary Shareholders' Meetings may transact 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.

2.2.6.3 Extraordinary Shareholders' Meetings (Article 26)

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 Shareholders' Meeting may also amend the rights of various classes of shares. However, in the event that a decision by the Extraordinary Shareholders' 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.

2.2.7 Items that may have an impact in the event of a public offering

In application of Article L.225-37(9) of the French Commercial Code, the information required under Article L.22525-3 of the Code is presented in the Management Report and in Section 5.2.6.2, "Contracts containing a change of control clause and shareholders' agreements" of the Registration Document.

Charenton, February 26, 2014

The Chairman of the Board of Directors