26 APPENDICES TO THE 2010 REGISTRATION DOCUMENT

Appendix 1 Chairman's Report

On Corporate Governance and Internal Control and related Auditors' Report

To the shareholders:

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

- the membership of the Board of Directors and the preparation and organization of Board meetings during the year ended December 31, 2010;
- the Company's internal control and risk management procedures;
- any restrictions on the powers of the Chief Executive Officer decided by the Board of Directors;
- the corporate governance code adopted by the Company, any provisions of that code not applied by the Company and the reasons for not applying them;
- specific procedures for shareholder participation in General Meetings;
- the principles and rules applied by the Board of Directors to determine the senior corporate officer's compensation and benefits;
- contracts containing a change of control clause;

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

It was prepared after certain procedures had been performed, in particular by the Corporate Senior Vice President, Legal Affairs. Section 2 was prepared in close collaboration with the Internal Audit department based on written consultations and discussions with the heads of the various departments involved in internal control at the corporate level. It was presented to the Audit Committee (on February 28, 2011) before being presented to the Board of Directors. This makes it possible for priorities and works in progress to be validated and for awareness of the importance of internal controls to the company to be raised. We also relied on the principles of the AMF reference framework for risk management and internal control procedures for listed companies for the preparation of this report. Finally, the contents of this report were approved by the Board of Directors on March 1, 2011.

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

PREPARATION AND ORGANIZATION OF MEETINGS OF THE BOARD OF DIRECTORS

1. CORPORATE GOVERNANCE CODE

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

2. DIRECTORS' CHARTER

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

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

The charter also stipulates that each Board member:

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

This charter was amended again:

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

3. BOARD OF DIRECTORS' INTERNAL RULES

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

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

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

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

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

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

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

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

The internal rules also stipulate that:

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

4. MEMBERS OF THE BOARD OF DIRECTORS

As of December 31, 2010

Xavier Fontanet, Chairman of the Board of Directors

Hubert Sagnières, Chief Executive Officer

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

Independent directors:

At its meeting on November 25, 2010, after examining the situation of each director in relation to the independence criteria set out in the Bouton corporate governance report (as reproduced in the AFEP/MEDEF Corporate Governance Code), the Board decided that of the 15 members of the Board as of December 31, 2010, 9 were independent, as follows:

Alain Aspect

Benoît Bazin

Antoine Bernard de Saint-Affrique

Yves Chevillotte

Mireille Faugère

Bernard Hours

Maurice Marchand-Tonel

Olivier Pécoux

Michel Rose

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

Board members representing employee shareholders:

Aïcha Mokdahi

Yves Gillet

Yi He

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

5. CALLS TO MEETING

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

6. FREQUENCY OF BOARD MEETINGS

In 2010, the Board held six scheduled meetings on the dates planned in 2009 (January 27, March 3, May 11, July 13, August 26) and November 25, 2011. Each meeting lasted an average of two and a half hours. One unscheduled meeting was held on October 14, 2010.

7. ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Company's bylaws state that Board members may participate in certain meetings by videoconference or other telecommunications link. Under the Board's internal rules, Board members who participate in meetings in this way are included in the calculation of the quorum and voting majority for the meeting. The average attendance rate at Board meetings was more than 95% in 2010 (unscheduled meeting included). The 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 2010.

Thirteen of the fifteen Board members attended the Combined (Ordinary and Extraordinary) Shareholders' Meeting held on May 11, 2010.

8. INFORMATION MADE AVAILABLE TO BOARD MEMBERS

All necessary documents to inform the Board members about the matters to be discussed at Board meetings are enclosed with the notice of meeting or sent, handed to or otherwise made available to them reasonably in advance of the meeting. In 2010, as in prior years, Board members were informed of the black-out periods for 2011, during which they are banned from trading in Essilor International shares or any instruments that have Essilor International shares as their underlying, either directly or through a third party. They were also given a copy of the ethics guidelines drawn up by the Company which state that Board members are considered as permanent insiders because they regularly receive price-sensitive and other confidential information.

9. MINUTES OF BOARD MEETINGS

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

10. COMMITTEES OF THE BOARD

In 1997, based on a recommendation by the Chairman, Essilor set up three Committees of the Board – the Audit Committee, the Remunerations and Appointments Committee and the Strategy Committee.

In late 2009, it was decided to create a fourth permanent special committee: the appointments committee, which began its activities in 2010 and whose membership is in accordance with the provisions of paragraph 16 of the AFEP/MEDEF Code, i.e., it is chaired by the Chairman of the Board of Directors and is also composed entirely of independent directors.

All four Committees are tasked with making recommendations to the Board in their respective areas of competence. The rules governing their membership and terms of reference are set out in the internal rules adopted on November 18, 2003, which are regularly updated – most recently at the Board meeting held on November 25, 2010. Extracts from the internal rules are presented in Sections 14 and 16 of this Registration Document.

Audit Committee

The audit committee met on two occasions regarding the 2010 financial statements; on August 23, 2010 to review the interim consolidated financial statements and on February 28, 2011 to review the annual consolidated financial statements. The Chief Financial Officer and the external Auditors attended both of these meetings, to present the accounts and answer the Committee's questions.

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

The Audit Committee also met on May 3, July 13 and December 6, 2010.

The following topics were discussed at these various meetings:

- the planned reorganization Group product flows and services;
- monitoring of risk management;
- summary report of the 2009 audit engagements;
- insurance management;
- contingent liabilities;
- presentation by the statutory auditors of the audit strategy, their work schedule, and the planning for their work;
- monitoring of litigation;
- review of the allocation of the purchase price for new acquisitions;
- timetable and organization of the compliance department.

In addition, the internal audit director presented to the committee the progress of the audit plan for 2010 and work performed in the area of internal controls, as well as a summary of various missions outside of the audit plan conducted by his department during four interventions in March, May, August, and December 2010. The 2011 audit plan was submitted to the Audit Committee in December 2010. Similarly, the internal audit director presented the work done on risk management within the Group, including the risk identification process instituted in 2009.

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

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

In line with AFEP/MEDEF recommendations, the Audit Committee will consider the recommendations to be made concerning the prior approval of services provided by the Company's auditors that are related to or represent an extension of their audit of the accounts, such as acquisition audits.

In accordance with the AMF Recommendation dated July 22, 2010, we inform you that the tasks of the audit committee are carried out based on the report of the AMF working group regarding audit committees.

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

Appointments Committee

The committee met on February 3, July 21, and December 8, 2010. The purpose of the December 8 session was the examination of the skill sets to be gathered on the board. A number of criteria to guide the committee in its search for new Board members were discussed at the meeting. Moreover, the Corporate Senior Vice President, Legal Affairs gave a presentation on governance within the board and its specialized committees and in particular on the draft law respecting the equal representation of women and men on boards of directors.

The attendance rate was 100%.

Remunerations Committee

The Remunerations Committee met four times in 2010 to examine:

- 2009 incentive bonuses and the 2010 bonus targets and other conditions;
- the proposed creation of an Appointments Committee and the type of work undertaken by the Remunerations Committee;
- the allocation of roles and responsibilities between the Chairman and the Chief Executive Officer;
- the 2011 compensation of the Chairman of the Board of Directors and the Chief Executive Officer;
- the operations of the Board of Directors;
- the situation of each Board member in relation to the independence criteria set out in the corporate governance code.

The attendance rate at Remunerations Committee meetings was 100% in 2010.

The Committee Chairman, Michel Rose, presented reports that allowed the Board primarily to determine the amount of the variable portion of the remuneration of the Chief Executive Officer for 2010, in line with the principles decided in 2009, and to determine the principles and rules governing senior management compensation for 2011 based on Article L.225-37, paragraph 7, of the French Commercial Code. In accordance with Article 21.1 of the AFEP/MEDEF corporate governance code, the components of management compensation were disclosed on the Company's website following the Board meeting of November 25, 2010 at which they were decided.

At the August 26, 2010 meeting, the Board members were given a questionnaire to help them review the status of Board members based on the independence criteria stipulated in the Bouton corporate governance report and taken up in the 2003 AFEP/MEDEF consolidated report, which continues to serve as the French reference on this subject as it was folded into the AFEP/MEDEF Corporate Governance Code.

The Remunerations Committee then prepared an executive summary of the survey results. Lastly, at the November 25, 2010 Board meeting, the Remunerations Committee presented the results of the directors' self-assessment of the Board's practices.

Principles and rules for determining senior management compensation in 2011

For 2011, the Board decided to keep separate the functions of Chairman of the Board of Directors and Chief Executive Officer, which has an impact on the remuneration structure of senior corporate officers.

The Board of Directors decided that the Chairman of the Board will receive compensation including a fixed component and that there will be no "long-term incentive." He will continue to enjoy the same benefits in kind and other compensation as in previous years (see Section 15.1 of this Registration Document for details).

As previously, the Chief Executive Officer will receive compensation including a fixed component (base salary) and a target-based variable component (contractual bonus). The bonus may increase to up to one-and-a-half times the contractual amount if the targets are exceeded.

For 2011, the bonus objectives, as well as their measurement method, weighting and amount will be decided by the Board in March 2011.

The Board of Directors may grant performance shares or stock options to the Chief Executive Officer, who will continue to receive the same benefits in kind and other forms of compensation as in prior years (see Section 15.1 of this Registration Document for details).

In line with the AFEP/MEDEF's recommendations issued in October 2008 as transposed into the Corporate Governance Code, on November 27, 2008, the Board of Directors enacted rules governing stock subscription option and performance share (referred to as "bonus share") grants to senior corporate officers, which are reviewed every year, as follows:

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

Performance conditions:

- The annual performance index, expressed as a percentage, is determined by applying the performance criteria weightings used to calculate corporate officers' bonuses;
- The vested portion of the grant is then determined by reference to the arithmetical average of the performance indices for the fiscal years in the period between the year of grant and the year when the option becomes exercisable, with a cap of 100%.

If corporate officer retires, only his or her years of active service are taken into account in the calculation.

In addition, since the December 30, 2006 Employee Profit-Sharing and Stock Ownership Act came into effect on December 31, 2006, Essilor's corporate officers have been required to retain a certain number of registered shares obtained on exercise of stock subscription or purchase options or performance shares (known as "bonus shares") for as long as they remain in office.

For grants made since 2007, at the end of the lock-up period specified in the rules of the plan concerned, senior corporate officers are required to retain, in registered form:

- one third of their vested performance shares, or
- one third of the shares acquired on exercise of stock options, excluding those shares sold immediately to finance the exercise price and the tax due on the capital gain;
- the lock-up ceases to apply to new share acquisitions when the cumulative number of shares subject to the lock-up represents the equivalent of two years' cash compensation;
- in line with the AFEP/MEDEF corporate governance code, the equity risk has not been hedged;
- for a long time now, many Essilor employees in France and abroad have been awarded stock subscription or purchase options or performance shares (known as "bonus shares"). In 2010, 9,457 employees participated in these plans, up from 8,557 in 2009. Around 3% to 5% of annual stock option or performance share grants are made to senior corporate officers who reinvest the bulk of their capital gains in Essilor shares, thereby sharing the same risks and rewards as the Company's other shareholders. The stock option and performance share grants for management and employees are decided in November of each year by the Board of Directors and do not include any discount. In addition, in the last four years, all employees of Essilor and its French subsidiaries have participated in collective performance share plans. To place senior managers and employees on the same footing as other shareholders, these grants are subject to performance conditions linked to gains in the Essilor share price. It is noted that the definitive allocations to senior corporate officers are also subject to additional performance conditions (see Chapter 15 of this Registration Document). Moreover, to protect the interests of external shareholders, management has given a commitment to offset the dilutive effect of these grants to Essilor executives and employees by canceling, on a one-for-one basis, Essilor shares bought back on the market for this purpose.

Supplementary defined benefit loyalty-based retirement plans

Senior corporate officers are covered by Essilor's "Article 39" supplementary pension plan for category III C senior executives, as defined in the collective bargaining agreement of the metallurgy sector. The plan is governed by Article 137-11 of the French Social Security Code as well as by a company agreement dated November 2, 2000 and its addenda.

The plan provides additional pension benefits over and above the benefits received under the Social Security and government-sponsored ARRCO and AGIRC schemes, equal to 10% of their reference salary beyond 10 years of service, plus:

- the equivalent of 1% of their reference salary per additional year of service, up to a maximum replacement rate of 20%;
- the equivalent of 1.5% of the portion of their salary above the "Tranche C" band for social security contributions per year of service between 10 and 20 years, capped at 5% of the reference salary defined in the pension plan rules.

In all, for Essilor senior corporate officers with at least 20 years' service with the Company, the supplementary benefit plan pays pension benefits of up to 25% of their reference salary.

Strategy Committee

The Strategy Committee met four times in 2010. This entity is becoming increasingly important in the governance of the Group. The proposals of themes come from the directors and management. Our inspiration also comes from questions from the financial market; the agenda is set by the Chairman of the Board with the approval of the Chief Executive Officer. After each of its meetings, a summary of presentations and various discussions was presented to the Board of Directors by its Chairman.

At the meeting of January 27, the following main points were discussed:

- markets in Europe and the developments planned for the next three to five years;
- after polling the Board members, about ten topics were requested for the Strategy Committee.

At the meeting of March 3, 2010, the main topics were:

- an analysis of a competitor in terms of positioning, portfolio activity, consumable and vision care;
- the situation of our prescription activities;
- the proposed acquisition of 50% of the group Shamir.

The meeting of July 13, 2010 focused on two presentations. The first presentation concerned the development of activities in the United States and strategies developed by the Group for the future. The other concerned Satisloh and the optical instruments department.

At the meeting of November 25, 2010, the Corporate Senior Vice President, Worldwide Operations presented a 20-year overview of industrial projects strategy; he explained the strategy of the Group's laboratories and started the reflection process for future organization.

The attendance rate at Strategy Committee meetings was 95%.

REPORT ON ESSILOR INTERNATIONAL S.A. INTERNAL CONTROL PROCEDURES

1. INTERNAL CONTROL OBJECTIVES

Internal control is a process designed to provide reasonable assurance regarding the achievement of the following objectives:

- compliance with the applicable laws and regulations;
- application of senior management strategies and guidelines;
- the proper functioning of the internal processes of the Company, including those contributing to the safeguarding of its assets, even if it must constantly adapt to changes in the Group and its environment;
- reliable financial information.

More generally, internal control contributes to the disciplined management of the business, the effectiveness and efficiency of operations and the efficient use of resources. Our internal control is geared to the Company's situation. The parent company ensures that adequate systems of internal control exist within the subsidiaries. These systems are developed based on each subsidiary's individual characteristics and on relations between the parent company and the subsidiaries.

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

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

One of the objectives of internal control is to prevent and limit business, financial and legal risks, including the risk of errors and fraud, to which the Company and its subsidiaries are exposed in France and abroad. 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. This is because of the probability of meeting these objectives depends on a number of factors such as the uncertain external environment, uncertainty arising from economic cycles, regulatory uncertainty, the exercise of judgment or malfunctions due to human error, fraud or straightforward mistakes.

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

The charter of Valoptec, an association made up of active and retired Essilor employees, states that the association's purpose 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. Although employees are not asked to sign the charter, its principles permeate the Essilor corporate culture. The members of Valoptec and other employee shareholders together hold 13.8% of the Company's voting rights. The association's bylaws are regularly updated and reviewed to ensure they are aligned with its development.

A roadmap for Compliance to competition law and a trio of "Essilor principles" were established (see the "legal" paragraph below).

2. INTERNAL CONTROL PRINCIPLES

Our system of internal control is rooted in:

- 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 prevent the Company from fulfilling its objectives, and the implementation of procedures to manage these risks;
- control procedures that are proportionate to the risks associated with each process and are designed to provide assurance that measures are taken to limit and, to the extent possible, manage the risks that could prevent the Company from fulfilling its objectives;
- supervision of the internal control and risk management process and regular reviews of its effectiveness.

The Board of Directors and senior management of Essilor International consider that an effective system of internal control is of critical importance and this is borne out by the Audit Committee's attention to internal control issues and the wide range of matters examined by multidisciplinary teams. Senior management defines the general principles of internal control and ensures that they are fully implemented within the Group. Support is provided by various staff and line executives who are members of the Executive Committee, based on their respective areas of competence and according to an organization structure by country, by region and by technical area. The Chief Financial Officer and the Corporate Senior Vice President, Legal Affairs, who have front-line responsibility for internal control, are members of the Executive Committee.

3. OVERALL ORGANIZATION OF INTERNAL CONTROL BY THE BODIES AND DEPARTMENTS OF THE COMPANY

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

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

Internal Audit

Following the appointment of two new Senior Vice Presidents, the Internal Audit Director was placed under the authority of one of the Senior Vice Presidents. This new hierarchy preserves the mental independence and freedom necessary for the success of the position of Internal Audit Director. He has no authority over, or responsibility for, the audited operations. He also reports on his department's activities to the Audit Committee and presents an executive summary each year to the Executive Committee. The department is organized on a decentralized basis, with teams based at Company headquarters (responsible for auditing corporate units and operations in Europe and South America), in the United States (covering North America) and in Singapore (covering the Asia-Pacific and Middle East regions).

The main role of the internal auditors is to ensure that internal control procedures are properly applied throughout the organization, by checking that practices comply with internal rules and procedures, verifying the reliability of accounting information and reviewing the efficiency of internal processes.

Internal audits are planned on the basis of identified process risks, according to a cycle covering all subsidiaries, with special audits added to the program at the request of Company senior management or a regional President. Certain audits are carried out by multidisciplinary teams comprising auditors, tax and legal specialists. The annual audit program is approved by Company senior management and the Audit Committee.

Internal audits are carried out according to the same methodology in all host countries. At the end of each audit, a report is issued setting out the internal auditors' findings and recommendations for improvement. The audited units are responsible for implementing the recommendations. The internal auditors ensure that their recommendations are acted upon, by reviewing implementation of the action plans decided jointly with the management of the audited units.

A copy of their report is given to the management of the audited unit, the regional President, Company senior management and the Chief Financial Officer, and an executive summary is given to the heads of the operating and corporate units concerned. Each year, a summary of the internal auditors' findings and recommendations is presented to the Chief Executive Officer and the Audit Committee.

The responsibilities, powers and objectives of the internal audit team are set out in an internal audit charter, which describes the rules of professional conduct that internal auditors have to follow, as well as the methodology to be used when auditing a unit. According to the charter, the Internal Audit department can audit any of the Group's activities, corporate functions or legal entities.

The Internal Audit department is also overseeing an internal control self-assessment process that began in 2004 in various Group units.

In 2010, the internal audit continued to lead a risk management centralization unit, which consists of members of the legal, sustainable development, and internal audit departments. The main risks identified and summarized resulted in interviews of the various managers responsible for these risks, including the audit committee and the board of directors.

Consolidation

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

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

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

Business Analysis

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

Sustainable Development

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

Health, Safety and Environment (HSE)

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

Legal Affairs

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

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

It advises the Group and the Board of Directors (as well as its special committees) on good corporate governance practices. It also takes part in Audit Committee meetings. It ensures that executives throughout the organization are aware of potential liability risks and proposes legal solutions that contribute to strengthening the control environment. It provides answers to all legal questions raised by the various departments of the Group in an international legal and regulatory environment that is increasingly complex and burdensome. As examples, the Industrial Property Department has prepared a briefing note on the legal risks associated with the establishment of technical analysis for patents, along with a computer systems security policy that defines roles and responsibilities and principles and processes of the required implementations (such as privacy management) for the Group computer systems.

Regional legal teams that have a dotted-line reporting relationship with the Corporate Senior Vice President, Legal Affairs, issue legal guidelines for line managers on safety and compliance issues and also prepare legal and compliance guides for employees in their region.

The Legal Department provides training in contractual and commercial practices as well as in the avoidance of competition law breaches, for Executive Committee members, regional Presidents and the Corporate Senior Vice Presidents. Lastly, an audit of European sales contracts was launched at the end of 2009.

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

At the end of 2009, a legal compliance unit was set up within the Legal Affairs department, responsible for training, audit and prevention programs. A roadmap was developed and approved by senior management and the executive committee that covered the main points to be considered – risk identification, assessment of existing risks, individual accountability, capacity and effectiveness of compliance, and the necessary support of senior management. A survey of legal briefs, and guides, charters, and manuals available to employees was made. Training sessions in competition law were widely conducted. Audits of commercial agreements and business practices in France in 2010 were followed by the establishment of an audit plan in the European subsidiaries, which will be implemented in 2011.

Our compliance policy is a first step in sensitizing executives and managers through actions to raise awareness of legal risks to ensure the real effectiveness of this policy by gradually building a culture of compliance within the Group.

In this context, actions to raise awareness of competition law have been conducted within the head office departments and all of the subsidiary and area managers in Europe and their management committees, which comprise major account, business, financial, marketing, production, and computer managers. Notes on the basic rules of competition law were presented on a global scale and for Europe, Asia and India. A three-pronged summary of these rules has been circulated. More than one hundred managers have benefited from this awareness campaign.

These actions were supplemented by documentation specific to the educational content in order to be accessible to all employees. It also consists of audio kits, electronic media for awareness actions, briefing notes, PowerPoint presentations, fact sheets and guides to good practices, and lists of do's and don'ts. All of this documentation has been posted on the legal department intranet site in a section dedicated to compliance for wide dissemination and consultation on an ad hoc basis.

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

The results of these awareness-raising actions with a reporting of identified legal risks and actions to implement (legal audits, implementation of compliance programs, good practices guide) were presented to the executive committee by the group legal director, who may also have topics or reports registered on the executive committee agenda in order to raise the appropriate level of awareness. The compliance roadmap was released in internal publications (Connection, Essilook, etc.) and at R&D days.

Given the Group's business activities, confidentiality is also an important topic for compliance. Awareness-raising actions for good practices were carried out especially for the Operations Management and R&D teams. This presentation was covered in an e-learning module for the Global Engineering teams but is also available for R&D teams.

As part of the responsible purchasing policy, a section on compliance rules and good practices relating to supplier compliance was included in the awareness-raising actions conducted with the purchasing department teams worldwide. This compliance component covers not only issues of competition law/business practices and confidentiality, but also corruption and conflicts of interest, issues that were discussed for a lay audience on electronic audio kit media. Specific documentation (briefing notes, fact sheets, "Do's and Don'ts") is also available on the legal department intranet site. Finally, a roadmap for risk analysis related to personal data protection was produced in collaboration with the computer security manager.

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 prevention of all forms of unlawful discrimination, the "Essiboomers" agreement on the development and enhancement of the third phase in employees' careers and the agreement on the employment of people with disabilities, which was renewed for the 2010 to 2012 period. Information memoranda have been available for a number of years on the Legal Affairs intranet site regarding compliance with securities legislation, anti-money laundering and corruption legislation, competition law and other trade practices and principles. The memorandum on securities legislation is reviewed at least once a year (with the first review taking place in November 2010) and more often in the event of a legal or regulatory change. It urges directors, Executive Committee members, employees, employees' relatives and other individuals with access to inside information to exercise caution when trading in the Company's shares and emphasizes that insider dealing is subject to sanctions. The appendix to the memorandum provides a schedule detailing the periods in which Company shares may not be sold, bought or transferred.

Quality

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

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

Mergers and Acquisitions

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

Group Treasury

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

The bulk of medium- and long-term financing and short-term liquidity are centralized on the mother company, through bank loans, medium-term confirmed credit lines, or commercial paper. Cash pooling and short- and medium-term loans established with major Group subsidiaries provide a gradual centralization of liquidity.

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

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

The interest rate management policy is to minimize the cost of financing while protecting the Group against an adverse change in interest rates. Since the vast majority of funding is concentrated on the Group's parent company, the interest rate risk management is also centralized there.

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

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

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

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

The procedures are organized by process, including fixed assets, inventories, sales/receivables, treasury, purchasing, on- and off-balance sheet commitments, tax, R&D and production start-up costs, production accounting, fraud prevention, insurance, human resources, legal affairs, consolidation and acquisitions of companies, assets and businesses. Available for on-line consultation on the Company's intranet, in French and English, the Group Finance Manual provides essential guidelines for the preparation of the accounts and to maintain an appropriate control environment at all units. It is regularly updated to take into account changes in regulations and the Group's needs, as well as to incorporate new international standards applicable to the Group. It is currently being adapted to include, among other things, new Group businesses ("Readers" and "Equipment").

The latest developments in Group rules are covered by a specific release at the time of inclusion in the manual (newsletter and intranet announcement).

The manual also includes a section devoted to the Group's principles of ethical business practice, focusing on four main areas: human rights, working conditions, the environment and the fight against corruption.

The finance director of each entity or business unit is responsible for ensuring that these rules and procedures are fully and properly applied.

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

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

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

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

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

c) We have numerous information systems to manage, monitor, analyze and control both upstream activities (production/logistics) and downstream activities (prescription/distribution). In addition, an international intranet charter has been drawn up to coordinate the circulation and sharing of information via the Essilor intranet.

d) Essilor is included in five sustainable development indices: ASPI Eurozone®, FTSE4Good, Dow Jones Sustainability Index (DJSI), Ethibel Excellence and ECPI® Ethical Index €uro.

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

f) Attentive to the consequences of climate change, Essilor supports the Carbon Disclosure Project and Caring for Climate initiatives. The production of a pair of corrective lenses generates only a few hundred grams of CO_2 equivalents. Used for many months, these small, light objects do not consume any energy.

g) All Essilor plants (excluding Nikon-Essilor) have ISO 9001-certified quality management systems, ISO 14001-certified environmental management systems and OHSAS 18001-certified workplace health and safety systems.

5. DESCRIPTION OF INTERNAL CONTROL SYSTEMS

Internal controls are based on an organization structure and specific methodologies. They concern all Group entities and are monitored by the individuals or structures responsible for control activities, in accordance with Group standards and procedures, enabling the Group to classify the various strategic risks and opportunities in order to set priorities.

An overall risk management strategy is developed based on analyses performed by each department of the specific risks associated with its activities during the medium-term plan preparation process for the internal audit. Essilor is capable of reacting swiftly to any change of circumstances or any incident that could severely affect the Company's ability to fulfill its objectives, by adjusting the overall strategy or the strategy followed in a given area. At local level, identifying risks is the responsibility of the regional Presidents and the management of the subsidiaries. All information about risks and related protection is reported to the members of the Executive Committee. At the end of 2009, an assessment of these risks, calculated on a consolidated basis, was presented to the Executive Committee by the Vice President, Internal Audit. The information provided included details of their scope and nature, the name of the Executive Committee member responsible for their management, a description of the risk management methods and control processes, as well as details of any action plans in progress or to be implemented.

In 2010, we have some 300 legal entities and units combined, the majority of which are direct subsidiaries of the parent company. Levels of needs-adapted authority and accountability are clearly defined for each management level, with very strong cross-functional relations, and the heads of the subsidiaries are informed of the procedures for carrying out their obligations. Certain Corporate functions, such as Purchasing, Internal Audit, Business Analysis, Legal Affairs and Human Resources, have a dual reporting relationship, with local management and with the Corporate Senior Vice President who heads the department concerned. On the operations side, each plant manager reports to the regional Production Director who in turn reports to the Corporate Senior Vice President, Operations. On the sales side, the manager of each subsidiary reports to the regional President.

The various reporting packages and the various monthly or quarterly external controls enable us to monitor and analyze the activities of subsidiaries in the areas of finance, commercial activities, workplace accidents, occupational health and safety audits, APAVE inspections, ISO certification, sustainable development, logistics (monthly reporting), insurance claims, other claims, etc.

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

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

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

The budgets are presented to the Group's senior management at budget review meetings held at the end of the year. The consolidated budget is produced at the end of November and the final budget is issued in December.

The annual budget is updated in August of the budget year and again in November, when the following year's budget is prepared.

The process, which concerns all Group units, is led and monitored by the Group Business Analysis unit, in order to ensure that all budgets are prepared on the same basis and are consistent with the overall strategic objectives of senior management.

Actual performance is monitored and analyzed on a monthly basis via the FIGURES reporting system, which is used not only for business analysis but also for statutory consolidation. All units are managed by the system to maintain strict control over accounting and financial information.

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

The aims of consolidation procedures are to:

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

Specific instructions are issued to reporting entities before each consolidation exercise, including a detailed reporting timeline.

The procedures for monitoring off-balance sheet commitments and assets are included in the Group Finance Manual. They stipulate the types of commitments to be recorded on- and off-balance sheet. Full information about these commitments is provided by the reporting system.

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

All of the procedures set out in the Group Finance Manual apply to all Group companies, whether or not they are consolidated, and the internal auditors' work plans include checking that the procedures are implemented. The external Auditors review accounting and internal control systems in order to plan their audit engagements and determine their audit approach. The Audit Committee meets twice a year to review the annual and interim financial statements. The meetings are attended by the Chief Financial Officer and the external Auditors, who present the accounts and discuss with the Committee all material transactions and the main accounting options selected to address potential risks.

Lastly, although not part of the internal control process, the external Auditors are responsible for expressing an opinion as to whether the financial statements have been properly prepared and present fairly the assets and liabilities, financial position and results of operations of the Essilor Group, in accordance with generally accepted accounting principles. The accounts of all consolidated and non-consolidated entities are audited by local auditors, most of whom are members of the networks of the accounting firms that audit the Group's consolidated accounts.

7. INTERNAL AUDITS CARRIED OUT IN 2010 AND FUTURE DEVELOPMENTS

Essilor has launched a voluntary project to assess the level of compliance of its internal procedures. Overseen by the Internal Audit department, the project began at the end of 2003 with a review of the control environment and was pursued in 2004 with the introduction of a self-assessment process at certain entities. The project continued in subsequent years, with the definition of new processes.

The various stages of the project include:

- identifying critical processes within the organization;
- analyzing the risks associated with these processes;
- identifying the controls required to manage these risks;
- testing the controls (internal auditors);
- identifying control points that need to be improved and determining the necessary corrective measures.

The six processes thus defined (purchases, sales, inventories, fixed assets, treasury, reporting) were re-assessed in 2010. The six self-assessment questionnaires, which were sent to the consolidated subsidiaries, reflect the principles described in the AMF's internal control framework and accompanying guidelines. The Web tool can be used not only to answer each question online, but also to attach any necessary documentation corresponding to each control point and describe action plans for those controls that require improvement.

The internal auditors checked the reliability of the answers and the status of the action plans of a certain number of selected units.

An executive summary by subsidiary was sent to each subsidiary concerned and a Group-level executive summary was presented to the Chief Executive Officer and to the Audit Committee.

In 2010, the internal auditors continued to ensure that action plans had been implemented to address any weaknesses revealed by the self-assessment exercise. The results were presented at regular intervals to the Audit Committee and to the Chief Executive Officer.

This approach, which forms part of a process of continuous improvement, helps us to guarantee the quality and reliability of financial information by strengthening procedures applied throughout the organization on a consistent basis.

The work done by the internal audit teams showed improvements in internal control management. The integration of new entities (all of which had different requirements in terms of internal controls prior to their integration) is being monitored closely as part of the audit plan.

MATTERS SUBMITTED TO THE BOARD AND RELATED DECISIONS

A provision of the Code of Corporate Governance is rejected and the reasons why this occurred are as follows:

At its meeting on November 27, 2008, the Board of Directors discussed and adopted the AFEP/MEDEF recommendations of October 2008 concerning the compensation of senior corporate officers of companies listed for trading on a regulated market, which are consistent with Essilor's long-standing corporate governance policies.

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

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

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

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

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

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

Having played a pioneering role in promoting employee stock ownership, Essilor has long preferred to promote executives from within, thereby encouraging them both to take a long-term view and to share in the entrepreneurial risk. Their ownership of significant Essilor shareholdings is a clear demonstration of our success in this area.

ANNUAL REVIEW OF EACH BOARD MEMBER WITH REGARD TO INDEPENDENCE CRITERIA

In 2005, the Board reviewed for the first time the situation of each Board member with regard to the independence criteria established in the AFEP/MEDEF's 2003 corporate governance report. Then, each year, the Board considered the situation of each director in light of the independence criteria contained in the 2008 code, and most recently at its meeting on November 25, 2010.

After conducting this thorough review, the Board determined that all of the Board members were independent, except for Xavier Fontanet, Philippe Alfroid and Hubert Sagnières, who are all, or were, the three senior corporate officers, and Aïcha Mokdahi, Yves Gillet and Yi He, who represent the employee shareholders on the Board.

Olivier Pécoux was considered independent according to AFEP/MEDEF criteria, despite having belonged to an M&A team and being a managing partner of a financial institution, Banque Rothschild & Cie, as Essilor's transactions with the bank are not material in relation to both parties' total volume of financial transactions.

Yves Chevillotte retired from Crédit Agricole in January 2004 and was only appointed to the Board – and subsequently Chairman of the Audit Committee – after his retirement.

SELF-ASSESSMENT OF BOARD OPERATIONS

A formal evaluation of the operations of the board of directors has been conducted each year since 2004. These have often led to the amendment of the rules of procedure of the board of directors and the member's charter. In 2010, a new formalized self-evaluation was initiated and the summary report on the questionnaires completed by the corporate officers committee resulted in the following findings by the Board:

Points of progress compared to last year:

- expansion of the strategic committee to all board members;
- certain topics covered at the meetings of the Strategy Committee were selected by mutual agreement between management and the board members;
- the Strategy Committee meetings are a great vehicle for information and training and enable genuine contribution by the directors;
- recent creation of the Appointments Committee;
- logistically speaking, noting the great progress that was acknowledged in the sending of documents before Board and special committee meetings;
- continued regular updates on competition.

Points for improvement:

- continue the balancing between financial reporting and strategic issues; Board members would like an even greater involvement by the Chief Executive Officer in the presentation of these strategic issues;
- present the HR strategy to deal with the growth ambitions of the Group;
- present the marketing and services strategy in the context of value capture;
- give an overall annual update of strategic priorities and their development.

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

The aim of the self-assessments is to review Board procedures and check that all important issues are properly prepared and discussed. However, the Company does not have a formal system to measure the individual directors' contribution to the Board, taking into account their specific areas of competence. Since 2006, the independent directors also meet privately, without the presence of senior managers, employees and directors representing employee shareholders.

The matters discussed by the Board in 2010 and the decisions taken covered a wide range of areas, including:

- the Group's business performance;
- competition;
- strategic choices;
- sale of the stake in Sperian Protection;
- the interim, annual, and estimated consolidated financial statements;
- annual budget;
- press releases announcing the 2009 annual results and first-half 2010 results;
- presentations and reports by the Audit Committee and the Remunerations and Appointments Committee;
- the Company's dividend policy;
- draft resolutions to be submitted to the Shareholders' Meeting;
- reports to shareholders;
- acquisitions and other strategic projects, especially the planned equity investment in Shamir;
- share cancellations;
- related party agreements to be authorized and those to be disclosed;
- changes in financing;
- the amount of guarantees given by the Company;
- employee share issues and matching payments by the company;
- performance share and stock subscription option grants;
- the share buyback program;
- senior management compensation;
- allocation of directors' fees;
- corporate governance issues;
- stock market ethics;
- membership of the committees of the Board following changes in Board membership;
- creation of an Appointments Committee;
- alignment of the Board's internal rules with French law;
- the main employee-related issues;
- press articles and financial analysts' research reports;
- the makeup of the Essilor shareholder structure;
- delegations and sub-delegations of authority to the Chief Executive Officer;
- the dates of Board meetings and the Annual General Meeting in 2011.

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

POWERS OF THE CHIEF EXECUTIVE OFFICER

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

This dissociation was studied extensively by the appointments and remunerations committee, as was the distribution of functions that enabled the CEO to assume the full measure of all strategic, operational, and functional aspects of the Group while having at his side a Chairman experienced in all these functions and capable of ensuring the continuity of leadership of the Board of Directors and the Shareholders' Meeting while continuing to promote the governance of Essilor.

SPECIFIC RULES GOVERNING SHAREHOLDER PARTICIPATION IN GENERAL MEETINGS

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

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

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

Article 24 – General rules

5) Shareholders' right to information

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

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

Article 25 – Ordinary Shareholders' Meetings

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

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

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

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

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

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

Article 26 – Extraordinary shareholders' meetings

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

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

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

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

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

The Extraordinary Shareholders' Meeting may also amend the rights attached to shares in different classes. However, any such change will require ratification by a Special Meeting of holders of the class of shares concerned. Said Special Meeting will be subject to the legal and regulatory provisions applicable to Extraordinary Shareholders' Meetings. If none of the Company's directors holds shares in the class concerned, the Special Meeting elects its own Chairman.

CONTRACTS CONTAINING A CHANGE OF CONTROL CLAUSE

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

Charenton, March 1, 2011

Xavier Fontanet